

CORPORATE GOVERNANCE PROXY VOTING ACTIVITY

SEPTEMBER TO NOVEMBER 2008

VOTING ACTIVITY

During the period the Fund voted at a total of 176 company meetings – 116 UK, 15 European, 44 US and 1 Japanese. In respect of these meetings (a mixture of EGMs and AGMs) the Fund opposed, abstained or withheld* 414 resolutions out of a total of 1,538, representing approximately 27% of all resolutions. During this period there were at least 48 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 or Abstaining %
BHP Billiton Plc AGM	Elect Mr S Mayne as a Director of BHP Billiton Plc	87%
BHP Billiton Plc AGM	Elect Mr S Mayne as a Director of BHP Billiton Limited	87%
Photo-me International Plc AGM	Elect Hugo Swire	48%
Photo-me International Plc AGM	Elect John Lewis	47%
Hays Plc	Approve the Remuneration Report	46%

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 detailed on the following page:

BHP Billiton (AGM)

The highest level of oppose votes (87.04%) during the last 3 months was against the election of Stephen Mayne, onto the Board of BHP Billiton. Mr Mayne is an Australian business journalist and professional shareholder advocate who wanted to be elected on the board of the company in order to influence its corporate governance. Mr Mayne's agenda included concerns regarding the proposed takeover of Rio Tinto, as he contended that it could be highly dilutive for BHP Billiton shareholders and unnecessary distraction for BHP Billiton's management. He also contended the chairman, Mr Don Argus's age and length of tenure as a Director (since 1996) and as a Chairman (since 1999).

The board recommended shareholders vote against the election of Mr. Mayne. The Fund's view is that his approach is not the most effective way of promoting corporate governance improvements in the interest of all shareholders.

The Fund opposed Mr Mayne's resolution to elect him to the board.

Photo-me International (AGM)

For a period the company has been subject to pressure from shareholders, particularly from Principle Capital Management Ltd and Cycladic Capital LLP, to modify the board's composition. In 2007, these two shareholders called for an EGM and succeeded in removing the CEO Serge Crasnianski but failed to remove the chairman, Mr. Swire. Following his departure in 2007, Mr Crasnianski received termination payments amounting to £466,852. At the 2008 AGM the board nominated the former CEO for election as a non-executive director.

In light of this strained relationship it is not surprising that shareholders once again showed their discontent at the AGM by opposing three directors. Once again, high oppose votes were recorded for both Mr. Swire (47.6%) and Mr. Crasnianski (39.4%). In addition, shareholders also opposed the newly appointed John Lewis (47.3%).

The Fund opposed the resolutions to elect Mr. Swire and Mr. Crasnianski but supported the resolution to elect Mr. Lewis as they considered him to be independent.

Hays Plc (AGM)

Disclosure was generally acceptable in the remuneration report; however the chairman is in receipt of share options. These were awarded to him in June 2005, in relation to his temporary role as Chief Executive. The EPS and economic profit targets attached to the new long term incentive schemes are not considered to be sufficiently challenging. There were also strong concerns over the guaranteed bonus (£300,000), one-off restricted share award and bonus replacement award (£228,000) made to Mr Cox, the new Chief Executive.

The former Chief Executive, Mr Waxman, was entitled to compensation in respect of the unserved notice period from 15th November 2007 to 6th June 2008 taking account of salary, pension supplement, benefits and bonus in respect of that period. It is not considered to be acceptable for unearned bonuses to be included in compensation payments. In addition, as part of the special arrangements put in place, Mr Waxman was entitled to participate in a special incentive arrangement and received two conditional share awards. The Fund considers that all long-term incentive awards should have a performance period of at least three years. The combination of the above issues lead the Fund to oppose the remuneration report as it does not meet the Fund's guidelines.

The Fund opposed the resolution.

Other issues of particular note are detailed below:

Lloyds TSB Plc (EGM)

On 18th September the boards of Lloyds TSB and HBOS announced that they had reached an agreement on the acquisition of HBOS by Lloyds TSB. Lloyds argued that in doing so they could be more competitive and generate significant shareholder value, particularly through significant synergy benefits which it reports will deliver total annual pre-tax cost savings greater than £1.5 billion.

The Board of Lloyds and HBOS have also announced their intention to participate in the proposed Government funding, with £5.5 billion to be raised by Lloyds TSB and £11.5 billion by HBOS both through HM Treasury underwriting shares. HMT will also own £4 billion of preference shares in the enlarged group and as part of the agreement the company will not be able to pay a dividend to ordinary shareholders until the preference shares are repurchased. In addition HMT will work with Lloyds TSB on its appointment of two independent directors following the completion of the acquisition.

The Fund considered that the company had provided sufficient information about the acquisition and that the proposal was subject to sufficient independent scrutiny.

The Fund supported the resolution.

Clinton Cards Plc (AGM)

There were significant concerns over the corporate governance of Clinton Cards. There was only a single independent non-executive director on the ten director board, and there was a concentration of power at the head of the company with Don Lewin holding the combined roles of chairman and chief executive. Additionally, the company has not set out a specific statement of compliance with the Combined Code.

Turning to remuneration, general disclosure was poor and the policy statement was limited. No statement was made on pay elsewhere in the group. Contribution rates for pension payments were not disclosed. Both the highest paid and average executive salaries were the highest amongst the FTSE SmallCap general retailers sector.

The Fund opposed the Annual Report and Accounts and the Remuneration report.

Sports Direct (AGM)

Mike Ashley is not a popular man in Tyneside following the departure of Kevin Keegan from Newcastle and is not well liked by the City as a result of his handling of Sports Direct, the company he founded. There were concerns over the company's governance structure with the executive deputy chairman, Ashley, holding 72.2% of the company's shares creating a concentration of power in the hands of the one individual.

In addition, total potential incentive remuneration was deemed excessive and TSR performance targets under the long term incentive scheme were not considered sufficiently challenging. Although award levels were high (400% of salary), these were balanced by salaries that were at the bottom of the sector. Contracts were one year rolling, but included an option to make payment in lieu of notice of basic salary plus a notional target bonus, which the Fund did not consider appropriate.

The Fund opposed the remuneration report.

OVERSEAS ISSUES

HR Block (AGM) – US

US financial services company HR Block has been through a governance overhaul recently. No doubt in no small part due to the presence of ex-SEC chair and activist investor Richard Breedon on the board, following his election at last year's AGM, the company has pushed through a string of welcome changes.

The positions of Chairman and CEO have been split since the previous year's annual meeting, with Mr. Breedon serving as Chairman. Additionally, the company has adopted a process of annual elections for director nominees. Since Breedon was also a monitor for KPMG LLP and the company's auditor, the company determined that this would interfere with the auditor's independence. Therefore, the board has taken the decision to appoint new auditors.

Another significant development was the company's decision to put its executive compensation policies and procedures to an advisory shareholder vote, making it only the second S&P 500 company to do so. However, the overall rating of BCD led the Fund to place an abstain vote upon this resolution, as the balance of incentives and rewards was considered to require further disclosure of performance metrics.

The Fund abstained from the resolution.

Logitech (AGM) – Europe

For the fiscal year under review, the Board proposes to pursue its traditional no dividend policy, despite a consolidated net income of USD 231 million and a double digit growth in sales for the 10th consecutive year which amounted to USD 2.37 billion in 2007/08.

The Company justifies its dividend policy by the fact that it is active in a sector that requires highly innovative capacities and that the dividend is replaced by successive share repurchase programs partly intended to serve the exercise of stock options and partly to be cancelled (to support the share price development and to increase the earnings per share ratio). While the no dividend policy was justified when the company was a start up, PIRC considers that Logitech should now be considered a mature company with important financial resources. Indeed, instead of paying a dividend, Logitech invested in 2007 its excess of cash in US Residential and Commercial Mortgages. However, following the deterioration of the US credit market, the Company recorded an unrealized loss of USD 79.8 million during the year under review.

Logitech considers that it is in the best interests of shareholders to participate in share repurchase programmes as this is a more tax efficient way to return capital to shareholders than the dividend payment. Last year, Logitech repurchased shares for a total of USD 220 million. However the Fund believes that institutional shareholders are generally long term investors who do not want to sell their shares to obtain cash and that the dividend is an important source of liquidity for their day-to-day transactions. Furthermore, the Fund considers that cash not required for operations should be returned to shareholders and not invested in risky financial instruments.

The Fund opposed the resolution.

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