

CORPORATE GOVERNANCE PROXY VOTING ACTIVITY **MARCH 2003 – MAY 2003**

During the period the Fund voted at 389 UK company meetings and 105 European meetings – a mixture of AGMs and EGMs. In respect of UK company meetings, the Fund opposed 853 resolutions out of a total of 2,973 resolutions, representing approximately 29% of all resolutions.

The Fund uses its role to express its concern over corporate governance issues often alongside a number of other large institutional shareholders. These three months saw unprecedented shareholder revolts at a number of high profile FTSE 100 companies including Glaxosmithkline, HSBC, Reuters and Shell Transport and Trading. A number of factors contributed to this increasing shareholder dissent including poor market performance, continuing executive pay inflation and associated media focus. Of the Fund's holdings in the period under review, 42 companies received 'Oppose' votes in excess of 10%. Many companies also received high abstention votes in relation to their remuneration policy.

On 19 May 2003 Glaxosmithkline became the first major UK company to have a resolution on its remuneration policy defeated. During the weeks preceding the meeting there was considerable press comment regarding the Chief Executive's contract, much of it relating to the potential £22M in liquidated damages. His contract had various liquidated damage provisions, including 2 years' salary, annual bonus and benefits, full vesting of outstanding options without reference to performance conditions, full vesting of performance shares subject to achievement of performance and eligibility for a further annual award of options and performance shares during the notice period. This potential £22M contract led to a series of publicly heated debates. The week before the meeting and in an attempt to head off the growing criticism the Chairman of Glaxosmithkline wrote to major shareholders with a commitment to "review all aspects of the company's remuneration policy". In the UK the ABI advised its members to abstain on the resolution and the NAPF recommended opposition whilst in the US, Calpers also said it would vote against it. The resolution was narrowly defeated receiving 50.7% votes against the policy. The level of abstentions was not revealed as it would have shown that the level of support for the resolution would have actually been considerably lower. Two members of the remuneration committee have since left the board and the company also announced that it would in future discuss a new pay package with the company's major shareholders.

BAE Systems' remuneration policy only just managed to scrape through with 49% of shareholders opposing the resolution. The issue this time was very much disclosure related, with performance conditions under the annual bonus and maximum available under the long-term incentive schemes not disclosed. In addition shareholders criticised a £1.45M pay-off to former Chief Executive John Weston.

Insufficient disclosure also led to a quarter of shareholders opposing the remuneration policy at the AGMs for Hilton Group and Shell Transport and Trading. Shareholders considered that the targets set were not challenging enough for the associated awards. In addition there was poor disclosure in relation to performance targets, vesting scales and maximum awards under incentive schemes.

Although the vast majority of these companies were large capitalized companies, Easy-net Group a smaller company, also attracted an opposition vote of 31% at its AGM. This was because a compensation payment made during the year was not fully explained and

incentive schemes were based on share price performance targets that did not clearly reflect executive performance.

Opposition votes in excess of 20% against remuneration policies were received at the following company AGM's: Glaxosmithkline, BAE Systems, Easynet, Royal and Sun Alliance, Reed Elsevier, Royalblue, Hilton Group, Metalrax, Shell Transport and Trading, BBA, Reuters, HBOS, Roxboro, Amersham and Granada.

Other major issues other than the remuneration policy are typically illustrated in the examples in the following table where there was significant opposition to specific recommendations put forward by companies. Unless otherwise stated, the resolutions are those put forward by the company and not by shareholders.

<u>Meeting</u>	<u>Resolution Causing Shareholder Concern</u>	<u>Shareholders Opposing %</u>
Reed Elsevier Plc 08.04.2003 AGM	To approve the new long-term incentive plan.	33
Alpha Airports Group Plc 29.05.2003 AGM	To approve the new executive share option scheme.	33
Reed Elsevier Plc 08.04.2003 AGM	To approve the new executive share option scheme.	27
Securicor Plc 13.03.2003 AGM	To approve the 2003 performance share plan.	26
Royalblue Group Plc 03.04.2003	To re-elect Mr L Liebman.	26
Hilton Group Plc 16.05.2003 AGM	To re-elect Mr B G Wallace.	24
ARC International Plc 07.03.2003 EGM	To amend share schemes.	24
Slough Estates Plc 13.05.2003 AGM	To re-elect Mr P D Orchard-Lisle.	23
Aegis Group Plc 28.05.2003 AGM	To re-elect Mr D Flynn.	23
GKN Plc 15.05.2003 AGM	To re-appoint the auditors.	21
Roxboro Group Plc 23.04.2003 AGM	To re-elect Mr H Tee.	21

Background details on some of these resolutions where opposition was significant are as follows:

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Reed Elsevier Plc (AGM)

Although this resolution was not strictly a remuneration policy issue, it was still pay related. There were two resolutions that received a high opposition vote, the first being to approve the new long term incentive plan (LTIP) and the second to approve the new executive share option scheme (ESOS). Both the LTIP and ESOS were considered potentially excessive by the Fund. In addition insufficient information was provided and the board committee had excessive discretion to alter awards.

The Fund opposed both resolutions.

Alpha Airports Group Plc (AGM)

This resolution was also a pay related issue although it did not concern the remuneration policy. The concern here was one of disclosure. Shareholders were unable to make an informed assessment on the key elements of the new ESOS due to lack of information, hence nearly one third of shareholders opposed the resolution.

The Fund opposed the resolution.

Securicor Plc (AGM)

Remuneration and corporate governance issues dominated this particular AGM. Over a quarter of the shareholders opposed the 2003 performance share plan. The issue being that it failed to measure performance against a comparator group and used only one performance hurdle. A further resolution concerning the re-election of a non-executive director, Mr Roger Wiggs, also received a 14% opposition vote. Mr Wiggs was not only a former Chief Executive of the company who had been on the board for more than 25 years, but he also held share options and the Fund considered this to be a breach of best practice, a view recently re-inforced by the Higgs Review.

The Fund opposed both resolutions.

Royalblue Group Plc (AGM) and Slough Estates (AGM)

This resolution concerned the re-election of a non-executive director Mr Leon Liebman. Over one quarter of the shareholders opposed his re-election as he had been on the board since 1992. A similar situation was seen at the AGM of Slough Estates where 23% of the shareholders also voted against the re-election of a senior independent director, Mr Paul Orchard-Lisle. This particular director had been on the board since 1980. The issue of excessive length of board tenure raises the concern of the true independence of non-executive directors. In both cases this meant that the Fund considered less than one third of the board was independent.

The Fund voted against both resolutions.

Hilton Group Plc, Aegis Group Plc and Roxboro Group Plc (AGMs)

The resolutions causing concern at these three AGMs were all of a similar nature and basically concerned the re-election of executive directors with more than a one year rolling contract or liquidated damages in excess of one year.

The Fund opposed the resolutions at all three AGMs.

ARC International Plc (EGM)

Nearly a quarter of all shareholders voted against this resolution which involved amending the company's share scheme. The structure of the proposed scheme potentially gave the company power to grant options to directors that could have been excessive and in addition highly dilutive.

The Fund opposed the resolution.

GKN Plc (AGM)

The re-election of the company's auditors Pricewaterhouse Cooper, received a 21% opposition vote. This was because non-audit fees (£1.4M) exceeded 25% of the audit fee (£2.9M) for the year under review and on a three year aggregate basis.

The Fund opposed the resolution.

European Issues

The Fund currently votes on the top 300 European companies where it has a holding, although disclosure of proxy voting levels in European countries remains very low. An example of where the Fund voted on a European issue was at the France Telecom meeting, which was held in May. The issue here concerned the unfair treatment of foreign shareholders. The resolution causing concern allowed the company chairman excessive powers for in-validating foreign shareholders. In addition it offered a sanction allowing the chairman to deprive for 5 years the dividend payments and voting rights of any foreign shareholder which he considered was not adequately identified. The resolution in question attracted a 5% opposition vote.

During the period the Fund also voted against a resolution at the Nokia Meeting held in March. The resolution complied with Finnish best practice regarding the dilution limit, however the company did not disclose performance targets or maximum awards under the scheme which the Fund considered a serious breach of UK best practice therefore opposed the resolution.