

**CORPORATE GOVERNANCE PROXY VOTING ACTIVITY**  
**MARCH 2004 TO MAY 2004**

During the period the Fund voted at 298 UK company meetings and 107 European meetings – a mixture of AGM's and EGM's. In respect of these company meetings, the Fund abstained or opposed 973 resolutions out of a total of 3,774 resolutions, representing approximately 26% of all resolutions. During this period there were only 45 meetings where the Fund supported all the resolutions put forward by companies.

The Fund uses its role to express its concern over corporate governance issues, often alongside a number of other large institutional shareholders. Within the UK, the Fund always chooses to either oppose or support a resolution and never chooses to abstain, compared to many institutional shareholders who choose this route. Going forward, the revised 2004 Combined Code will require companies to indicate the number of abstentions received, in order to comply with best practice. This will enable the management of companies to assess the real level of support for resolutions, as many institutions choose abstention as opposed to a direct vote against, to indicate that they are not happy with a particular resolution put forward by management. Within Europe, the Fund may occasionally choose to abstain rather than vote against or support a particular resolution.

The major issues of contention that attracted a high level of shareholder opposition are typically illustrated in the examples in the table below. Once again remuneration issues dominated, as senior management try to justify over generous remuneration packages. Unless otherwise stated, resolutions are those put forward by the company and not by shareholders.

<b><i>Meeting</i></b>	<b><i>Resolution Causing Shareholder Concern</i></b>	<b><i>Shareholders Opposing %</i></b>
Eurotunnel 7 April 2004 AGM	• To re-elect certain board members.	66.5%
	• To approve the remuneration report.	64.2%
	• To reappoint the auditors	64.1%
	• To receive the report and accounts	63.7%
Henderson TR Pacific IT PLC 5 April 2004 AGM	• To issue shares for cash.	39%
Carillion PLC 12 May 2004 AGM	• To approve the remuneration report	38.3%

<b>Meeting</b>	<b>Resolution Causing Shareholder Concern</b>	<b>Shareholders Opposing %</b>
Slough Estates PLC 11 May 2004 AGM	<ul style="list-style-type: none"> <li>To approve the remuneration report.</li> </ul>	32%
Aggregate Industries PLC 22 April 2004 AGM	<ul style="list-style-type: none"> <li>To re-elect M Crump</li> </ul>	23.8%
Spirent PLC 11 May 2004 AGM	<ul style="list-style-type: none"> <li>To re- elect A Wyness</li> </ul>	22.5%
Psion PLC 14 May 2004 AGM	<ul style="list-style-type: none"> <li>To approve the remuneration report.</li> </ul>	22.3%
Spring Group PLC 19 May 2004 AGM	<ul style="list-style-type: none"> <li>To approve the remuneration report.</li> </ul>	21.8%
Croda International PLC 22 April 2004	<ul style="list-style-type: none"> <li>To approve the remuneration report.</li> </ul>	20.4%
Regus Group PLC 18 May 2004 AGM	<ul style="list-style-type: none"> <li>To approve the new employee share plans.</li> </ul>	19.4%
Throgmorton Trust PLC 25 March 2004 AGM	<ul style="list-style-type: none"> <li>To issue shares for cash.</li> </ul>	19%
Throgmorton Trust PLC 25 March 2004 AGM	<ul style="list-style-type: none"> <li>To adopt the annual report.</li> </ul>	18%

Although the Fund opposed most of the resolutions, it will vote for a resolution if it believes the company has followed best practice.

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

## **Voting Review**

### **Eurotunnel PLC (AGM)**

As can be seen from the table, the shareholders, primarily private French investors, ousted the board of Eurotunnel at the AGM reflecting shareholder dissent that the company has never made a profit. Fuelled by the French media, investor dissatisfaction led to a huge opposition vote in excess of 66% against the board. This was an unusual situation as it was not really an indication that institutional investors are becoming more willing to reject board members but more of a knee-jerk reaction by the private French shareholder. The Fund actually supported the re-election of the board and also voted to receive the report and accounts. However, the Fund did oppose the remuneration report and the re-appointment of the auditors.

### **Henderson TR Pacific Investment Trust PLC (AGM)**

The resolution concerning the authority to issue shares for cash received an opposition vote of 39%. The Fund supported this resolution as it met with best practice although the Fund did vote against receiving the report and accounts as it did not contain an environmental investment policy.

### **Carillion PLC (AGM)**

The resolution to approve the remuneration report received over 38% opposition votes and a further 10% in abstentions. Two executive directors held two year rolling contracts and the company had no intention of reducing the length of these contracts. The Fund considers it best practice to have a one year contract and therefore opposed this particular resolution.

A similarly high level of opposition was also recorded at the 'AGM' of 'Slough Estates', where 32% of shareholders opposed the remuneration report and a further 16% abstained. In this particular case the finance director has a two year rolling contract and the company had actually stated its intention not to reduce this to one year. The Fund opposed this resolution.

### **Aggregate Industries PLC (AGM)**

This resolution concerned the independence of a non executive director, Malcolm Crump, who was Aggregate's Group Human Resources Director until his retirement in 2001 but remains a non-executive director. The board did not consider this former executive role or his receipt of a pension to be a factor that may affect his independence of judgement. The revised Combined Code however includes for the first time a list of factors that it considers may impair independence, of which a former executive role is one. Mr Crump has membership of the Audit, Remuneration and Nomination Committees at present. Next year most companies will have to comply or explain why they are not meeting best practice as required by the Combined Code. This particular resolution received almost 24% in opposition votes and a further 12% in abstentions. The Fund opposed this resolution.

### **Spirent PLC (AGM)**

This resolution concerned the re-election of A D Wyness, a non-executive director. Although he was not truly independent, as he has had an association with the company of more than nine years, the Fund voted for his election as it considered there were sufficient independent directors already on the board. However, the Fund did oppose the appointment of the Auditors as the consultancy related none audit fees were greater than 25% of the audit fee, which the Fund does not regard as best practice.

### **Psion PLC (AGM)**

The Fund opposed the resolution to approve the directors' remuneration report as disclosure was limited and failed to draw links with Psion's specific business objectives. The Chief Executive's remuneration package was regarded as particularly excessive and not sufficiently challenging.

### **Spring Group PLC (AGM)**

The resolution approving the remuneration report received over 21% of opposition votes. Maximum rewards available under the share option schemes were not disclosed and the performance targets for the annual bonus paid during the year had not been specified. In addition the lack of a comparator group performance measurement was not sufficiently challenging. The Fund considered this was not best practice and opposed the resolution.

### **Croda International (AGM)**

Once again the resolution causing concern was that to approve the remuneration report. Although disclosure was good and awards for performance not excessive, 6 monthly rolling contracts provided for 18 months compensation. The Fund considered this to be excessive and voted against the resolution.

### **Regus Group PLC (AGM)**

Yet again the resolution receiving most opposition votes was that of the remuneration report. The Fund voted against this resolution as the maximum awards and performance targets attached to the share option plan were not disclosed. In addition the Fund opposed the reappointment of the auditors and also voted against the report and accounts, on the basis that there was no employment policy disclosed.

### **Throgmorton Trust PLC (AGM)**

The resolution to issue shares for cash received opposition votes of 19% although the Fund supported this particular resolution as the authority was limited to 5% of the current issued share capital and complies with best practice. The Fund did however oppose the adoption of the annual report as there was no statement of environmental policy.

In 2003, GlaxoSmithKline was the first FTSE 100 company to lose a vote on a remuneration report. As a result, this year the company reduced the contract of the Chief Executive from two years to a one year rolling basis and also reduced the golden parachute that had prompted the investor dissent last year. However even this year the Fund regarded the performance targets as weak and if they were met, the Chief Executive's total package of salary, bonus and options could be in excess of £18 million, a 50% increase on his maximum package from 2003. Apparently, GlaxoSmithKline now link the pay of their top executives more closely to performance, using a group of the worlds' largest 14 pharmaceutical companies, of which 8 are based in the US, where executive compensation tends to remain very high. It was disappointing that more than 80% of shareholders voted in favour of the remuneration report. The Fund opposed the resolution.

Another interesting AGM was that of W M Morrison on 20 May. Following a successful bid for Safeway, Chairman of the Supermarket chain, Sir Ken Morrison bowed to significant pressure and appointed the first two non-executive directors in the company's history. Although this is a step in the right direction, it still has seven executives occupying seats on the board. This is not practice which requires the board should be a third non-executive.

### **European Issues**

The Fund currently votes on the top 300 European companies where it has a holding and where it is practically possible to exercise our vote.

DSW, PIRC's German voting partner recommended opposing Daimler Chryslers' proposal to pay its supervisory board partly on stock price. The supervisory board is equivalent to non-executives in the UK and DSW argued that this proposal violated a decision of Germany's Federal Court that supervisory boards remuneration should not depend on the performance of the share price. The company withdrew the proposal citing possible legal uncertainties.

Ahold, at its EGM in March, became the first Dutch retailer to put its general remuneration policy to the vote, as they had promised to do at the November's AGM, in line with the new Dutch Corporate Governance Code. The new policy provides greater clarity, benchmarking of remuneration against a peer group of Dutch companies and long term incentives and rewards linked to performance. Whilst it contained a few shortcomings, the fact that the policy required shareholder approval is a significant step forward

This information is provided by the Pensions & Investments Research Consultants Ltd (PIRC) in accordance with the Fund's voting template.