

CORPORATE GOVERNANCE PROXY VOTING ACTIVITY
JUNE 2004 - AUGUST 2004

During the period the Fund voted at 198 UK company meetings, 16 European meetings and 10 US meetings - a mixture of AGM's and EGM's. In respect of these company meetings, the Fund abstained or opposed 557 resolutions out of a total of 2246 resolutions, representing approximately 25% of all resolutions. During this period there were only 41 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 chooses to oppose or support a resolution and rarely chooses to abstain, compared to many institutional shareholders who choose this route. Within Europe and the US, the Fund may abstain rather than vote for or against a resolution due to reasons specific to different countries. Within the UK, going forward, the revised 2004 Combined Code will require companies to publish the number of abstentions received for individual resolutions, in order to comply with best practice. As many institutions choose to abstain rather than oppose a resolution this will enable the management of companies to assess the real level of support.

The major issues of contention that attracted a high level of shareholder opposition are typically illustrated in the examples in the following table. Yet again remuneration issues dominated, as institutions are less and less willing to allow senior management to award themselves remuneration packages that cannot be justified. Unless otherwise stated, resolutions are those put forward by the company and not by shareholders.

MEETING	RESOLUTIONS CAUSING SHAREHOLDER CONCERN	SHAREHOLDERS OPPOSING %
BAA PLC 27 July 2004 AGM	To authorise political donations of up to £1.25M*	79.8%
Investec Plc 19 August 2004 AGM	To allot Investec Ltd shares.	53.9%
Caledonia Investments Plc 11 June 2004 EGM	To approve Rule 9 waiver.	47.6%
Investec Plc 19 August 2004 AGM	To allot Investec Plc shares with pre-emption rights.	46.3%
Investec Plc 19 August 2004 AGM	To issue Investec Ltd shares for cash.	43.9%
Shanks Group Plc 29 July 2004 AGM	To approve the remuneration report.	38%
Incepta Group Plc 2 July 2004 AGM	To approve the remuneration report.	29%
Business Post Group Plc 13 July 2004 AGM	To approve the remuneration report.	27.8%
J Sainsbury Plc 12 July 2004 AGM	To approve the remuneration report.	27.7%

MEETING	RESOLUTIONS CAUSING SHAREHOLDER CONCERN	SHAREHOLDERS OPPOSING %
TBI Plc 30 July 2004 AGM	To approve the remuneration report.	23.8%
Merchant Retail Group Plc 7 July 2004 AGM	To approve the remuneration report.	21.2%
Investec Plc 19 August 2004 AGM	To amend the trust deed and rules of the purchase and option scheme.	21.1%
Business Post Group Plc 13 July 2004 AGM	To receive the report and accounts.	20.1%
Caledonia Investments Plc 11 June 2004 EGM	To approve the reduction of capital.	20%

* Shareholder Resolution.

Although the Fund opposed most of the resolutions referred to above, it will vote for a resolution if it believes the company has followed best practice, despite significant opposition from other shareholders.

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

Voting Review

BAA Plc (AGM)

A group of shareholders had requisitioned a resolution, authorising the company to make political donations of £1.25m in the coming year to cover the provision by BAA of three parking permits with a statutory value of £1.1m per year to MP's, MEP's and other politicians. The majority of shareholders could see no compelling argument to suggest that this was in their interests, although the company chairman argued that providing free parking passes helped the government function more efficiently which is beneficial to every one. The majority of shareholders were not influenced by this argument and the resolution received a 79.8% opposition vote. The Fund opposed the resolution.

Investec Plc (AGM)

There were four resolutions at this particular meeting that received in excess of 20% opposition votes. Investec is an international specialist banking group with listings in London and Johannesburg under a dual listed entity structure. The resolutions basically sought to place the unissued authorised share capital of the South African company under the control of the Directors and to issue shares for cash. Apparently best practice in this area is different in the UK to that in South Africa. In this case the company decided to apply UK standards causing a large percentage of South African shareholders to vote against the resolutions. The Fund supported the resolutions.

Caledonia Investments Plc (EGM)

The resolutions here concerned attaining shareholder approval for a reduction in capital through the issue of a special dividend. The resolution seemed to serve the needs of the controlling shareholders, the Cayzer Trust, rather than the whole body of shareholders. The Fund opposed the resolutions.

Shanks Group Plc (AGM)

The remuneration report received an opposition vote of 38% and abstentions of over 21%. The combined remuneration had the potential to be excessive and two executives had two year rolling contracts. The Fund opposed the resolution.

Incepta Group Plc (AGM)

The committee had not disclosed factors specific to the company's objectives in determining directors' remuneration. In addition, long term incentive schemes were not on the whole subjected to any maximum limits and the vesting target was not considered sufficiently challenging given brokers forecasts. The Fund opposed the resolution.

Business Post Group Plc (AGM)

The resolution to approve the remuneration report received nearly 28% opposition votes and nearly 9% in abstentions. The resolution to receive the report and accounts also received in excess of 20% opposition votes. The objection to these resolutions was however somewhat magnified as only 32% of the company's shares were actually voted. Due to this low turnout, only 9.5% of the total issued share capital actually voted against the remuneration report. The Fund voted against the remuneration report as the performance targets attached to the long term incentive schemes were not sufficiently demanding, given consensus brokers forecasts, but it supported the resolution to receive the report and accounts.

J Sainsbury Plc (AGM)

The resolution receiving 27.7% opposition votes and 3% abstentions once again concerned the remuneration report. The Fund regarded the minimum targets attached to the share plans as not adequately challenging and combined remuneration as excessive. In addition the new chief executive received a large share grant with no performance conditions attached. The Fund opposed the resolution.

TBI Plc (AGM)

The resolution to approve the remuneration report received that of an opposition vote of nearly 24% and abstention votes of over 16%. The chief concern was that of the chief executive's two year rolling contract. Apparently the remuneration committee did not consider it in the shareholders interests to renegotiate this contract, but will keep the matter under review. The Fund opposed the resolution.

Merchant Retail Group Plc (AGM)

The resolution to approve the remuneration report received in excess of 21% opposition votes. The Fund did not consider the vesting targets attached to the LTIP to be sufficiently demanding. In addition two executive directors held two year rolling contracts. The Fund opposed the resolution.

Overseas 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. In addition, during this quarter the Fund has started to vote on its US holdings in the S&P 500.

A typical example of a US AGM where the Fund opposed a number of resolutions was that of Compuware Corporation. The Fund opposed the election of Peter Karmanos Jnr who was holding the post of Chairman and CEO. The Fund opposed the combined role at the head of the company, as it considers that there is an over concentration of power given to one person. In addition the Fund opposed the election of two directors on the basis that they were not sufficiently independent, as they both worked for law firms that provided services to the company. Finally the Fund opposed the election of two further directors on the basis that they had been on the board more than nine years. All these issues are regarded as not 'best practice'.

An example of a European AGM where the Fund opposed a resolution was that of BANCO Popular. Here the resolution was to re-elect the majority of board members, who were dominantly from local wealthy families, who have held strong ties with the banks management since 1977. Given the low share of independent directors i.e. 14%, the Fund opposed the perpetuation of the existing board structure.

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