

CORPORATE GOVERNANCE PROXY VOTING ACTIVITY
JUNE 2003 TO AUGUST 2003

During the period the Fund voted at 202 UK company meetings and 12 European meetings – a mixture of AGMs and EGMs. In respect of UK company meetings, the Fund opposed 544 resolutions out of total of 1,954 resolutions, representing approximately 28% of all resolutions. During this period there were 38 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. Some institutional shareholders choose to abstain on a resolution rather than to vote directly against it. They believe this sends a warning signal to the company that they have concerns over a particular issue. Quite often, companies do not disclose the level of abstentions, therefore allowing the company to portray a higher level of support than it actually received on a certain resolution. The revised Combined Code will require companies going forward to indicate the number of abstentions received in order to comply with best practice. The West Midlands Pension Fund has developed a voting strategy that does not allow it to abstain, enabling the management of the company to assess the level of support for particular resolutions. Although there were far fewer EGMs and AGMs than during the previous three months, remuneration issues once again dominated voting activity during the period.

The major issues of contention that attracted a high level of shareholder opposition are typically illustrated in the examples in the table below. Unless otherwise stated, the resolutions are of those put forward by the company and not by shareholders.

Meeting	Resolution Causing Shareholder Concern	Shareholders Opposing
Shire Pharmaceuticals Group Plc 12.06.03 AGM	To receive the remuneration report.	40%
Westbury Plc 20.06.03 EGM	To approve the proposed long term performance bonus plan.	38%
Warner Estate Holdings Plc 23.07.03 AGM	To approve the remuneration report.	37%
WPP Group Plc 30.06.03 AGM	To approve the remuneration report.	35%
Cordiant Communications Plc 23.07.03 EGM	To require the directors to refrain from accepting any offer relating to its disposition at the current market price.	34%
Cordiant Communications Plc 23.07.03 EGM	To require the directors to conduct a re-capitalisation of the company's finances.	34%
Cordiant Communications Plc 23.07.03 EGM	To remove Andrew Kenneth Boland.	31%

Meeting	Resolution Causing Shareholder Concern	Shareholders Opposing
Cordiant Communications Plc 23.07.03 EGM	To remove David Lovat Gordon Hearn.	31%
Cordiant Communications Plc 23.07.03 EGM	To remove Nigel John Stapleton.	31%
Peterhouse Group Plc 04.06.03 AGM	To approve options pursuant to the 2001 Executive Share Option Scheme.	27%
Westbury Plc 20.06.03 AGM	To approve the remuneration report.	26%
Incepta Group Plc 04.07.03 AGM	To approve the remuneration report.	25%
Investec Plc 07.08.03 AGM	The authority to issue shares with pre-emption rights *.	25%

* The Fund supported this resolution.

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

VOTING REVIEW

Shire Pharmaceuticals (AGM)

This resolution received the highest opposing vote of the period. When the Chief Executive left the board in March 2003, the Remuneration Committee decided on a £4.3M payment into his pension arrangement. The payment was said to be in recognition of his service to the group over his period of employment. Effectively the company had amended the Chief Executive's terms and conditions on his departure considerably to his benefit. In addition to the 40% of investors actually opposing the resolution there were also a further 3% abstaining.

The Fund opposed the resolution.

Westbury Plc (AGM) and (EGM)

Over one third of the shareholders opposed a new incentive scheme proposed by Westbury at its EGM. Precise performance conditions (other than those relating to EPS) were not disclosed and the Fund did not consider the EPS target set to be sufficiently challenging. A resolution at the AGM to receive the remuneration report also received a 26% opposition vote and an abstention vote of 11%.

The Fund opposed the resolutions.

Warner Estate Holdings Plc (AGM)

Again this involved a resolution to approve the remuneration report. The main source of concern related to the lack of disclosure of maximum awards under the annual bonus scheme. The company did not disclose the level of abstentions received for this particular resolution.

The Fund opposed the resolution.

WPP Group Plc (AGM)

This particular resolution supporting the company's remuneration policy received substantial opposition as in addition to the 35% opposing, a further 12% abstained. It was interesting to note that only at Glaxo's AGM where management was defeated on a similar issue, has there been a higher level of shareholder dissent.

The Fund opposed the resolution.

Cordiant Communications (EGM)

As is obvious from the table the meeting that received the most significant media attention and a high number of contentious resolutions was that of the advertising group Cordiant Communications. No fewer than five resolutions received over 25% of shareholder opposition. The unusual fact about this particular EGM was that the resolutions were put forward by a group of Cordiant's shareholders known as Active Value, an activist shareholder group whose main aim is to try to achieve improved shareholder value from companies that are under-performing. The Fund gave Active Value's resolutions considerable thought, however by default, in the absence of a suitable alternative, the Fund supported the Board's sale of the group to WPP. Perversely, Active Value was finally forced to support the offer by WPP for Cordiant, on the basis that there was no viable alternative. Despite three directors being voted off the board, the Chief Executive and Finance Director have retained their operational responsibilities and perhaps more importantly their bonuses. These bonuses totalled £2.8 million representing nearly a quarter of the value of the sale of the company. Active Value is seeking a meeting with the non-executive directors to discuss blocking these proposed bonus payments.

The Fund opposed the resolutions.

Peterhouse Group Plc (AGM)

This particular resolution received a further 4% abstentions on top of the 27% opposition votes. The company was attempting to seek authorisation to grant options to directors that exceeded the terms of the 2001 Executive Shareholder Option Scheme, that had set the maximum limit at one times salary. The company did not seek to increase the performance conditions to justify a award greater than the scheme's limits.

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 in European countries remains very low. An example of where the Fund voted on a European issue was at the Banco Santander Central Hispano AGM on 21 June. The issue here was concern over the “golden parachutes” granted to former executives, where the former Chief Executive and former Co-Chairman were rewarded 150M Euros upon their departure from the company. A group of minority shareholders have actually brought the case to the Spanish Courts. The Spanish Attorney General has also launched an investigation into the affairs of the bank’s former Chief Executive as well as the present Chairman. They are facing potential charges of mis-appropriation stemming from the multi-million severance compensations. The executives claim that the compensations stem from pension obligations, which according to the 2002 annual report still amount to over 100M Euros for other directors. The Fund opposed the resolution to re-elect the board as two other directors proposed for re-election are members of the Remuneration Committee which was responsible for the approval of these severance compensations.

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