CORPORATE GOVERNANCE PROXY VOTING ACTIVITY

MARCH TO MAY 2007

VOTING ACTIVITY

During the period the Fund voted at a total of 844 company meetings – 289 UK, 185 European, 367 US and 3 Japanese, this being the first time the Fund has voted in Japan. In respect of these meetings (a mixture of EGMs and AGMs) the Fund opposed, abstained or withheld* 3,050 resolutions out of a total of 9,889, representing approximately 31% of all resolutions. During this period there were 96 meetings where the Fund supported all the resolutions put forward by companies.

The Fund has a bespoke template for voting at UK meetings, however, the Fund currently follows the voting advice of the Pensions and Investments Research Consultants Ltd (PIRC) for European, Japanese and US company meetings.

* It should be noted that due to a combination of US state law and individual company bye-laws, votes pertaining to individual directors cannot be cast as "oppose" but have to be cast as "withheld".

VOTING ANALYSIS

The major issues of contention that attracted a high level of shareholder opposition during the period are typically illustrated in the examples in the table below:

Meeting	Resolutions Causing Shareholder Concern	Shareholders Opposing %
Aegis Group plc AGM	Appoint Phillipe Germond	59%
	Elect Roger Hatchuel	59%
	Issue shares with pre-emption rights	43%
	Elect Robert Lerwill	43%
	Issue shares for cash	42%
	Authorise share repurchase	42%
	Approve the remuneration report	41%
	Fix the auditors' remuneration	40%
	Elect Leslie van de Walle	39%
	Elect Charles Strauss	39%
	Elect Alicja Lesnia	39%
The Alliance Trust plc AGM	Approve the long-term incentive plan	23%
Liberty International plc AGM	Approve the remuneration report	16%
Reckitt Benckiser AGM	Approve the remuneration report	14%
Marylebone Warwick AGM	Approve extension of the incentive scheme	12%
Sage Group plc AGM	Appoint the auditors and fix their remuneration	10%

Although the Fund opposed a number of the resolutions referred to above it will vote for a resolution if it believes the company has followed best practice, even if there is significant opposition from other shareholders. Background details on some of these resolutions where opposition was significant are as follows:

Aegis Group plc (EGM & AGM)

In its third attempt of the year Group Bolloré sought to have two non-executives, Phillipe Germond and Roger Hatchuel appointed to the board of Aegis at an EGM in April. Once again, the existing directors expressed concerns over the ability of the two nominated directors to act independently of Group Bolloré. They stated that they would always resist the efforts of any particular shareholder who seeks to exercise any form of undue influence over Aegis without offering a full and fair price to all shareholders for that privilege. The board received public support from a number of their leading shareholders. The Fund opposed the first two resolutions, however they supported all of the others bar that of the remuneration report on the basis that the nominations were not in the interests of the company as a whole.

Despite the fact that more than 90% of the shares not held by Group Bolloré opposed the resolutions, the same nominees were put forward a month later at the AGM. This time, approximately 96.5% of the votes cast by shareholders other than Groupe Bolloré were cast against the two nominees.

The voting results of Aegis' annual meeting disclosed that Groupe Bolloré have adopted the tactic of opposing even routine resolutions. This explains why a large proportion of the highest oppose votes during the quarter took place at Aegis. In the case of the special resolutions for authority to sell or buy back shares, which require approval from two-thirds of the votes cast, Groupe Bolloré is actually now obstructing Aegis from conducting normal business.

The Alliance Trust plc (AGM)

Following Aegis, the highest oppose vote was opposition to Alliance Trust's Long Term Incentive Plan. Following PIRC's advice, the Fund opposed the plan as the level of performance required was not considered to be acceptable especially as 50% of salary is available at the lower vesting point.

Liberty International (AGM)

Almost 16% of votes cast at Liberty International's AGM opposed the company's remuneration report. Whilst basic disclosure, including policy and figures for remuneration at the company was considered to be adequate, the report raised a number of concerns. There was limited information regarding the fee paid to the chairman which exceeded the fees paid to the majority of executives. In addition, one executive director, appointed during the year, not only received a joining bonus of £100,000 but has a guaranteed bonus of at least 75% of salary next year. This clearly goes against the principles of pay for performance and of transparency. As a result, the Fund opposed the report.

Reckitt Benckiser (AGM)

Concerns were also expressed at the remuneration report at Reckitt Benckiser with 14% of votes cast in opposition. No maximum award levels for long-term incentives are in place. Furthermore, both Long Term Incentive Plans and Executive Share Option Schemes operate the same targets, meaning that directors are rewarded twice for the same performance, and neither minimum or maximum targets were sufficiently challenging. Additionally, including base salary, bonus and share awards, the Chief Executive received remuneration equal to 21 times salary, which PIRC considered to be excessive. Other executives have six month rolling contracts and are entitled to damages of six months' salary plus 100% of the average bonus earned in the previous two years, contrary to best practice. The Fund voted against the report.

Marylebone Warwick (AGM)

The real estate company proposed an extension to the term of its incentive scheme to 31st December 2008. This follows the board's decision to retain the group's operating businesses until 2008, rather than sell them in 2007. When the scheme was originally proposed, it was structured with a 2007 end-date in mind. However, in PIRC's opinion, the proposed extension of the scheme failed to link it with a performance target and there was no upper limit to the level of award. The Fund opposed the plan as did 12% of the shareholders.

Sage Group (AGM)

The Fund joined with almost 10% of shareholders and opposed the reappointment of audit firm Price Waterhouse Coopers at Sage. The proposal was opposed on the basis of the firm's independence, as the level of non-audit fees exceeded the level of the audit fees. The level of non-audit fees calls into question the independence of the audit firm and clearly goes against the Fund's corporate governance guidelines.

OVERSEAS ISSUES

Hewlett Packard (AGM) - US

More than 72% of the votes cast approved a proposal that any future rights plan (or "poison pills") be subjected to a shareholder vote. Such policies are designed to allow a company's board of directors to try to thwart a hostile takeover by issuing more shares. It seems from the very high level of shareholder backing for this proposal, that there is considerable support among shareholders for strong restrictions upon anti-takeover devices that boards can implement without shareholder support. The Fund voted in favour of this proposal.

PIRC also recommended that the Fund support a proposal that a "significant portion" of the company's future long-term equity compensation to senior executives should be linked to objective, challenging and peer group related performance targets. This proposal carried the support of 52% of the votes cast.

McGraw Hill Companies (AGM) – US

In 2006, a proposal in favour of the annual election of directors won support from approximately 64% of the votes cast at the publishing company's AGM. However, the board did not act on this significant shareholder mandate and faced a similar resolution this year. The resolution requested that the board "take the steps necessary, in the most expeditious manner possible, to adopt the annual election of each director". In response the board pointed to its favourable financial results relative to its peers as a reason for maintaining the current structure. PIRC recommended support for the proposal and consider that past results do not guarantee future ones and good corporate governance would not distract from further financial growth. Whilst the company has not officially published the results of its annual meeting, *The Economist* has reported that the proposal received a 13% increase in support – up to 77%. The Fund supported the resolution.

<u>Arcelor-Mittal (AGM) – Europe</u>

A number of proposals where PIRC through the European Corporate Governance Service (EGCS) advised opposition concerned the power of the Mittal family over the newly merged company. At the time of the meeting, the family owned approximately 44% of the shares and voting power of the combined company. As a result, the Fund opposed resolutions to approve the management performed by the directors; the re-appointment of Mr Lakshmi Mittal and the designation of Mrs Usha Mittal (his wife) as the person responsible for management if other managing directors are absent or cannot act.

The decision to oppose Mr Mittal was influenced by the fact that he is a controlling shareholder and that he had previously assured investors that he would delegate his executive responsibilities and take a non-executive role. In recommending a vote against Mrs Mittal's designation, ECGS argued that an independent trustee would be a more suitable person.

Whilst the Fund opposed these resolutions, a majority vote against these items was unlikely to be achieved due to the Mittal families controlling interest.

This information is provided by PIRC in accordance with the Fund's voting template.