



FEDERAL RETIREMENT THRIFT INVESTMENT BOARD  
1250 H Street, NW Washington, DC 20005

July 9, 2010

MEMORANDUM FOR BOARD MEMBERS SAUL, SANCHEZ, DUFFY,  
KENNEDY, AND BILYEU

FROM: GREGORY T. LONG  
EXECUTIVE DIRECTOR

SUBJECT: June 2010 Performance Review – G, F, C, S, I, and L Funds

**INTRODUCTION**

This report reviews key aspects of the investment performance of the G, F, C, S, I, and L Funds through June 2010, investment manager performance and tracking error, trading costs, TSP fund performance, and L Fund participation.

**TRACKING ERROR - BlackRock Funds (BTC)**

***June Tracking Error***

<b><u>Fund</u></b>	<b><u>% BTC Fund Performance</u></b>	<b><u>% Index Performance</u></b>	<b><u>Tracking Error</u></b>
Fixed Income	1.57	1.57	0.00
Large Cap	-5.24	-5.23	-0.01
Small Mid Cap	-6.91	-6.93	0.02
<b>International</b>	<b>-1.76</b>	<b>-1.00</b>	<b>-0.76</b>

***2010 Tracking Error***

<b><u>Fund</u></b>	<b><u>% BTC Fund Performance</u></b>	<b><u>% Index Performance</u></b>	<b><u>Tracking Error</u></b>
Fixed Income	5.41	5.33	0.08
Large Cap	-6.64	-6.65	0.01
Small Mid Cap	-0.81	-0.97	0.16
<b>International</b>	<b>-14.06</b>	<b>-13.23</b>	<b>-0.83</b>

The **BlackRock EAFE Equity Index Fund E** underperformed by 76 basis points in June and 83 basis points for the year to date, primarily because of fair valuation adjustments on May 28 and June 30.

**Trading Costs**

	<u>Dollar Amount Traded</u>	<u>Trading Costs</u>	
		<u>\$</u>	<u>Basis Points</u>
<u>F Fund</u>			
June 2010	438,919,178	350,046	8.0
Year-to-Date	2,132,365,088	1,191,681	5.6
<u>C Fund</u>			
June 2010	961,915,055	357,551	3.7
Year-to-Date	5,554,400,375	255,101	0.5
<u>S Fund</u>			
June 2010	489,326,940	(202,077)	(4.1)
Year-to-Date	5,273,370,876	643,994	1.2
<u>I Fund</u>			
June 2010	499,123,731	221,877	4.4
Year-to-Date	4,020,018,411	7,547,278	18.8

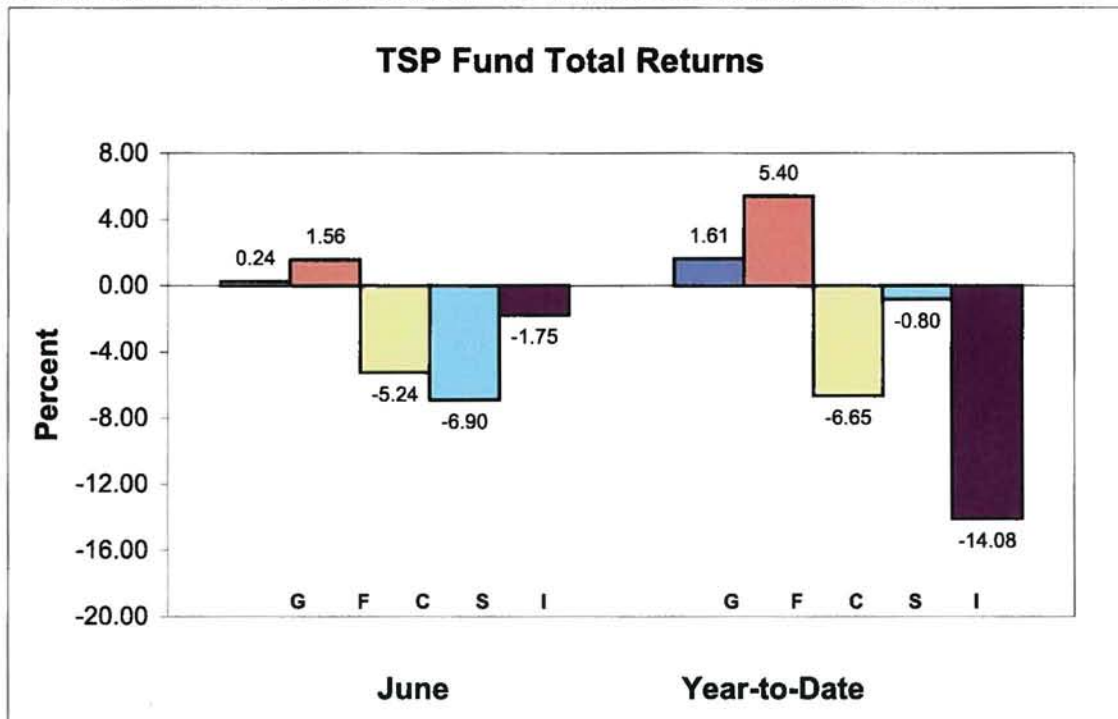
**G Fund**

The following table compares the G Fund rate to be paid in the month noted to the 3 month Treasury bill, the 10 year Treasury note and the 30 year Treasury bond at the time the rate was set.

	<b><u>G Fund</u></b>	<b><u>3-month T-bill</u></b>	<b><u>10 year T-note</u></b>	<b><u>30 year T-bond</u></b>
<b><u>2010</u></b>				
July	2.63%	0.17%	2.93%	3.89%
June	2.88	0.16	3.29	4.21
May	3.25	0.16	3.66	4.52
April	3.38	0.14	3.83	4.71
March	3.13	0.13	3.61	4.56
February	3.13	0.08	3.59	4.49
January	3.50	0.08	3.84	4.64
<b><u>2009</u></b>				
December	2.88	0.05	3.20	4.19
November	3.13	0.06	3.39	4.23
October	3.00	0.08	3.31	4.05
September	3.25	0.13	3.40	4.18
August	3.25	0.18	3.48	4.30
July	3.25	0.19	3.54	4.33
June	3.25	0.14	3.46	4.34
May	2.88	0.15	3.12	4.03
April	2.50	0.20	2.67	3.54
March	2.88	0.27	3.02	3.71
February	2.75	0.13	2.84	3.60
January	2.13	0.02	2.21	2.68

## Performance of TSP Funds

The chart below shows the G, F, C, S, and I Fund net rates of return for June 2010.



The table below compares the net rates of return for the F, C, S, and I Funds to the returns of the corresponding BlackRock funds.

### **June 2010**

#### **Total Return %**

<u>Fund</u>	<u>TSP</u>	<u>BTC</u>	<u>Difference</u>	<u>Index</u>
Fixed Income	1.56	1.57	-0.01	1.57
Large Cap	-5.24	-5.24	0.00	-5.23
Small Cap	-6.90	-6.91	0.01	-6.93
International	-1.75	-1.76	0.01	-1.00

### **2010**

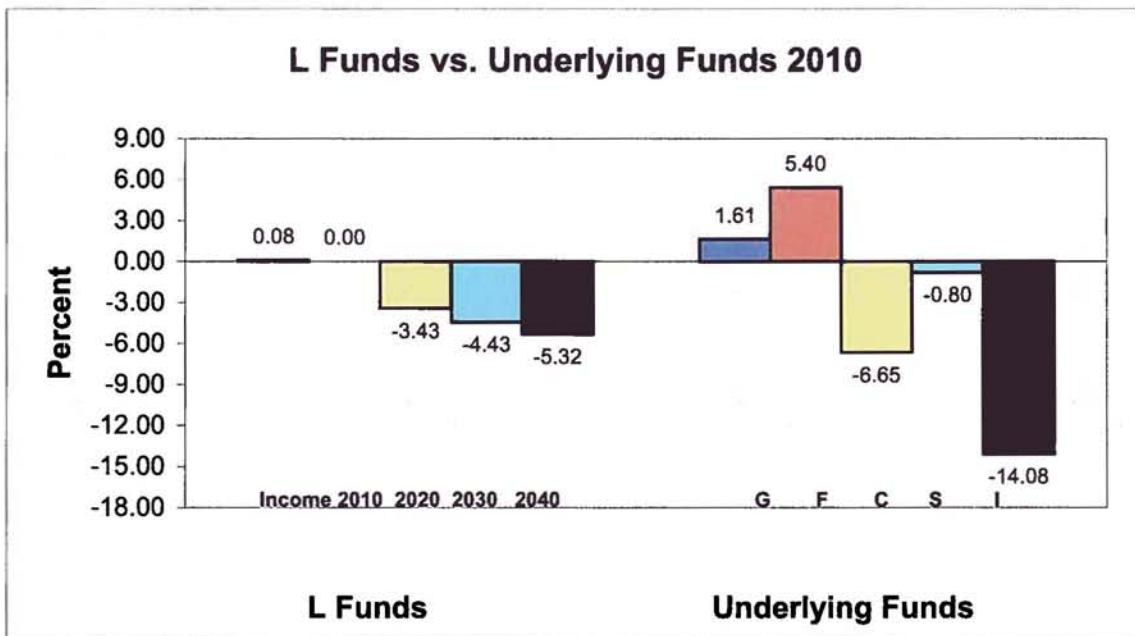
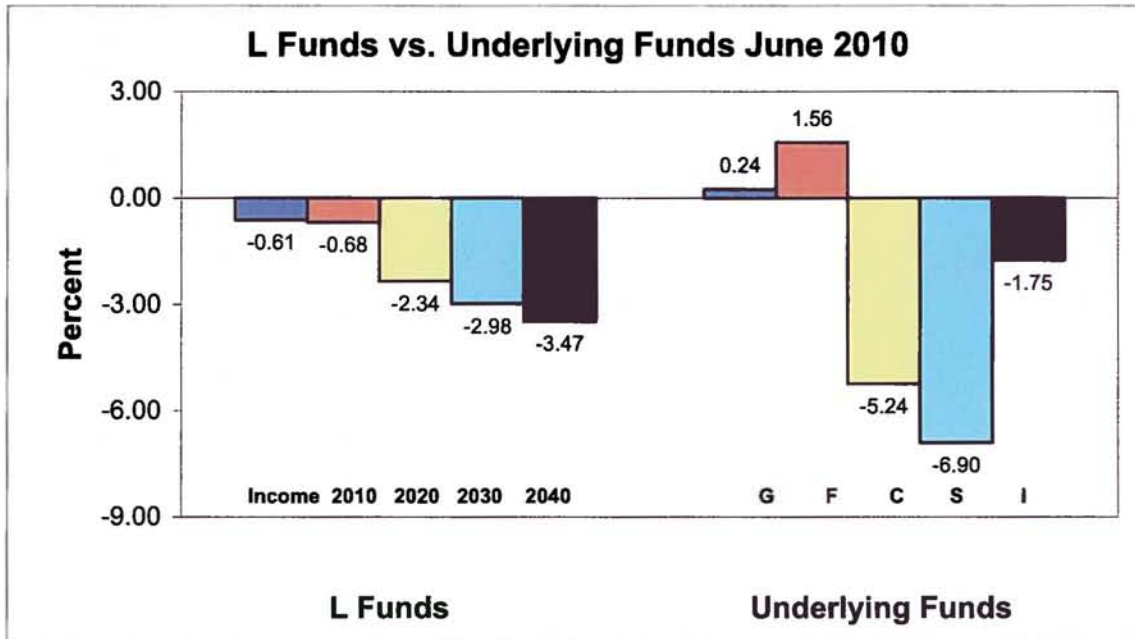
#### **Total Return %**

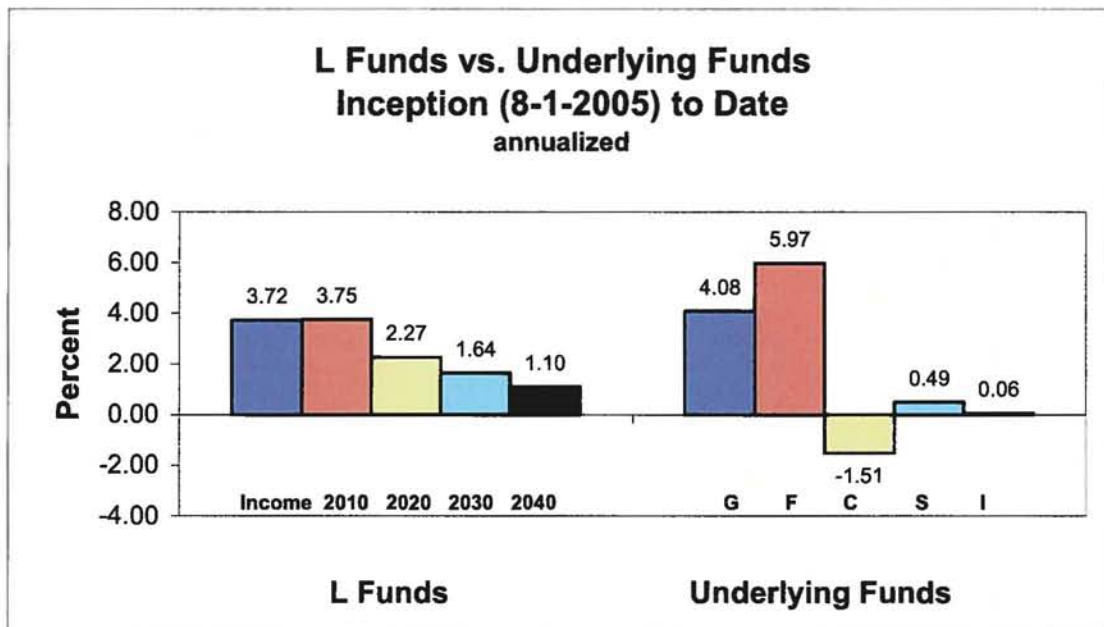
<u>Fund</u>	<u>TSP</u>	<u>BTC</u>	<u>Difference</u>	<u>Index</u>
Fixed Income	5.40	5.41	-0.01	5.33
Large Cap	-6.65	-6.64	-0.01	-6.65
Small Cap	-0.80	-0.81	0.01	-0.97
International	-14.08	-14.06	-0.02	-13.23

The TSP Funds closely tracked the BTC Funds for the month and year-to-date.

## L Funds

The net rates of return for the L Funds are shown below along with comparable returns for the G, F, C, S, and I Funds.





#### **THRIFT SAVINGS PLAN MONTHLY INVESTMENT ACTIVITY**

Attachment 1 provides a summary of TSP investment activity and participation rates.

- Monthly interfund transfers declined to typical levels in June after an active May. (p. 8)
- The number of participants with L Fund balances exceeded 700,000 for the first time since inception. (p. 11)

#### **PROXY VOTING**

An audit of BTC's proxy votes voting conducted by RiskMetrics Group found no exceptions to BTC's established guidelines during the first quarter of 2010. A copy of the audit report is provided as Attachment 2. RiskMetrics' audit report for the second quarter of 2010 is not yet available.

BTC's new proxy voting guidelines are attached. The principles and voting guidelines reflect both BGI's and BlackRock's previously existing policy documents and practice, with a unified tone, look and feel for all documents. While the style of the documents has been changed slightly, the content remains broadly unchanged. There have been no material changes to the substance of the guidelines, although in some cases guidelines have been added or amended to reflect evolving views on certain matters.

## **RECOMMENDATION**

The G Fund investments produce long-term yields while incurring no market risk. **I recommend reaffirmation of the current G Fund policy of investing solely in short-term maturities.**

The BlackRock U.S. Debt Index Fund E, Equity Index Fund E, Extended Market Index Fund E, and EAFE Equity Index Fund E have tracked their respective indices and have incurred low trading costs. Based on the performance of these funds, and the F, C, S, and I Funds' performance discussed above, **I recommend reaffirmation of the current F, C, S, and I Fund investment policies.**

WHEREAS the Federal Employees' Retirement System Act of 1986, as amended (5 U.S.C. § 8401 -- et seq.) provides that the Board members shall establish policies for the investment and management of the Thrift Savings Fund (5 U.S.C. § 8472(f) (1) and (2)); and

WHEREAS the Board members at this meeting have reviewed the investment performance and investment policies of the Government Securities Investment Fund, the Fixed Income Index Investment Fund, the Common Stock Index Investment Fund, the Small Capitalization Stock Index Investment Fund, and the International Stock Index Investment Fund; and

WHEREAS the Board members are satisfied with the investment performance and investment policies of these Funds;

NOW THEREFORE BE IT RESOLVED that the current investment policies for the Government Securities Investment Fund, the Common Stock Index Investment Fund, the Fixed Income Index Investment Fund, the Small Capitalization Stock Index Investment Fund, and the International Stock Index Investment Fund are affirmed without change.

Attachments



**THRIFT SAVINGS PLAN MONTHLY INVESTMENT ACTIVITY**  
**Contributions and Interfund Transfers**

Month end	Monthly TSP Contributions							Interfund Transfer Activity						
	G Fund (%)	F Fund (%)	C Fund (%)	S Fund (%)	I Fund (%)	L Funds (%)	Total (\$Mil)	G Fund (\$Mil)	F Fund (\$Mil)	C Fund (\$Mil)	S Fund (\$Mil)	I Fund (\$Mil)	L Funds (\$Mil)	# of IFTs
12/31/2004	40%	7%	39%	8%	6%	N/A	1,560	(637)	(1,550)	(2,387)	1,515	3,059	N/A	1,409,778
12/31/2005	36%	6%	35%	9%	8%	6%	1,560	(1,169)	(1,159)	(7,602)	516	1,975	7,439	1,739,695
12/31/2006	33%	5%	30%	9%	11%	11%	1,569	(700)	(936)	(7,149)	(774)	3,704	5,855	2,112,668
12/31/2007	33%	4%	27%	9%	13%	14%	1,619	3,073	33	(6,652)	(1,505)	1,520	3,531	2,379,207
12/31/2008	43%	4%	23%	7%	9%	13%	1,936	19,691	349	(7,573)	(2,952)	(6,791)	(2,724)	1,637,711
1/31/2009	43%	5%	22%	7%	9%	13%	1,706	(155)	200	(71)	58	50	(82)	95,683
2/28/2009	44%	5%	22%	7%	9%	13%	1,749	2,011	(104)	(819)	(204)	(366)	(518)	121,203
3/31/2009	47%	5%	21%	6%	8%	13%	1,757	1,449	(238)	(565)	(110)	(218)	(318)	160,299
4/30/2009	47%	5%	21%	6%	8%	13%	2,091	(602)	(62)	143	185	148	188	92,651
5/31/2009	46%	5%	21%	7%	8%	13%	1,837	(1,507)	(80)	320	394	567	306	95,675
6/30/2009	45%	5%	22%	7%	8%	13%	2,097	(948)	(36)	74	143	533	234	90,730
7/31/2009	45%	5%	21%	7%	8%	13%	1,774	(288)	166	(120)	82	27	133	89,172
8/31/2009	45%	5%	21%	7%	9%	14%	1,768	(1,462)	68	218	323	525	328	112,852
9/30/2009	45%	5%	21%	7%	9%	14%	1,907	(894)	142	(61)	174	433	206	101,509
10/31/2009	44%	5%	21%	7%	9%	14%	2,117	(658)	172	(104)	143	221	226	107,237
11/30/2009	43%	5%	21%	7%	9%	14%	1,847	(150)	201	(172)	(119)	104	136	89,240
12/31/2009	43%	5%	21%	7%	9%	15%	2,019	(614)	(99)	106	225	63	319	81,386
1/31/2010	43%	5%	21%	7%	9%	15%	1,818	(439)	(104)	(31)	276	(19)	317	106,109
2/28/2010	42%	5%	21%	7%	9%	15%	1,862	518	200	(379)	(34)	(431)	126	93,229
3/31/2010	42%	5%	21%	8%	9%	15%	1,900	(1,317)	(56)	51	799	(146)	669	120,856
4/30/2010	42%	5%	21%	8%	9%	16%	2,366	(1,310)	(277)	316	958	(186)	499	125,817
5/31/2010	41%	5%	21%	8%	9%	16%	1,977	3,228	512	(1,085)	(865)	(1,345)	(445)	165,061
6/30/2010	41%	5%	21%	8%	9%	16%	2,175	(15)	382	(224)	12	(175)	20	90,660



**THRIFT SAVINGS PLAN MONTHLY INVESTMENT ACTIVITY**  
**L Fund Investment Balances and Investment Allocations**

Month end	L Fund Investment Balances						Allocation of L Fund Balances		
	Income (\$Mil)	2010 (\$Mil)	2020 (\$Mil)	2030 (\$Mil)	2040 (\$Mil)	Total (\$Mil)	FERS (%) Inc/2010/2020/2030/2040	CSRS (%) Inc/2010/2020/2030/2040	Uniformed Services (%) Inc/2010/2020/2030/2040
12/31/2005	542	2,235	3,092	1,362	664	7,895	6 / 24 / 41 / 20 / 9	13 / 50 / 30 / 4 / 3	2 / 8 / 23 / 36 / 31
12/31/2006	917	4,081	6,418	3,335	2,126	16,877	4 / 21 / 40 / 22 / 13	11 / 45 / 32 / 6 / 6	2 / 7 / 22 / 35 / 34
12/31/2007	1,237	5,326	8,801	4,970	3,547	23,881	4 / 19 / 39 / 23 / 15	10 / 42 / 34 / 7 / 7	2 / 6 / 21 / 34 / 37
12/31/2008	968	4,001	6,593	4,031	2,725	18,318	5 / 19 / 37 / 24 / 15	11 / 44 / 33 / 7 / 5	2 / 7 / 20 / 34 / 37
1/31/2009	936	3,874	6,257	3,817	2,571	17,455	5 / 19 / 37 / 24 / 15	11 / 45 / 33 / 6 / 5	2 / 7 / 20 / 34 / 37
2/28/2009	882	3,606	5,731	3,529	2,365	16,113	5 / 19 / 37 / 24 / 15	11 / 45 / 33 / 6 / 5	2 / 7 / 20 / 34 / 37
3/31/2009	884	3,580	5,959	3,777	2,571	16,771	4 / 19 / 38 / 24 / 15	11 / 45 / 33 / 6 / 5	2 / 7 / 20 / 34 / 37
4/30/2009	913	3,741	6,526	4,207	2,912	18,299	4 / 18 / 37 / 25 / 16	11 / 43 / 33 / 7 / 6	2 / 6 / 19 / 34 / 39
5/31/2009	953	3,905	7,022	4,564	3,200	19,644	4 / 17 / 38 / 25 / 16	11 / 42 / 34 / 7 / 6	2 / 6 / 19 / 34 / 39
6/30/2009	976	3,959	7,207	4,691	3,311	20,144	4 / 17 / 38 / 25 / 16	11 / 42 / 34 / 7 / 6	2 / 6 / 19 / 34 / 39
7/31/2009	1,007	4,094	7,714	5,069	3,615	21,499	4 / 17 / 37 / 25 / 17	10 / 42 / 35 / 7 / 6	2 / 6 / 19 / 34 / 39
8/31/2009	1,040	4,199	8,135	5,347	3,852	22,573	4 / 16 / 37 / 26 / 17	10 / 41 / 36 / 7 / 6	2 / 6 / 19 / 34 / 39
9/30/2009	1,081	4,283	8,500	5,635	4,090	23,589	4 / 16 / 37 / 26 / 17	10 / 41 / 36 / 7 / 6	2 / 5 / 19 / 34 / 40
10/31/2009	1,118	4,317	8,545	5,659	4,092	23,731	4 / 16 / 37 / 26 / 17	10 / 41 / 36 / 7 / 6	2 / 5 / 19 / 34 / 40
11/30/2009	1,151	4,410	8,945	5,960	4,337	24,803	4 / 15 / 38 / 26 / 17	10 / 40 / 37 / 7 / 6	2 / 5 / 19 / 34 / 40
12/31/2009	1,205	4,479	9,290	6,219	4,558	25,751	4 / 15 / 37 / 26 / 18	11 / 39 / 36 / 8 / 6	2 / 5 / 19 / 34 / 40
1/31/2010	1,250	4,467	9,310	6,197	4,534	25,758	4 / 15 / 38 / 26 / 17	11 / 38 / 37 / 8 / 6	2 / 5 / 19 / 34 / 40
2/28/2010	1,275	4,511	9,585	6,449	4,705	26,525	4 / 15 / 37 / 26 / 18	11 / 38 / 37 / 8 / 6	2 / 5 / 18 / 34 / 41
3/31/2010	1,374	4,646	10,317	6,964	5,113	28,414	4 / 14 / 38 / 26 / 18	11 / 37 / 38 / 8 / 6	2 / 5 / 18 / 34 / 41
4/30/2010	1,439	4,673	10,727	7,247	5,344	29,430	4 / 14 / 38 / 26 / 18	11 / 36 / 39 / 8 / 6	2 / 5 / 18 / 34 / 41
5/31/2010	1,381	4,533	10,093	6,819	4,950	27,776	4 / 14 / 38 / 26 / 18	11 / 37 / 38 / 8 / 6	2 / 5 / 18 / 34 / 41
6/30/2010	1,374	4,521	9,938	6,724	4,867	27,424	4 / 14 / 38 / 26 / 18	12 / 37 / 37 / 8 / 6	2 / 5 / 18 / 34 / 41

**THRIFT SAVINGS PLAN MONTHLY INVESTMENT ACTIVITY**  
**Allocation of Account Balances**

Month end	Number of TSP Participants with Entire Account Balance Invested in One Lifecycle Fund						Allocation of Account Balances (G/F/C/S/I/L Fund)		
	FERS		CSRS		Uniformed Services		FERS (%)	CSRS (%)	Uniformed Services (%)
	#	%	#	%	#	%	(G/F/C/S/I/L)	(G/F/C/S/I/L)	(G/F/C/S/I/L)
12/31/2004	-	-	-	-	-	-	37/7/44/7/5/-	43/6/42/5/4/-	49/6/23/14/8/-
12/31/2005	55,386	2%	17,220	2%	14,404	2%	35/6/39/8/7/5	40/6/38/6/6/4	44/5/21/15/10/5
12/31/2006	94,323	4%	25,860	4%	30,921	4%	32/5/36/8/10/9	38/5/35/6/8/8	38/4/20/14/13/11
12/31/2007	116,157	5%	28,753	5%	40,046	5%	32/5/33/7/12/11	39/5/32/6/9/9	36/4/18/13/15/14
12/31/2008	108,130	4%	21,470	4%	42,267	5%	50/7/22/5/6/10	58/6/21/3/4/8	48/5/14/9/10/14
1/31/2009	107,944	4%	21,032	4%	42,344	5%	53/7/22/4/5/9	60/6/19/3/4/8	50/5/13/9/9/14
2/28/2009	105,490	4%	19,855	3%	42,133	4%	56/7/19/4/5/9	62/7/18/3/3/7	53/5/12/8/9/13
3/31/2009	102,689	4%	18,823	3%	41,884	4%	55/7/20/4/5/9	63/6/18/3/3/7	50/5/13/9/9/14
4/30/2009	103,465	4%	18,839	3%	41,888	4%	53/6/22/5/5/9	60/6/20/3/4/7	48/5/13/10/10/14
5/31/2009	104,877	4%	18,995	3%	42,056	4%	51/6/22/5/6/10	59/6/20/4/4/7	46/5/13/10/11/15
6/30/2009	106,146	4%	19,152	3%	42,279	4%	50/6/22/5/7/10	57/6/20/4/5/8	45/5/14/10/11/15
7/31/2009	107,596	4%	19,281	3%	42,386	4%	48/6/23/6/7/10	56/6/21/4/5/8	45/4/14/10/11/16
8/31/2009	110,025	4%	19,513	3%	42,730	4%	47/6/24/6/7/10	55/6/22/4/5/8	43/4/14/11/12/16
9/30/2009	111,413	4%	19,650	3%	42,983	4%	45/6/24/6/8/11	53/6/23/4/6/8	43/4/14/11/12/16
10/31/2009	113,061	4%	19,823	3%	43,248	4%	45/6/24/6/8/11	54/6/22/4/6/8	44/4/14/10/12/16
11/30/2009	114,474	4%	19,897	4%	43,502	4%	44/6/25/6/8/11	53/6/23/4/6/8	42/4/15/11/12/16
12/31/2009	116,137	4%	20,090	4%	43,720	4%	44/6/25/6/8/11	53/6/23/4/6/8	42/4/15/11/12/16
1/31/2010	118,281	4%	20,351	4%	44,205	4%	45/6/24/6/8/11	52/6/23/5/6/8	43/4/15/11/11/16
2/28/2010	119,943	4%	20,445	4%	44,599	4%	44/6/25/7/7/11	52/6/23/5/5/9	43/4/15/11/11/16
3/31/2010	123,912	5%	21,145	4%	45,460	4%	42/6/25/7/8/12	49/6/24/6/6/9	41/4/15/12/11/17
4/30/2010	126,152	5%	21,536	4%	45,889	4%	41/6/26/8/7/12	50/6/24/6/5/9	41/4/15/12/11/17
5/31/2010	125,730	5%	21,106	4%	46,075	4%	45/6/24/7/6/12	52/6/23/6/4/9	42/5/14/12/10/17
6/30/2010	126,459	5%	21,035	4%	46,356	4%	45/7/23/7/6/12	53/7/22/5/4/9	43/5/14/11/10/17

**THRIFT SAVINGS PLAN MONTHLY INVESTMENT ACTIVITY**

**L Fund Participation**

	Participants with Balances in the L Funds						Number of Participant Accounts with L Fund Balances					
Month end	FERS (000s)	%	CSRS (000s)	%	Uniformed Services (000s)	%	Income	2010	2020	2030	2040	Any L Fund

12/31/2005	138	6%	33	5%	44	7%	16,915	46,517	67,777	55,164	50,848	214,779
12/31/2006	273	12%	57	9%	103	14%	34,698	87,845	137,155	124,086	132,325	433,025
12/31/2007	359	15%	68	11%	139	17%	45,093	108,073	175,838	168,215	196,888	566,232
12/31/2008	373	15%	57	10%	154	17%	48,139	103,507	174,922	179,855	211,196	584,468

1/31/2009	375	15%	56	10%	155	17%	48,283	103,812	175,057	180,440	212,115	585,781
2/28/2009	371	15%	54	9%	155	17%	48,249	102,518	172,157	179,328	210,798	580,588
3/31/2009	372	15%	53	9%	155	16%	48,493	102,097	171,406	180,065	211,682	581,045
4/30/2009	378	15%	54	9%	157	16%	49,177	104,066	174,862	183,280	215,109	588,039
5/31/2009	383	15%	54	9%	158	17%	50,011	105,967	177,921	186,083	218,449	595,315
6/30/2009	388	15%	55	9%	159	17%	50,498	107,099	180,519	188,490	221,364	601,850
7/31/2009	392	15%	55	10%	160	17%	50,842	107,948	182,661	190,481	223,997	606,828
8/31/2009	399	15%	56	10%	161	17%	51,363	108,847	185,678	193,500	228,299	615,835
9/30/2009	404	15%	56	10%	162	17%	51,823	109,315	187,915	196,265	232,005	623,066
10/31/2009	412	15%	57	10%	163	17%	52,676	110,046	190,475	199,246	236,077	631,869
11/30/2009	418	15%	57	10%	164	17%	53,156	110,474	192,795	202,022	239,947	639,034
12/31/2009	424	16%	57	10%	165	17%	53,770	110,879	195,500	204,995	244,145	647,040

1/31/2010	431	16%	58	10%	167	17%	54,564	111,110	198,178	207,844	247,913	657,364
2/28/2010	437	16%	58	10%	168	17%	55,141	111,453	200,516	211,250	251,769	663,525
3/31/2010	450	16%	60	11%	171	17%	56,528	112,319	206,175	217,167	259,339	680,887
4/30/2010	461	17%	61	11%	173	17%	57,508	112,719	210,898	222,205	266,152	694,763
5/31/2010	462	17%	60	11%	174	17%	57,553	112,025	210,310	223,248	267,491	696,912
6/30/2010	467	17%	60	11%	176	17%	58,038	112,576	212,081	225,655	270,697	702,440



2099 Gaither Road  
Rockville, MD 20850

April 13, 2010

Mr. Chad Spittler  
Director  
PMG – Corporate Governance  
BlackRock  
400 Howard Street  
San Francisco, CA 94105

Dear Chad,

Enclosed are the results of our review of proxy votes by BlackRock for the 1st quarter of 2010.  
Our review found that there were no exceptions to policy over this period.



Best regards,

Maria Carmen Pinnell  
Associate General Counsel

mcp/awk/encl.

cc: Richard Reynics, Ryan Myers, Stephanie Bounds, Pearl Wong, Cassie Traeger, Adrian  
Kosinda

## MEMORANDUM

The results of our review of BlackRock's 1<sup>st</sup> quarter proxy voting are as follows:

- Votes at 44 meetings were examined.
- Votes at 15 of the 44 meetings were for directors and/or auditor only.
- At the remaining 29 meetings, there were 54 non-director/auditor proposals. The following table illustrates the votes involved by proposal type:

Proposal	Votes
Executive stock option plan	14
Non-executive stock option plan	2
Employee share purchase plan	4
Section 162(m)	4
Advisory resolution on compensation committee reports	1
Reverse stock split	2
Increase common stock	2
Issue shares in connection with acquisition	1
Merger and/or reorganization	6
Adjourn meeting	7
Declassify board of directors	1
Fix number of directors	1
Director indemnification	1
Amend dividend reinvestment and share repurchase plan	1
Change company name	2
Other business	3
Shareholder proposal	2
<b>Total:</b>	<b>54</b>

- There were 14 votes cast on executive stock option plans:
  - a) 11 votes were cast in favor of the plans (78.6 percent)
  - b) 3 votes were cast against the plans (21.4 percent)
    - i) 2 plans were opposed as plans permit repricing without shareholder approval;
    - ii) 1 plan was opposed as the plan is not sufficiently structured to align the economic interests of directors, managers and other employees with those of shareholders.
  
- There were 2 votes cast on non-executive stock option plans; both votes were cast in favor of the plans.
  
- There were 2 votes cast on proposals to increase authorized common stock; both votes were cast in favor of the increases.
  
- There were 6 votes cast on mergers or major corporate transactions; all votes were cast in favor of the mergers.
  
- There were 2 votes cast on shareholder proposals which included:
  - a) 1 shareholder proposal to adopt advisory resolutions on compensation committee reports; the vote was cast against the proposal
  - b) 1 shareholder proposal to require majority vote for the election of directors; the vote was cast in favor of the proposal.

There were no exceptions to policy this period.



# Proxy voting guidelines for U.S. securities

*December 2009*



**BLACKROCK**



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# BLACKROCK

## PROXY VOTING GUIDELINES FOR U.S. SECURITIES

*These guidelines should be read in conjunction with BlackRock's Global Corporate Governance and Engagement Principles.*

### INTRODUCTION

BlackRock, Inc. and its subsidiaries (collectively, "BlackRock") seek to make proxy voting decisions in the manner most likely to protect and promote the economic value of the securities held in client accounts. The following issue-specific proxy voting guidelines (the "Guidelines") are intended to summarize BlackRock's general philosophy and approach to issues that may commonly arise in the proxy voting context for U.S. Securities. These Guidelines are not intended to limit the analysis of individual issues at specific companies and are not intended to provide a guide to how BlackRock will vote in every instance. Rather, they share our view about corporate governance issues generally, and provide insight into how we typically approach issues that commonly arise on corporate ballots. They are applied with discretion, taking into consideration the range of issues and facts specific to the company and the individual ballot item.

### VOTING GUIDELINES

These guidelines are divided into six key themes which group together the issues that frequently appear on the agenda of annual and extraordinary meetings of shareholders.

The six key themes are:

- Boards and directors
- Auditors and audit-related issues
- Capital structure, mergers, asset sales and other special transactions
- Remuneration and benefits
- Social, ethical and environmental issues
- General corporate governance matters

## Boards and directors

### Director elections

BlackRock generally supports board nominees in most uncontested elections. However, BlackRock may withhold votes from the entire board in certain situations, including, but not limited to:

- Where a board fails to implement shareholder proposals that receive a majority of votes cast at a prior shareholder meeting, and the proposals, in our view, have a direct and substantial impact on shareholders' fundamental rights or long-term economic interests.
- Where a board implements or renews a poison pill without seeking shareholder approval beforehand or within a reasonable period of time after implementation.

BlackRock may withhold votes from members of particular board committees (or prior members, as the case may be) in certain situations, including, but not limited to:

- An insider or affiliated outsider who sits on any of the board's key committees (i.e., audit, compensation, nominating and governance), which we believe generally should be entirely independent. However, BlackRock will examine a board's complete profile when questions of independence arise prior to casting a withhold vote for any director. For controlled companies, as defined by the U.S. stock exchanges, we will only vote against insiders or affiliates who sit on the audit committee, but not other key committees.
- Members of the audit committee during a period when the board failed to facilitate quality, independent auditing.
- Members of the audit committee where substantial accounting irregularities suggest insufficient oversight by that committee.
- Members of the audit committee during a period in which we believe the company has aggressively accounted for its equity compensation plans.
- Members of the compensation committee during a period in which executive compensation appears excessive relative to performance and peers, and where we believe the compensation committee has not already substantially addressed this issue.
- Members of the compensation committee where the company has repriced options without contemporaneous shareholder approval.
- The chair of the nominating committee, or where no chair exists, the nominating committee member with the longest tenure, where board members have previously

received substantial withhold votes and the board has not taken appropriate action to respond to shareholder concerns. This may not apply in cases where BlackRock did not support the initial withhold vote.

- The chair of the nominating committee, or where no chair exists, the nominating committee member with the longest tenure, where the board is not composed of a majority of independent directors. However, this would not apply in the case of a controlled company.

BlackRock may withhold votes from individual board members in certain situations, including, but not limited to:

- Where BlackRock obtains evidence that casts significant doubt on a director's qualifications or ability to represent shareholders.
- Where it appears the director has acted (at the company or at other companies) in a manner that compromises his or her reliability in representing the best long-term economic interests of shareholders.
- Where a director has a pattern of attending less than 75% of combined board and applicable key committee meetings.

### Age limits / term limits

We typically oppose limits on the pool of directors from which shareholders can choose their representatives, especially where those limits are arbitrary or unrelated to the specific performance or experience of the director in question.

### Board size

We generally defer to the board in setting the appropriate size. We believe directors are generally in the best position to assess what size is optimal to ensure a board's effectiveness. However, we may oppose boards that appear too small to allow for effective shareholder representation or too large to function efficiently.

### Classified board of directors / staggered terms

A classified board of directors is one that is divided into classes (generally three), each of which is elected on a staggered schedule (generally for three years). At each annual

meeting, only a single class of directors is subject to reelection (generally one-third of the entire board).

We believe that classification of the board dilutes shareholders' right to evaluate promptly a board's performance and limits shareholder selection of their representatives. By not having the mechanism to immediately address concerns we may have with any specific director, we lose the ability to provide valuable feedback to the company. Furthermore, where boards are classified, director entrenchment is more likely, because review of board service generally only occurs every three years. Therefore, we typically vote against classification and for proposals to eliminate board classification.

### **Cumulative voting for directors**

Cumulative voting allocates one vote for each share of stock held, times the number of directors subject to election. A shareholder may cumulate his/her votes and cast all of them in favor of a single candidate, or split them among any combination of candidates. By making it possible to use their cumulated votes to elect at least one board member, cumulative voting is typically a mechanism through which minority shareholders attempt to secure board representation.

BlackRock may support cumulative voting proposals at companies where the board is not majority independent. However, we may oppose proposals that further the candidacy of minority shareholders whose interests do not coincide with our fiduciary responsibility.

### **Director compensation and equity programs**

We believe that compensation for independent directors should be structured to align the interests of the directors with those of shareholders, whom the directors have been elected to represent. We believe that independent director compensation packages based on the company's long-term performance and that include some form of long-term equity compensation are more likely to meet this goal; therefore, we typically support proposals to provide such compensation packages. However, we will generally oppose shareholder proposals requiring directors to own a minimum amount of company stock, as we believe that companies should maintain flexibility in administering compensation and equity programs for independent directors, given each company's and director's unique circumstances.

### **Indemnification of directors and officers**

We generally support reasonable but balanced protection of directors and officers. We believe that failure to provide protection to directors and officers might severely limit a company's ability to attract and retain competent leadership. We generally support proposals to provide indemnification that is limited to coverage of legal expenses. However, we may oppose proposals that provide indemnity for: breaches of the duty of loyalty; transactions from which a director derives an improper personal benefit; and actions or omissions not in good faith or those that involve intentional misconduct.

### **Independent board composition**

We generally support shareholder proposals requesting that the board consist of a two-thirds majority of independent outside directors, as we believe that an independent board faces fewer conflicts and is best prepared to protect shareholder interests.

### **Liability insurance for directors and officers**

Proposals regarding liability insurance for directors and officers often appear separately from indemnification proposals. We will generally support insurance against liability for acts committed in an individual's capacity as a director or officer of a company following the same approach described above with respect to indemnification.

### **Limits on director removal**

Occasionally, proposals contain a clause stipulating that directors may be removed only for cause. We oppose this limitation of shareholders' rights.

### **Majority vote requirements**

BlackRock generally supports the concept of director election by majority vote. Majority voting standards assist in ensuring that directors who are not broadly supported by shareholders are not elected to serve as their representatives. However, we also recognize that there are many methods for implementing majority vote proposals. Where we believe

that the company already has a sufficiently robust majority voting process in place, we may not support a shareholder proposal seeking an alternative mechanism.

### **Separation of chairman and CEO positions**

We generally support shareholder proposals requesting that the positions of chairman and CEO be separated. We may consider the designation of a lead director to suffice in lieu of an independent chair, but will take into consideration the structure of that lead director's position and overall corporate governance of the company in such cases.

### **Shareholder access to the proxy**

We believe that shareholders should have the opportunity, when necessary and under reasonable conditions, to nominate individuals to stand for election to the boards of the companies they own. In our view, securing a right of shareholders to nominate directors without engaging in a control contest can enhance shareholders' ability to participate meaningfully in the director election process, stimulate board attention to shareholder interests, and provide shareholders an effective means of directing that attention where it is lacking.

We prefer an access mechanism that is equally applied to companies throughout the market with sufficient protections to limit the potential for abuse. Absent such a mechanism under current law, we consider these proposals on a case-by-case basis. In evaluating a proposal requesting shareholder access at a company, we consider whether access is warranted at that particular company at that time by taking into account the overall governance structure of the company as well as issues specific to that company that may necessitate greater board accountability. We also look for certain minimum ownership threshold requirements, stipulations that access can be used only in non-hostile situations, and reasonable limits on the number of board members that can be replaced through such a mechanism.

### **Auditors and audit-related issues**

BlackRock recognizes the critical importance of financial statements that provide a complete and accurate portrayal of a company's financial condition. Consistent with our approach to voting on boards of directors, we seek to hold the audit committee of the board responsible for overseeing the management of the audit function at a company, and may withhold votes from the audit



committee's members where the board has failed to facilitate quality, independent auditing. We take particular note of cases involving significant financial restatements or material weakness disclosures.

The integrity of financial statements depends on the auditor effectively fulfilling its role. To that end, we favor an independent auditor. In addition, to the extent that an auditor fails to reasonably identify and address issues that eventually lead to a significant financial restatement, or the audit firm has violated standards of practice that protect the interests of shareholders, we may also vote against ratification.

From time to time, shareholder proposals may be presented to promote auditor independence or the rotation of audit firms. We may support these proposals when they are consistent with our views as described above.

### Capital structure, mergers, asset sales and other special transactions

In reviewing merger and asset sale proposals, BlackRock's primary concern is the best long-term economic interests of shareholders. While these proposals vary widely in scope and substance, we closely examine certain salient features in our analyses. The varied nature of these proposals ensures that the following list will be incomplete. However, the key factors that we typically evaluate in considering these proposals include:

**Market premium:** For mergers and asset sales, we make every attempt to determine the degree to which the proposed transaction represents a premium to the company's trading price. In order to filter out the effects of pre-merger news leaks on the parties' share prices, we consider a share price from a time period in advance of the merger announcement. In most cases, business combinations should provide a premium; benchmark premiums vary by industry and direct peer group. Where one party is privately held, we look to the comparable transaction analyses provided by the parties' financial advisors. For companies facing insolvency or bankruptcy, a market premium may not apply.

**Strategic reason for transaction:** There should be a favorable business reason for the combination.

**Board approval/transaction history:** Unanimous board approval and arm's-length negotiations are preferred. We examine transactions that involve dissenting boards or that were not the result of an arm's-length bidding process to evaluate the likelihood that a transaction is in shareholders' interests.

We also seek to ensure that executive and/or board members' financial interests in a given transaction do not affect their ability to place shareholders' interests before their own.

**Financial advisors' fairness opinions:** We scrutinize transaction proposals that do not include the fairness opinion of a reputable financial advisor to evaluate whether shareholders' interests were sufficiently protected in the merger process.

#### Anti-greenmail provisions

Greenmail is typically defined as payments to a corporate raider to terminate a takeover attempt. It may also occasionally refer to payments made to a dissident shareholder in order to terminate a potential proxy contest or shareholder proposal. We typically view such payments as a misuse of corporate assets which denies shareholders the opportunity to review a matter of direct economic concern and potential benefit to them. Therefore, we generally support proposals to prevent boards from making greenmail payments. However, we generally will oppose provisions designed to limit greenmail payments that appear to unduly burden or prohibit legitimate use of corporate funds.

#### Blank check preferred

See Preferred Stock.

#### Eliminate preemptive rights

Preemptive rights give current shareholders the opportunity to maintain their current percentage ownership despite any subsequent equity offerings. These provisions are no longer common in the U.S., and may restrict management's ability to raise new capital.

We generally support the elimination of preemptive rights, but will often oppose the elimination of limited preemptive rights, (e.g., rights that would limit proposed issuances representing more than an acceptable level of dilution).

#### Equal voting rights

BlackRock supports the concept of equal voting rights for all shareholders. Some management proposals request authorization to allow a class of common stock to have

superior voting rights over the existing common or to allow a class of common to elect a majority of the board. We oppose such differential voting power as it may have the effect of denying shareholders the opportunity to vote on matters of critical economic importance to them.

However, when a shareholder proposal requests to eliminate an existing dual-class voting structure, we seek to determine whether this action is warranted at that company at that time, and whether the cost of restructuring will have a clear economic benefit to shareholders. We evaluate these proposals on a case-by-case basis, and we consider the level and nature of control associated with the dual-class voting structure as well as the company's history of responsiveness to shareholders in determining whether support of such a measure is appropriate.

#### **Fair price provisions**

Originally drafted to protect shareholders from tiered, front-end-loaded tender offers, these provisions have largely evolved into anti-takeover devices through the imposition of supermajority vote provisions and high premium requirements. BlackRock examines proposals involving fair price provisions and generally votes in favor of those that appear designed to protect minority shareholders, but against those that appear designed to impose barriers to transactions or are otherwise against the economic interests of shareholders.

#### **Increase in authorized common shares**

BlackRock considers industry specific norms in our analysis of these proposals, as well as a company's history with respect to the use of its common shares. Generally, we are predisposed to support a company if the board believes additional common shares are necessary to carry out the firm's business. The most substantial concern we might have with an increase is the possibility of use of common shares to fund a poison pill plan that is not in the economic interests of shareholders. Therefore, we generally do not support increases in authorized common shares where a company has no stated use for the additional common shares and/or has a substantial amount of previously authorized common shares still available for issue that is sufficient to allow the company to flexibly conduct its operations, especially if the company already has a poison pill in place. We may also oppose proposals that include common shares with unequal voting rights.

### **Increase or issuance of preferred stock**

These proposals generally request either authorization of a class of preferred stock or an increase in previously authorized preferred stock. Preferred stock may be used to provide management with the flexibility to consummate beneficial acquisitions, combinations or financings on terms not necessarily available via other means of financing. We generally support these proposals in cases where the company specifies the voting, dividend, conversion and other rights of such stock where the terms of the preferred stock appear reasonable.

However, we frequently oppose proposals requesting authorization of a class of preferred stock with unspecified voting, conversion, dividend distribution and other rights (“blank check” preferred stock) because they may serve as a transfer of authority from shareholders to the board and a possible entrenchment device. We generally view the board’s discretion to establish voting rights on a when-issued basis as a potential anti-takeover device, as it affords the board the ability to place a block of stock with an investor sympathetic to management, thereby foiling a takeover bid without a shareholder vote. Nonetheless, where the company appears to have a legitimate financing motive for requesting blank check authority, has committed publicly that blank check preferred shares will not be used for anti-takeover purposes, has a history of using blank check preferred stock for financings, or has blank check preferred stock previously outstanding such that an increase would not necessarily provide further anti-takeover protection but may provide greater financing flexibility, we may support the proposal.

### **Poison pill plans**

Also known as Shareholder Rights Plans, these plans generally involve issuance of call options to purchase securities in a target firm on favorable terms. The options are exercisable only under certain circumstances, usually accumulation of a specified percentage of shares in a relevant company or launch of a hostile tender offer. These plans are often adopted by the board without being subject to shareholder vote.

Poison pill proposals generally appear on the proxy as shareholder proposals requesting that existing plans be put to a vote. This vote is typically advisory and therefore non-binding. We generally vote in favor of shareholder proposals to rescind poison pills.

Where a poison pill is put to a shareholder vote, our policy is to examine these plans individually. Although we oppose most plans, we may support plans that include a reasonable 'qualifying offer clause.' Such clauses typically require shareholder ratification of the pill, and stipulate a sunset provision whereby the pill expires unless it is renewed. These clauses also tend to specify that an all cash bid for all shares that includes a fairness opinion and evidence of financing does not trigger the pill, but forces either a special meeting at which the offer is put to a shareholder vote, or the board to seek the written consent of shareholders where shareholders could rescind the pill in their discretion. We may also support a pill where it is the only effective method for protecting tax or other economic benefits that may be associated with limiting the ownership changes of individual shareholders.

### **Stock splits and reverse stock splits**

We generally support stock splits that are not likely to negatively affect the ability to trade shares or the economic value of a share. We generally support reverse splits that are designed to avoid delisting or to facilitate trading in the stock, where the reverse split will not have a negative impact on share value (e.g. one class is reduced while others remain at pre-split levels). In the event of a proposal to reverse split that would not also proportionately reduce the company's authorized stock, we apply the same analysis we would use for a proposal to increase authorized stock.

### **Remuneration and benefits**

We note that there are management and shareholder proposals related to executive compensation that appear on corporate ballots. We generally vote on these proposals as described below, except that we typically oppose shareholder proposals on issues where the company already has a reasonable policy in place that we believe is sufficient to address the issue. We may also oppose a shareholder proposal regarding executive compensation if the company's history suggests that the issue raised is not likely to present a problem for that company.

### **Adopt advisory resolutions on compensation committee reports**

BlackRock generally opposes these proposals, put forth by shareholders, which ask companies to adopt advisory resolutions on compensation committee reports (otherwise known as "Say-on-Pay"). We believe that compensation committees are in the best position

to make compensation decisions and should maintain significant flexibility in administering compensation programs, given their knowledge of the wealth profiles of the executives they seek to incentivize, the appropriate performance measures for the company, and other issues internal and/or unique to the company. In our view, shareholders have a sufficient and much more powerful “say-on-pay” today in the form of director elections, in particular with regards to members of the compensation committee.

#### **Advisory resolutions on compensation committee reports**

In cases where there is an advisory vote on compensation put forth by management, BlackRock will respond to the proposal as informed by our evaluation of compensation practices at that particular company, and in a manner that appropriately addresses the specific question posed to shareholders. On the question of support or opposition to executive pay practices our vote is likely to correspond with our vote on the directors who are compensation committee members responsible for making compensation decisions. Generally we believe these matters are best left to the compensation committee of the board and that shareholders should not dictate the terms of executive compensation. Our preferred approach to managing pay-for-performance disconnects is via a withhold vote for the compensation committee.

#### **Claw back proposals**

Claw back proposals are generally shareholder sponsored and seek recoupment of bonuses paid to senior executives if those bonuses were based on financial results that are later restated. We generally favor recoupment from any senior executive whose compensation was based on faulty financial reporting, regardless of that particular executive’s role in the faulty reporting. We typically support these proposals unless the company already has a robust claw back policy that sufficiently addresses our concerns.

#### **Employee stock purchase plans**

An employee stock purchase plan (“ESPP”) gives the issuer’s employees the opportunity to purchase stock in the issuer, typically at a discount to market value. We believe these plans can provide performance incentives and help align employees’ interests with those of shareholders. The most common form of ESPP qualifies for favorable tax treatment under Section 423 of the Internal Revenue Code. Section 423 plans must permit all full-time

employees to participate, carry restrictions on the maximum number of shares that can be purchased, carry an exercise price of at least 85 percent of fair market value on grant date with offering periods of 27 months or less, and be approved by shareholders. We will typically support qualified ESPP proposals.

### Equity compensation plans

BlackRock supports equity plans that align the economic interests of directors, managers and other employees with those of shareholders. Our evaluation of equity compensation plans in a post-expensing environment is based on a company's executive pay and performance relative to peers and whether the plan plays a significant role in a pay-for-performance disconnect. We generally oppose plans that contain "evergreen" provisions allowing for the ongoing increase of shares reserved without shareholder approval. We also generally oppose plans that allow for repricing without shareholder approval. Finally, we may oppose plans where we believe that the company is aggressively accounting for the equity delivered through their stock plans.

### Golden parachutes

Golden parachutes provide for compensation to management in the event of a change in control. We generally view this as encouragement to management to consider proposals that might be beneficial to shareholders. We normally support golden parachutes put to shareholder vote unless there is clear evidence of excess or abuse.

We may also support shareholder proposals requesting that implementation of such arrangements require shareholder approval. In particular, we generally support proposals requiring shareholder approval of plans that exceed 2.99 times an executive's current compensation.

### Option exchanges

BlackRock may support a request to exchange underwater options under the following circumstances: the company has experienced significant stock price decline as a result of macroeconomic trends, not individual company performance; directors and executive officers are excluded; the exchange is value neutral or value creative to shareholders; and



there is clear evidence that absent repricing the company will suffer serious employee incentive or retention and recruiting problems.

### **Pay-for-performance plans**

In order for executive compensation exceeding \$1 million to qualify for federal tax deductions, the Omnibus Budget Reconciliation Act (OBRA) requires companies to link that compensation, for the Company's top five executives, to disclosed performance goals and submit the plans for shareholder approval. The law further requires that a compensation committee comprised solely of outside directors administer these plans. Because the primary objective of these proposals is to preserve the deductibility of such compensation, we generally favor approval in order to preserve net income.

### **Pay-for-superior-performance**

These are typically shareholder proposals requesting that compensation committees adopt policies under which a portion of equity compensation requires the achievement of performance goals as a prerequisite to vesting. We generally believe these matters are best left to the compensation committee of the board and that shareholders should not set executive compensation or dictate the terms thereof. We may support these proposals if we have a substantial concern regarding the company's compensation practices over a significant period of time, the proposals are not overly prescriptive, and we believe the proposed approach is likely to lead to substantial improvement. However, our preferred approach to managing pay-for-performance disconnects is via a withhold vote for the compensation committee.

### **Supplemental executive retirement plans**

BlackRock may support shareholder proposals requesting to put extraordinary benefits contained in Supplemental Executive Retirement Plans ("SERP") agreements to a shareholder vote unless the company's executive pension plans do not contain excessive benefits beyond what is offered under employee-wide plans.

## **Social, ethical and environmental issues**

See Global Corporate Governance and Engagement Principles.

## General corporate governance matters

### Adjourn meeting to solicit additional votes

We generally support such proposals when the agenda contains items that we judge to be in shareholders' best long-term economic interests.

### Bundled proposals

We believe that shareholders should have the opportunity to review substantial governance changes individually without having to accept bundled proposals. Where several measures are grouped into one proposal, BlackRock may reject certain positive changes when linked with proposals that generally contradict or impede the rights and economic interests of shareholders. The decision to support or oppose bundled proposals requires a balancing of the overall benefits and drawbacks of each element of the proposal.

### Change name of corporation

We typically defer to management with respect to appropriate corporate names.

### Confidential voting

Shareholders most often propose confidential voting as a means of eliminating undue management pressure on shareholders regarding their vote on proxy issues. We generally support proposals to allow confidential voting. However, we will usually support suspension of confidential voting during proxy contests where dissidents have access to vote information and management may face an unfair disadvantage.

### Other business

We oppose giving companies our proxy to vote on matters where we are not given the opportunity to review and understand those measures and carry out an appropriate level of shareholder oversight.

### Reincorporation

Proposals to reincorporate from one state or country to another are most frequently motivated by considerations of anti-takeover protections or cost savings. Where cost savings are the sole issue, we will typically favor reincorporating. In all instances, we will evaluate the changes to shareholder protection under the new charter/articles/by-laws to assess whether the move increases or decreases shareholder protections. Where we find that shareholder protections are diminished, we will support reincorporation if we determine that the overall benefits outweigh the diminished rights.

### Shareholders' right to call a special meeting or act by written consent

In exceptional circumstances and with sufficiently broad support, shareholders should have the opportunity to raise issues of substantial importance without having to wait for management to schedule a meeting. We therefore believe that shareholders should have the right to call a special meeting or to solicit votes by written consent in cases where a reasonably high proportion of shareholders (typically a minimum of 15%) are required to agree to such a meeting/consent before it is called, in order to avoid misuse of this right and waste corporate resources in addressing narrowly supported interests. However, we may oppose this right in cases where the provision is structured for the benefit of a dominant shareholder to the exclusion of others.

### Simple majority voting

We generally favor a simple majority voting requirement to pass proposals. Therefore we will support the reduction or the elimination of supermajority voting requirements to the extent that we determine shareholders' ability to protect their economic interests is improved.

Nonetheless, in situations where there is a substantial or dominant shareholder, supermajority voting may be protective of public shareholder interests and we may therefore support supermajority requirements in those situations.

### Stakeholder provisions

Stakeholder provisions introduce the concept that the board may consider the interests of constituencies other than shareholders when making corporate decisions. Stakeholder interests vary widely and are not necessarily consistent with the best long-term economic interests of all shareholders, whose capital is at risk in the ownership of a public company.

We believe the board's fiduciary obligation is to ensure management is employing this capital in the most efficient manner so as to maximize shareholder value, and we oppose any provision that suggests the board should do otherwise.



# Proxy voting guidelines for Australian and New Zealand securities

*December 2009*



**BLACKROCK**

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# BLACKROCK

## PROXY VOTING GUIDELINES FOR AUSTRALIA AND NEW ZEALAND

*These guidelines should be read in conjunction with BlackRock's Global Corporate Governance and Engagement Principles.*

### INTRODUCTION

Good corporate governance provides a structure likely to maximise returns to shareholders. Voting rights are part of shareholder value. This is why we monitor corporate governance issues and aim to vote on all resolutions at annual and extraordinary general meetings held by all companies in the S&P/ASX 300 Accumulation Index and the MSCI New Zealand Index.

This policy sets out how BlackRock Asset Management (Australia) Limited will exercise its voting power in relation to the Australian and New Zealand stocks held on behalf of our clients. Procedures have been adopted to achieve consistent application of this policy. This policy is made available to interested parties including clients and prospective clients.

Our policy is based on the guidelines established by the Investment & Financial Services Association Limited ("IFSA") Guidance Note No. 2.00 "Corporate Governance: A guide for Fund Managers and Corporations" updated in October 2004 (commonly known as the IFSA Blue Book). We have also incorporated established principles of best practice into our policy.

We will vote on all issues at all Australian and New Zealand company meetings where we have the voting authority and responsibility to do so.

Where BlackRock Australia is instructed to implement this policy in relation to a separately managed account on behalf of a client it will report its proxy voting activities to the client in the manner set out in the client agreement.

## PROXY VOTING APPROACH

The following guidelines will be applied to both Australian and New Zealand companies. We note that many New Zealand companies are dually-listed on the Australian Securities Exchange.

## VOTING GUIDELINES

These guidelines are divided into five key themes which group together the issues that frequently appear on the agenda of annual and extraordinary meetings of shareholders.

The six key themes are:

- Board and directors
- Auditors and audit-related issues
- Capital structure, mergers, asset sales and other special transactions
- Remuneration and benefits
- Social, ethical and environmental issues
- General corporate governance matters

### Boards and directors

#### Board composition and independent directors

The Board of Directors of a listed company should be constituted with a majority of independent directors.

Directors should be competent individuals with the requisite skills and experience to fully discharge their duties.

The Board should have an adequate breadth of skills and experience. The Board should review and disclose in its annual reports its mix of skills, experience and other qualities, including the core competencies that each director brings to the Board.

## Board meetings

Directors should ensure that they attend all Board meetings. A director who attends fewer than 75% of Board and Board committee meetings for two consecutive years should not be renominated unless there are compelling and stated reasons for absenteeism.

## Chairperson and chief executive officer

These two roles should be separate. The Chairperson should be an independent director (refer to definition below). If the Chairperson is not an independent director, a lead independent director should be appointed.

We may, however, vote in favour of a non-independent Chairperson, for example where the:

- company has attributes of a closely held company and the Chairperson has a substantial shareholding; or
- where the loss of a Chairperson may result in a long-term share price fall.

## Committees

**Audit committee:** The Board should appoint an audit committee. The committee should be composed entirely of independent directors, with the appropriate mix of skills and experience for its role. The committee should have written terms of reference that include core matters to be dealt with, and core rights of the committee.

**Nomination committee:** The Board should appoint a nomination committee. The committee should be chaired by an independent director and at least a majority of the committee should be independent directors. The committee should be responsible for proposing suitable nominees to the Board and ensuring a transparent appointment process. The committee should be responsible for preparing, for the Board's approval, appropriate disclosure of its performance of these responsibilities in the company's annual report. The committee should have written terms of reference that include core matters to be dealt with, and core rights of the committee.

**Remuneration committee:** The Board should appoint a remuneration committee. The committee should be chaired by an independent director and at least a majority of the

committee should be independent directors. We prefer the CEO does not sit on the Remuneration Committee. If they do, we would take this into consideration when reviewing the Company's Remuneration Report.

The committee should be responsible for reviewing the remuneration of directors and senior management and advising the full Board on these issues. The committee should be responsible for preparing, for the Board's approval, the disclosure of Board and executive remuneration in the company's annual report as specified in the Corporations Act and the IFSA Blue Book. The committee should have written terms of reference that include core matters to be dealt with, and core rights of the committee.

#### **Independent director — definition**

An independent director is a director who is not a member of management (a non-executive director) and who:

- is not a substantial shareholder of the company or an officer or otherwise associated directly or indirectly with a substantial shareholder of the company;
- has not within the last three years been employed in an executive capacity by the company or another group member or been a director after ceasing to hold any such employment;
- has not within the last three years been a principal or employee of a material professional adviser or a material consultant to the company or another group member; (in addition, CLERP 9 states that auditors cannot become a director of a client or take a position with the client involving responsibility for fundamental management decisions within two years);
- is not a material supplier or customer of the company or another group member or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- has no material contractual relationship with the company or another group member other than as a director of the company;
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company.

### Number of directorship

Individual directors must commit an appropriate amount of time to board matters and, where appointed, to relevant board committees. It will be appropriate to limit the number of board positions held in order to ensure that the individual fulfils their duties to each particular company.

## Auditors and auditor-related issues

### Auditor

The audit committee should ensure that the appointment of the company auditor is transparent and will result in the independent conduct of the audit. This should include ensuring that the proposed auditor does not have any employment or financial relationships that may compromise its independence. The auditor is allowed to provide non-audit services, however, the committee must assess and monitor these to ensure the auditor remains capable of exercising objective and impartial judgment. The nature of non-audit services provided by the company auditor and the fees paid for the services should be fully disclosed in the annual report.

## Capital structure and other special transactions

### Ratification of placements

Companies often request the ratification of previous share placements in order for that placement not to count towards their 15% allocation per 12 months allowed under the ASX Listing Rules. The ASX Listing Rules state that any shareholders who participated in the placement are excluded from voting on that resolution. BlackRock Australia uses its best endeavors to vote TAKE NO ACTION on behalf of any funds who participated in the particular placement.

## Remuneration and benefits

### Executive directors

The responsibility for setting appropriate levels of remuneration lies with the remuneration committee. We do not examine basic pay unless we think that the method for deciding remuneration is unacceptable. The Board should disclose in the company's annual report its policies on and the quantum and components of remuneration for all directors and at least each of the five highest paid executives. The disclosure should be made in one section of the annual report in tabular form with appropriate explanatory notes.

### Incentives schemes

We believe in creating alignment between executive remuneration and shareholder return and therefore believe a proportion of executive pay should be linked to performance. We support the implementation of properly designed incentive schemes that are designed to strengthen this relationship. Incentive schemes should be appropriate for the circumstances of the company and which are aimed at driving superior executive performance.

Remuneration should realistically reflect the responsibilities of executives and be reasonable and comparable with market standards. In addition, all variable remuneration schemes should be provided in reasonable amounts and be underpinned by clear and relevant performance hurdles. The cost of the schemes must be disclosed in accordance with relevant accounting standards.

While we believe options should not be issued at a discount to the market or re-priced downwards, we will review on a case-by-case basis.

### Non-executive directors

A non-executive director's remuneration will usually be in the form of a fixed fee, set by the board as a whole. We approve of non-executive directors being rewarded, or partly rewarded, in shares. The granting of a right to equity participation assists in aligning the interests of non-executive directors and shareholders. Non-executive directors should not be provided with retirement benefits other than statutory superannuation. All remuneration for non-executive directors should be disclosed in the company's annual report as outlined above.

### Re-testing

We are generally opposed to frequent re-testing of performance hurdles in relation to long term incentives schemes. However, we will assess on a case-by-case basis.

### Remuneration report

We support the inclusion of a remuneration report. When making our voting decision on the remuneration report we will consider the following, amongst other factors:

- Disclosure (should be clear and in sufficient detail)
- Structure of bonus and incentives (including hurdles, vesting, re-testing, etc)
- Principal elements of service contracts and termination payments

We note that there is currently no legal requirement in New Zealand for a non-binding vote on Remuneration Reports. We will take this into consideration when voting New Zealand meetings.

## Social, ethical, and environmental issues

See Global Corporate Governance and Engagement Principles.

## General corporate governance matters

### Resolutions

Notices of meeting and company resolutions should be in plain English and in a manner that permits shareholders to make informed decisions. Separate issues should not be combined and presented as a single motion for shareholder vote (unless the resolutions are interdependent and linked so as to form one significant proposal – in which case, the company should ensure the notice clearly explains the primary purpose of the bundled resolution and the material implications of each of its components).



### **Approval of annual report / financial statements**

Where shareholder approval is required, abstention on this issue preserves shareholders right to take legal action should irregularities be discovered at a future date.

### **Where the voting matter is not covered by this policy**

If the voting subject matter is not dealt with by this policy, the BlackRock Proxy Voting Guidelines for Global Securities shall apply.

# Proxy voting guidelines for European securities

*December 2009*



**BLACKROCK**

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# BLACKROCK

## PROXY VOTING GUIDELINES FOR EUROPEAN SECURITIES

*These guidelines should be read in conjunction with BlackRock's Global Corporate Governance and Engagement Principles.*

### INTRODUCTION

These voting guidelines cover European markets excluding the United Kingdom. This document covers the voting issues specific to each market. Our global voting guidelines are divided into six key themes which group together the issues that frequently appear on the agenda of annual and extraordinary meetings of shareholders. These same headings are used in this document. These guidelines are intended only to give an indication of how we are likely to vote as we assess voting issues on a case-by-case basis, taking into account the circumstances of the company.

The six key themes are:

- Boards and directors
- Auditors and audit-related issues
- Capital structure, mergers, asset sales and other special transactions
- Remuneration and benefits
- Social, ethical and environmental issues
- General corporate governance matters

As noted in the global principles, BlackRock expects companies to observe the relevant laws and regulations of their market as well as local, market-specific guidelines on corporate governance best practice. Further, we would expect companies to take into account guidance issued by the European Commission.

In many European markets, local corporate governance best practice guidance is underpinned by an approach that allows companies not to adopt recommended practices as long as they explain why they have not. BlackRock expects such explanations under this so-called 'comply or explain' approach to be made in the context of why not complying better serves shareholders' long-term interests.

## Austria

### Boards and directors

A dual board system, i.e. management and supervisory boards, is prescribed in Austrian law. It also provides for employee representation on the board, i.e. co-determination rights. Accordingly, employees may appoint to the supervisory board one member from their own ranks (i.e. not external trade union representatives) for every two appointed by the general meeting of shareholders. Broadly speaking, this balance applies also to the committees of the supervisory board. Employee representatives may have their appointment terminated at any time but only by the works council. Given this structure, BlackRock would expect the majority of the supervisory board members elected by the general meeting to be independent of major shareholders, the company and its management board. Further, we would expect all non-employee members of the committees of the supervisory board to be fully independent. BlackRock may not support the election of directors whose names and biographical details have not been disclosed sufficiently in advance of the general meeting for us to take a considered decision.

### Capital structure and other special transactions

BlackRock expects all authorities to increase the share capital of the company to be presented to shareholders for approval in general meeting, and to be renewed periodically, even where the supervisory board's authorisation would be sufficient to comply with the law.

## Belgium

### Boards and directors

BlackRock would expect a majority of the board members on Belgian company boards, which follow the unitary model, to be non-executive directors and at least one-third to be independent.

BlackRock is not in favour of cross-shareholdings or the associated reciprocal board directors (administrateurs reciproques). We may vote against the election of directors who have such connections with the company except where there is a business joint venture.

BlackRock prefers that the board chairman does not serve on the audit committee and that a representative of a large shareholder does not chair the committee.

### **Capital structure and other special transactions**

BlackRock opposes antitakeover defences such as authorities for the board when subject to a hostile takeover to issue warrants convertible into shares to existing shareholders.

BlackRock may vote against share re-purchase requests that allow share re-purchases during a takeover period.

## **France**

### **Boards and directors**

French law provides for either a unitary or dual board structure. BlackRock does not prefer one structure to the other but believes a change in structure should be put to shareholders for a vote.

Where companies adopt a unitary board, BlackRock would expect the majority of directors to be non-executive and at least one-third to be fully independent. We prefer the roles of chairman and chief executive to be held by two different people. For two-tiered boards, BlackRock expects all supervisory board members to be non-executive and at least one third to be fully independent.

BlackRock is not in favour of cross-shareholdings or the associated reciprocal board directors (administrateurs reciproques). We may vote against the election of directors who have such connections with the company except where there is a business joint venture.

BlackRock prefers that the board chairman does not serve on the audit committee and that a representative of a large shareholder should not chair the committee.

### **Capital structure and other special transactions**

French companies have historically sought routine authority to issue significant proportions of share capital. BlackRock understands that this allowed management flexibility in raising capital. However, such authorities have not always been used in the interests of

shareholders. BlackRock may vote against capital issuance proposals greater than 50% of the issued share capital when the proceeds are not intended for a specific purpose.

BlackRock may vote against share re-purchase requests that allow share re-purchases during a takeover period.

BlackRock opposes antitakeover defences such as authorities for the board when subject to a hostile takeover to issue warrants convertible into shares to existing shareholders.

### **Remuneration and benefits**

BlackRock will normally vote against a remuneration policy that allows for severance payments to executive directors that exceed two year's total remuneration. We would only support a severance payment greater than this level if detailed justification were given and the payment was clearly in the interests of shareholders as well as the recipient. Severance payments should not be made to executives whose contracts have been terminated as a result of poor performance, who have chosen to leave the company, or who are entitled to exercise pension rights in the near future.

### **General corporate governance matters**

BlackRock will support proposals to abolish voting caps or multiple voting rights and will oppose measures to introduce these types of restrictions on shareholder rights.

## **Germany**

### **Boards and directors**

A dual board system, i.e. management and supervisory boards, is prescribed in German law. It also provides for employee representation on the board, i.e. co-determination rights. Employee representatives generally make up a third to half the board members. Given this, BlackRock expects at least one third of the supervisory board members to be fully independent. In addition, no more than two supervisory board members should be former members of the management board.



### **Capital structure and other special transactions**

In Germany capital-related authorities often have a five-year term. BlackRock may vote against resolutions seeking authority to issue capital if the aggregate amount allowed seems excessive and is not justified by the board.

Requests for specific capital pools for equity-based remuneration will only be supported if we supported the related incentive plan.

### **Remuneration and benefits**

BlackRock does not support the variable pay elements allowed to supervisory board members (i.e. awards linked to dividend or earnings targets) and prefers non-executive directors to receive fixed fees only.

## **Greece**

### **Boards and directors**

BlackRock expects the majority of the board members and at least a third of the non-executive directors to be fully independent.

### **Accounting and audit-related issues**

In approving audit fees, BlackRock will take into consideration the level of detail in company disclosures and will generally not support such resolutions if adequate breakdown is not provided.

### **Remuneration and benefits**

BlackRock may not support proposals on equity-based incentive plans where insufficient information is provided on matters such as grant limits, performance criteria, vesting periods and overall dilution. BlackRock does not generally support options under such plans being issued at a discount to market price.

## Ireland

Given the similarities between the markets and that most Irish companies have adopted the Combined Code, the voting policy applied in Ireland is the same as that applied in the UK.

## Italy

### Boards and directors

Companies may adopt either a dual or unitary board structure, although most companies have the latter. All companies have adopted the voto di lista system for electing directors, under which shareholders with a minimum stake can nominate a slate of directors. In contested elections, i.e. when there is more than one slate, BlackRock will vote for the slate that seems to have directors most suited to representing the long-term interests of the minority shareholders. BlackRock will not support the election of directors whose names and biographical details have not been disclosed sufficiently in advance of the general meeting for us to take a considered decision.

### Remuneration and benefits

BlackRock may not support proposals on equity-based incentive plans where insufficient information is provided on matters such as grant limits, performance criteria, vesting periods and overall dilution.

## Luxembourg

### Boards and directors

Companies may adopt either a dual or unitary board structure, although most companies have the latter. BlackRock normally expects at least half the board to be fully independent, except where there is a major shareholder with board representation in which case at least a third should be independent. BlackRock will not support the election of directors whose names and biographical details have not been disclosed sufficiently in advance of the general meeting for us to take a considered decision.

If a company has not published its financial statements in advance of the general meeting BlackRock may abstain on the proposal to discharge the board.

### **Accounting and audit-related issues**

If a company has not published its financial statements in advance of the general meeting BlackRock may abstain on the relevant resolution.

If a company has not disclosed the name of the auditor and the fee paid BlackRock may vote against the approval of the auditor and fee.

### **Capital structure and other special transactions**

The structure of share repurchase programmes is defined within corporate law in Luxembourg. BlackRock may oppose proposals on share repurchases if there is not a clear statement that they would not be used as a takeover defence or previous authorities seem to have been abused.

### **Remuneration and benefits**

BlackRock may not support proposals on equity-based incentive plans where insufficient information is provided on matters such as grant limits, performance criteria, vesting periods and overall dilution. BlackRock does not generally support options under such plans being issued at a discount to market price.

## **Netherlands**

### **Capital structure and other special transactions**

BlackRock will generally support proposals to abolish depository receipts and replace them with ordinary shares.

BlackRock does not support the use of preference shares to deter a hostile takeover bid.

## **Nordic region (Denmark, Finland, Sweden and Norway)**

### **Boards and directors**

Finland is the only Nordic market where two-tier boards are common and even here there is a move towards the unitary model. In Sweden the unitary board is composed almost entirely

of non-executive directors. The managing director may serve on, but cannot be the chair of, the board although he is subordinate to the board. BlackRock expects a majority of the outside directors on either model board to be independent, excluding any employee appointed directors.

BlackRock believes that directors should be elected on a simple majority and will support proposals abolishing plurality voting.

In Sweden, and increasingly in Finland, nomination committees are made up of representatives of the four largest shareholders and are often chaired by the chairman of the board. BlackRock will generally vote in support of the adoption of this approach subject to there being proper guidelines to the committee that it must act in the interests of all shareholders.

BlackRock will generally support the discharge of the board of directors. We will vote against proposals to abolish the annual discharge unless all directors stand for annual election.

### **Remuneration and benefits**

BlackRock expects equity-based incentive plans to include performance criteria and may not support plans which allow vesting of awards not subject to the achievement of pre-determined performance targets.

## **Portugal**

### **Boards and directors**

Companies may adopt either a dual or unitary board structure. BlackRock expects the majority of directors on a unitary board and all supervisory board directors to be non-executive and at least a third of them to be independent. BlackRock will not support the election of directors whose names and biographical details have not been disclosed sufficiently in advance of the general meeting for us to take a considered decision.

## Spain

### Boards and directors

Although most companies adopt a unitary board structure it is possible to have a two-tiered board. BlackRock expects outside directors to be in the majority and at least a third of them to be fully independent. BlackRock will not support the election of directors whose names and biographical details have not been disclosed sufficiently in advance of the general meeting for us to take a considered decision. Where the proposal bundles the election of all the nominees and not all are named, BlackRock may vote against the whole slate.

## Switzerland

### Boards and directors

BlackRock expects at least half of the board, which is unitary in the Swiss system, to be independent directors. BlackRock may not support the election of directors whose names and biographical details have not been disclosed sufficiently in advance of the general meeting for us to take a considered decision.

### Capital structure and other special transactions

BlackRock will not support proposals to restrict foreign ownership unless such a restriction is a legal requirement.

BlackRock will support proposals to reduce anti-takeover defences such as restricting the transferability of registered shares, differential or restricted voting rights and/or restrictions.

### Remuneration and benefits

BlackRock may not support proposals on equity-based incentive plans where insufficient information is provided on matters such as grant limits, performance criteria, vesting periods and overall dilution.



# Proxy voting guidelines for Japanese securities

*December 2009*



**BLACKROCK**



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# BLACKROCK

## PROXY VOTING GUIDELINES FOR JAPANESE SECURITIES

*The Guidelines should be read in conjunction with BlackRock's Global Corporate Governance and Engagement Principles.*

### INTRODUCTION

The Securities and Exchange Surveillance Commission (SESC) under the Financial Services Agency (FSA) is the primary regulator for investment management companies in Japan, and corporate governance structures are largely informed by the Corporate Law and the Financial Instruments and Exchange Law. Additionally, the Tokyo Stock Exchange (TSE) encourages issuers to follow a set of corporate governance principles encompassing transparency, accountability, stakeholder representation and independent judgment. Disclosure in this market is moderate, however investors' ability to make timely proxy voting decisions may be affected by companies distributing materials relatively close to the market deadline and the concentration of annual meetings over a few days in June.

This voting policy is divided into six key themes which group together the issues that frequently appear on the agenda of annual and extraordinary meetings of shareholders.

The six key themes are:

- Boards and directors
- Auditors and audit-related issues
- Capital structure, mergers, asset sales and other special transactions
- Remuneration and benefits
- Social, ethical and environmental issues
- General corporate governance matters

### Boards and directors

Japanese companies have the option of having either a traditional board of directors with statutory auditors as monitors of the board or a single-tiered board with a committee structure. Companies with the board of statutory auditors appoint at least three statutory auditors, of which more than

one half must be outsiders and at least one serving on a full-time basis. The boards of directors often include executives representing various divisions and subsidiary chief executives. The Corporate Law stipulates that directors that are not executives or employees of the company or its subsidiaries may qualify as outside directors, but in many cases they are designees of parent companies or assignees or former executives of the company's primary banks and other affiliated companies.

In the committee structure option, companies must adopt audit, compensation and nominating committees each composed of a majority of outside directors. We generally support the installation of the single-tiered board with a committee structure.

Independent outside directors and statutory auditors are those that have no connections or relationships with the company or its officers and are hence capable of representing the interests of general shareholders. In evaluating independence, we expect sufficient disclosure by the company of the candidates' past work experience, the entities they represent and any potential conflicts of interest. In our view, common impediments to independence include:

- Current or former employment at the company.
- Providing substantial professional services to the company and/or members of the company's management.
- Any substantial business relationship.
- Shareholders with an exceptionally large ownership stake in the Company.
- Immediate family member of any of the aforementioned.
- Director interlocks.

BlackRock's approach with respect to boards and directors is informed in part by the company's board structure as well as ownership structures. In this respect, companies are grouped into four categories depending on whether their boards have a committee structure, or whether they have controlling shareholders with a larger ownership stake. We prefer that the boards with a committee structure be composed of a majority independent outside directors, and hence oppose the election of non-independent outside directors if the boards are not majority independent. We apply a less stringent standard of one-third independence with respect to companies with controlling shareholders, for their boards often include representatives of these shareholders.

Unlike the boards with a committee structure, we do not uniformly apply a general independence standard to the boards with statutory auditors. We hold the boards with statutory auditors up to a strict independence standard, however, if the rights of general shareholder in the companies are significantly diminished; for instance, in cases where:

- Takeover defense plans transfer the decision rights on control transactions from shareholders to the boards.
- The articles of incorporation authorizing the board to forgo shareholder approval of dividend payout shift the line of decision-making authority from shareholders to the boards.
- The rights of general shareholders are “diluted” due to large shareholders exerting substantial control over the management of the company.

In these cases of governance concerns, we apply the majority independent standard modified with a consideration for share ownership, and oppose the election of non-independent outside directors if the boards are not majority independent, or one-third independent in cases of presence of controlling shareholder. We further consider opposing the election of incumbent directors if the boards with statutory auditors lack any outside directors.

Compliance problems such as violations of law, criminal activities and fraudulent accounting undermine social trust bestowed upon the company and cause significant erosion of shareholder value. We will hold the management accountable when such problems arise and oppose the election of directors and statutory auditors that should be held responsible. Additionally, we apply to the board of such companies the same majority independence standard as we would for the companies with other governance concerns as depicted above, since, in these cases of social misconduct, we consider that the appointment of independent directors is highly advisable.

Other cases that may cause us to vote against the election of directors and/or statutory auditors include but not limited to:

- Where an outside director/statutory auditor has a pattern of poor attendance at board meetings.
- Where the board of directors has adopted a takeover defense plan without shareholder approval.
- Where directors should be held responsible for the company’s sustained and substantial fiscal losses or continued indications of low capital efficiency.

- Where the company's articles of incorporation authorize the board of directors to determine dividend payout without shareholder approval and the payout amount is not supportable.
- Where outside statutory auditors are deemed non-independent.
- Where the individuals nominated as statutory auditors are deemed inappropriate as monitors of the board of directors, in view of compliance problems at the company.

### **Annual election of directors**

BlackRock supports the annual election of directors, and we do not generally support the adoption of a classified board structure.

### **Indemnification of directors and statutory auditors**

We generally support reasonable protection of directors and statutory auditors. We believe that failure to provide protection to directors and statutory auditors might severely limit the company's ability to attract and retain competent leadership. Consequently, we generally support proposals to provide indemnification up to the limit as provided by law.

### **Removal of directors at a shareholder meeting**

BlackRock believes shareholders should have the ability to remove directors with a simple majority vote, and we oppose raising the voting requirement to a supermajority.

## **Auditors and audit-related issues**

### **Appointment of accounting auditor**

BlackRock generally supports appointment of auditors selected by management, although we may oppose the appointment if the auditor is deemed non-independent. If the appointment of a new auditor is considered to have been caused by the resignation of its predecessor who had disagreements with the company regarding the audit, we will carefully assess whether the objectivity of audit can be secured under the new auditor.

### Indemnification of accounting auditors

BlackRock generally is not supportive of indemnification of accounting auditors absent a compelling rationale.

## Capital structure, mergers, asset sales and other special transactions

### Approval of merger, asset sales / purchases, corporate splits / transfers

These proposals vary widely in scope and substance, and we closely examine certain salient features in our analyses. The key factors that we typically evaluate in considering these proposals include:

**Market premium:** In most cases, business combinations should provide a premium; benchmark premiums vary by industry and direct peer group. Where one party is privately held, we look to the comparable transaction analyses provided by the parties' financial advisors. For companies facing insolvency or bankruptcy, a market premium may not apply.

**Strategic reason for transaction:** There should be a favorable business reason for the combination. The transaction should contribute to the strengthening of the company's competitive position or furthers the company's focus on its core business.

**Transaction process:** The decision process up to board approval should have been fair to all shareholders. We do not support a proposal if concerns for conflicts of interests are discerned on the part of lead banks providing finance or if the transaction is apparently against the interests of existing shareholders and appears to proceed under the pressure from the parent company, main banks and/or regulatory bodies pushing for a rescue operation for the target company.

**Financial advisors' evaluation of terms of transaction:** We scrutinize transaction proposals that do not include third-party calculations by a financial advisor. This condition may not apply if the transaction does not affect the economic interests and the legal rights of shareholders, such as with a subsidiary merger.

### **Creation and issuance of class shares**

BlackRock evaluates these proposals on a case by case basis, taking into account the objectives, the rights of holders, tenures and the convertibility of any preferred shares to common. We generally oppose the creation and issuance of shares with differential voting rights where the effects on the rights of existing shareholders are negatively impacted, or the company has a history of abusive issuances. We also frequently oppose proposals requesting authorization of a class of preferred stock with unspecified voting, conversion, dividend distribution and other rights because existing shareholders cannot evaluate the effects of new issues on their economic interests or legal rights.

### **Dividend payout**

We generally approve dividends of at least 30% of net income. Companies that propose a lower allocation are evaluated more closely to determine if the low dividends are necessitated by company-specific conditions. Also, we may oppose dividends that appear excessive given the company's financial position. We support shareholders' right to vote on dividend payments, and we therefore typically oppose revisions to corporate articles authorizing the board to determine surplus payout without shareholder approval, absent compelling rationale.

### **Increase in authorized shares**

We generally do not support increases where the company has failed to provide adequate explanations for use for the additional shares if it has a substantial amount of previously authorized shares still available for issue, or if it requests an increase in share authorization that is deemed excessive given the lack of specific plans for their use. We evaluate on a case-by-case basis if the company has a history of third-party allotments that diluted the interests of existing shareholders or if concerns exist regarding the intent of the proposed increase being in conflict with the shareholder's interest. If a company is in a deep financial problem and plans a third-party share allotment, we evaluate the proposed increase in share authorization by comparing the size of resulting dilution of shareholder value by the allotment and the likelihood of bankruptcy that would ensue without such allotment.



### **Reduction of capital**

Approve if the proposal is made in relation to a corporate resurrection plan, or if the risk of bankruptcy is imminent.

### **Reduction of capital reserve and earned reserve**

We approve these proposals if management has provided a reasonable rationale.

### **Share repurchases**

We generally support board authority to repurchase shares unless the repurchase does not work toward the benefit of general shareholders given the company's ownership structure.

### **Takeover defenses**

In Japan, the most popular takeover defense plans are called advance-warning types. These plans set forth the rules for the bidder to abide by, and warn the bidder of use of means of deterrence such as poison pills in case the rules are violated. Management often claims that such defense plans are necessary as the regulation regarding public takeover bids is insufficient. Our policy is to examine defense plans such as advance-warning types individually in terms of the plans' appropriateness as an ordering for control transactions. Given changing regulatory environments, we prefer that these plans contain a sunset provision, or at least a regular shareholder review. In addition, we expect that a company should have no other types of defense measures in place. Since the incumbent directors will face conflicts of interests in hostile takeovers, we expect that the company should have established a special committee composed of independent directors and/or statutory auditors to evaluate any takeover offer and/or launch a means of deterrence. If the rules as set forth by plans allow directors to use considerable discretion in their interpretation, we expect their board to feature a high level of independence.

We generally oppose any takeover defense measures that:

- Would inhibit future shareholder votes on such measures, e.g. "dead-hand" poison pills.
- Undermines the equality of common shareholder voting rights through the introduction of superior or multiple voting rights over the existing common, including veto rights at shareholders' meetings.

- Stipulates a maximum percentage of total shareholder votes an individual may exercise, regardless of ownership position.
- Fails to disclose in reasonable detail such items as: the measure's objectives; conditions and procedures for trigger, installation, retention, and removal; and impact on shareholders' economic interests and legal rights.

### **“White knight” allocation of shares**

Allocations of shares may be used to finance corporate restructuring plans as well as to oppose hostile takeovers. We generally do not favor takeover impediments. We will review proposals made in relation to restructuring plans on a case-by-case basis to determine their overall economic impact on shareholders, taking into account whether the issue price or exercise price is not set at a level excessively advantageous to the allotted party, whether the allotment will not cause a massive dilution of existing stocks, and whether the allotment is not made to inappropriate parties. If the allotment is made with intent of forming cross-shareholding relations, vote on a case-by-case basis by assessing the likelihood of such relations causing erosion of shareholder value.

## **Remuneration and benefits**

### **Annual compensation for directors and statutory auditors**

Companies typically seek shareholder approval for the upper limits set for total annual compensation paid to directors and statutory auditors respectively as a whole. Annual cash bonuses to directors may be paid within these limits, in which case no separate approval is necessary. Alternatively, companies may seek shareholder approval of annual bonuses on a yearly basis. We generally approve the proposals for increases in the upper limits for the annual compensation unless amounts paid are deemed excessive or out of line with country and industry norms. We also oppose proposals for increases in compensation where financial losses have persisted for several years. We will not support the proposal for bonus payments if no dividends are paid. We generally support increased disclosure of director and statutory auditor compensation if no material harm associated with such disclosure is anticipated.

### **Special bonuses for retiring directors and statutory auditors**

The practice of making bonus payment to retiring directors and statutory auditors may best be perceived as disbursements of deferred compensation for the services provided during the period of their appointments. Many companies in Japan have already abolished this practice on the ground of its opacity as an incentive creation mechanism, but we still encounter proposals asking shareholder approval for the total amounts paid to directors and statutory auditors respectively as a whole. These proposals may include requests for such awards to the families of deceased directors and statutory auditors. We generally oppose retirement benefits paid to statutory auditors. We normally approve such proposals for retiring directors unless one or more of the following applies: 1) the recipient had less than two years of service as director; 2) the company has reported substantial and sustained financial losses, although industry-specific considerations may temper this view; 3) compliance problems such as violations of law, criminal activities and fraudulent accounting occurred and the retiring individuals should be held responsible for such misconduct; or 4) the recipient is an outside director.

### **Stock option plans**

We generally approve stock option plans granted to executives and employees of the company or its subsidiaries that align their economic interests with those of the shareholders while limiting the transfer of wealth out of the company (typically up to 5% dilution, or 10% for high growth companies). We generally oppose stock option plans where the company fails to provide sufficient information to evaluate the dilution impact, where the exercise price is at a discount to market price, or where the plan may be deemed to be used for anti-takeover purposes. We also typically oppose plans that allow for options to be granted to outside directors or statutory auditors of the company or its subsidiaries, or to executives or employees of affiliated companies or business partners. Finally, we generally oppose plans that allow for the repricing of the exercise price.

### **Deep discount stock option plans**

Deep discount stock options exercisable with payment of one yen are essentially substitutes for restricted stock, and may be granted as part of mid- to long-term performance-linked remuneration schemes or simply as replacements for retirement bonuses. Deep discount options are typically fully expensed, and the criteria we use to evaluate them are the same as those used for stock option in general except for the provision regarding the exercise price.

## Social, ethical and environmental issues

See Global Corporate Governance and Engagement Principles.

We typically oppose shareholder proposals deemed to serve solely the interests of the proponent, to undermine the interests of general shareholders, or to promote a specific social or political purpose.

## General corporate governance matters

### Change in company fiscal term

We typically oppose proposals to change the company's fiscal year-end to March, as this change would likely result in the company holding its shareholder meeting in June, thus negatively impacting shareholders' ability to make timely proxy voting decisions due to the concentration of shareholder meetings in that month.

### Expansion of business activities

Japanese companies' articles of incorporation generally include very specific business purposes. We will generally support such proposals unless the expansion represents an extreme departure from management's area of expertise.

### Lower quorum requirements for special resolutions

These measures could have the effect of enhancing the voting rights of large ownership blocks such as a founding family, parent company or major lender. We will most frequently oppose the proposal if the company's ownership structure causes concerns for impairments of the decision rights of general shareholders.

# Proxy voting guidelines for U.K. securities

*December 2009*



**BLACKROCK**

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# BLACKROCK

## PROXY VOTING GUIDELINES FOR U.K. SECURITIES

*These guidelines should be read in conjunction with BlackRock's Global Corporate Governance and Engagement Principles.*

### INTRODUCTION

Our policy for the United Kingdom is based on the Combined Code on Corporate Governance and related guidance issued by the Association of British Insurers (ABI), National Association of Pension Funds (NAPF) and other organizations. These all have in common the principles of accountability, transparency, fairness and responsibility.

Our approach to voting and engagement is informed by the UK's Institutional Shareholders' Committee (ISC) and other guidance on exercising ownership responsibilities issued by organisations such as the United Nations (the Principles of Responsible Investment) and International Corporate Governance Network.

We are active members of each of these organisations and thus believe that their guidance is consistent with our own principles.

### COMPLY OR EXPLAIN

We believe strongly that the 'comply or explain' principle of the Combined Code provides the appropriate mechanism for ensuring effective and pragmatic governance of UK companies. We expect every company to provide a meaningful statement as to its adherence to the Combined Code and explicit justification of any deviations from the Code's recommendations, explaining how these serve the interests of the company's shareholders.



## ENGAGEMENT

BlackRock takes an integrated approach to corporate governance and engagement, to the extent possible, as we believe that this results in both better informed decisions and a more consistent dialogue with companies. Activities are coordinated by the UK Corporate Governance Team.

We have over a thousand meetings each year with the management of UK companies in which our clients' funds are invested. At these meetings we discuss strategy and performance, as well as, where necessary, the aspects of corporate governance for which management is responsible. In addition, we have separate meetings with non-executive directors to discuss other aspects of corporate governance such as management succession planning, executive remuneration, and board structure and performance. We will also participate in joint intervention with other shareholders where concerns have been identified by a number of investors. Alternatively, we may consider reducing our holding in, or publicly opposing management of, a company which is unresponsive to shareholder concerns.

## PROXY VOTING APPROACH

BlackRock aims to vote at 100% of the annual and extraordinary shareholder meetings of UK-listed companies. The universe we cover includes the companies in the FTSE All-Share and FTSE Fledgling indices and a number of selected companies on AIM.

We aim to engage with management or members of the board, as appropriate, on contentious and high profile issues before determining how to vote. Where we decide to withhold votes from management (i.e. where we actively abstain from voting or vote against) we advise the company in advance whenever possible.

## VOTING GUIDELINES

These guidelines are divided into six key themes which group together the issues that frequently appear on the agenda of annual and extraordinary meetings of shareholders.

The six key elements are:

- Boards and directors

- Auditors and audit-related issues
- Capital structure, mergers, asset sales and other special transactions
- Remuneration and benefits
- Social, ethical and environmental issues
- General corporate governance matters

## Boards and directors

### Director elections

BlackRock believes that the appointment of key individuals, notably the Chairman, is crucial for an effective board and for board communications. BlackRock expect at least half the board to be non-executive directors who are, and are seen to be, fully independent.

BlackRock will review the status of independent directors where they have been on the board for in excess of 9 years. We are supportive of annual elections for all directors. We normally vote in favour of the re-election of directors proposed in uncontested elections. We may vote against individual board members where we have concerns about their independence in the context of the board overall or about their performance in terms of protecting and advancing the interests of shareholders or in terms of board meeting attendance.

In contested elections, BlackRock will take into account the merits of each candidate and vote in support of the board composition most likely in our view to best serve the interests of shareholders. Where minority investor representatives are standing we may support their election if we believe this will enhance long term returns for BlackRock's clients.

### Indemnification of / liability insurance for directors and officers

We are generally supportive of proposals to extend reasonable protection to directors and officers of the company. Failure to provide such protection may, in our view, restrict the company's ability to attract and retain competent leadership. We would expect such proposals to be limited to coverage of legal expenses. We would not support proposals that would provide indemnity in the case of a breach of duty, transactions from which the director or officer derived improper personal benefit, actions or omissions not in good faith or those that involve intentional misconduct.

### **Newly appointed directors**

BlackRock believes that directors should be appointed through a formal, rigorous and transparent process that takes into account the current composition of the board, skills gaps and succession planning. Where we have concerns that a director has been appointed through an inadequate process we may vote against his or her election to the board.

### **Separation of chairman and chief executive positions**

We will generally support resolutions to separate the positions of chairman and chief executive.

### **Senior independent director**

BlackRock expects the senior independent director to be fully independent and may vote against his or her re-election if this is not the case unless the company provides a detailed explanation of why it would not be in shareholders' interests to do so.

## **Auditor and audit-related issues**

We may vote against the re-election of board directors, specifically the members of the audit committee or equivalent, where the board has failed to facilitate high quality, independent auditing.

### **Appointment of auditors / approve auditor's fees**

We may vote against the re-election of board directors, specifically the members of the audit committee or equivalent, where the board has failed to facilitate high quality, independent auditing.

### **Auditor indemnification**

BlackRock is generally not supportive of the indemnification of external auditors as we believe it potentially undermines the integrity of the audit. We are also generally not supportive of proposals to limit the financial liability of external auditors although we will consider proposals on proportionate liability.

### **Rotation of audit firms**

We may support shareholder proposals seeking the rotation of audit firms or an audit being put out to tender. We are more likely to be supportive if we have previously had concerns about the quality of the audit or if the company is not observing market norms in this regard.

## **Capital structure, mergers, asset sales and other special transactions**

### **Capital issuance requests**

BlackRock support pre-emption rights in line with the ABI Guidelines; these guidelines provide a key protection for shareholders against dilution of their interests. We recognise that management requires some flexibility to raise funds for general business purposes through the issuance of shares. We generally support proposals seeking a standing authority to make such issuances subject to the ABI Guidelines, the size of the capital pool being fixed, the life of the authority being specified and the other terms being reasonable with regard to the interests of existing shareholders. Requests for standing authority to issue shares in relation to an acquisition will be considered on their merits and in light of previous use of such authorities and the company's corporate governance profile.

### **Dividend proposals**

We will generally approve dividends of at least 30 per cent of net income, taking into consideration market standards and practices. We assess more closely companies that propose a lower allocation to determine if the low dividends are necessitated by company-specific conditions or local market factors. We may oppose dividends that appear excessive given the company's financial position.

### **Increase in authorized share capital / increase in preferred stock**

BlackRock assesses these requests in light of a company's previous issuance of capital and its corporate governance profile. Generally, we will support proposals if the board has concluded that additional share capital is necessary to carry out the company's business. We would expect companies seeking such authority from shareholders to set out clearly the anticipated use of the additional shares and how this is in the interests of existing shareholders.

### **Mandatory takeover bid waiver**

Mandatory takeover bid waivers exempt a large shareholder from the obligation to bid for the remaining shares of the company it does not already own. The requirement that a takeover bid be launched when a substantial percentage of the issued share capital has been acquired by one shareholder or shareholders acting in concert prevents the entrenchment of controlling shareholders and protects minority shareholders from creeping acquisitions. Normally we will vote against waivers. However, we may vote in favour of a waiver when it is sought in conjunction with a share repurchase programme, which could cause a shareholder's ownership stake to increase above the mandatory bid threshold, as long as no one individual shareholder's stake would increase above 50 per cent.

### **Private placement**

We will generally support private placements where the purpose of the proposed transaction is to raise funds or repay debt. We would expect companies to seek annual shareholder approval for any standing authorities to make private placements. Such authorities should specify the maximum proportion of issued capital that could be placed privately and the maximum discount that could be applied, where relevant.

### **Share repurchase**

We consider share repurchase programmes are generally supportive of the share price and will generally approve them. We will normally oppose such proposals if the proportion of issued share capital covered by the authority is excessive or the intended purpose is unclear.

### **Stock dividend**

We will generally support proposals that offer shareholders a choice of a stock or cash dividend.

### **Related-party transactions**

In principle, companies should refrain from engaging in transactions with related parties such as their shareholders, directors, and management. If related party transactions are entered into they should be conducted on an arm's length basis, approved by independent parties, such as non-interested directors and/or shareholders, and further governed by

relevant corporate law or stock exchange listing requirements. We may support reasonable annual mandates for recurring related party transactions subject to their not adversely impacting minority or independent shareholders.

## Remuneration and benefits

In determining how to vote on equity-based incentive plans and on remuneration reports we take into consideration the best practice guidelines on remuneration generally, and performance pay in particular, issued by the Association of British Insurers and the Performance Pay Group.

### Approval of remuneration report

BlackRock will take into account the overall structure and outcomes in terms of awards to executives when deciding how to vote. In addition to voting against the remuneration report, we will vote against the re-election of members of the remuneration committee or equivalent where we believe remuneration practices are egregious or are otherwise not in the interests of shareholders.

### Approval of equity-based incentives or changes to these

BlackRock will take into account the extent to which a proposed incentive plan is clearly linked to strategy, whether it seems structured to prevent undue risk taking and whether the level of potential rewards earned at target and exceptional performance thresholds seems reasonable and in line with corresponding anticipated returns to shareholders. We will oppose proposals where there seems to be a mis-alignment between shareholders' interests and those of the plan participants.

## Social, ethical and environmental issues

### Annual report

BlackRock expects annual reports to include discussion on material risks and how these are managed. Where a company's reporting on material SEE issues is deemed insufficient given the risks or nature of the business we may vote against the adoption or approval of the annual report.

### **Election of directors**

BlackRock believes that the election of directors is the most effective mechanism for shareholders to express concerns about a company's handling of SEE issues. We may vote against the re-election of directors deemed responsible for realised harm to shareholders' interests in relation to a specific SEE issue. Similarly, where we are concerned that insufficient steps have been taken to avoid a significant threat we will withhold support.

### **Shareholder proposals**

BlackRock does not have a standing policy on shareholder proposals as each is evaluated on its merits. We are unlikely to support shareholder proposals if we believe that the company has taken adequate steps to address the issue raised.

## **General corporate governance matters**

### **Amendments to memorandum / articles of association / charter**

These proposals vary from routine changes to reflect corporate law or other regulatory revisions through to significant changes that substantially change the governance of the company. BlackRock will review such proposals in accordance with our corporate governance policy.

### **Approve annual report / financial statements**

Where the annual report and/or financial statements are not published sufficiently in advance of the voting deadline to allow a considered vote we may abstain on proposals on the approval or adoption of the reports. Similarly, we may withhold support if doing so would protect our shareholders' rights to take legal action should irregularities be discovered at a future date. We may also vote against proposals on the annual report if we have material concerns about the quality of reporting and disclosure.

### **Bundled proposals**

BlackRock believes that shareholders should have the opportunity to review substantial governance changes individually, not in bundled proposals. Where several measures are bundled into one proposal we may reject certain positive changes linked with proposals that

in effect contradict or impede the rights and economic interests of shareholders. In making our decision we will balance the overall benefits and drawbacks of each element of the proposal.

### **Change of name of corporation**

We will normally support management proposals on corporate names.

### **Charitable and political donations**

We expect companies to disclose and explain any charitable donations made. We do not support the use shareholders' funds to make donations to individual political parties.

### **Reincorporation or change of domicile**

Proposals to move domicile from one country to another are frequently undertaken to gain protection from take-over, to avoid certain regulatory requirements or to save costs. We will assess any changes to the company's charter associated with the reincorporation and will not normally support moves that will result in a significant overall reduction in shareholder protections. Where shareholder protections will not be diminished and cost savings are the sole motivation and will be considerable we will generally support such a proposal.

### **Shareholder proposals**

Whilst we recognise the importance of the right of shareholders to submit proposals to the general meeting, we will not support those that are frivolous or that cover an issue that we believe the board or management is or has addressed adequately. We will support shareholder proposals that we believe enhance shareholders' rights or are in the economic interests of shareholders.

### **Simple majority voting**

Generally we favour a simple majority voting requirement to pass proposals. Therefore we will support moves towards simple majority voting to the extent that we determine shareholders' ability to protect their economic interests is improved. In certain



circumstances, such as where there is a dominant shareholder, supermajority voting may act to protect minority shareholders' interests and we may therefore vote to retain it.