

**CORPORATE GOVERNANCE PROXY VOTING ACTIVITY**  
**DECEMBER 2002 – FEBRUARY 2003**

During the period the Fund voted at 108 UK company meetings – a mixture of AGM's and EGM's, opposing one or more resolutions at 78 of the 108. During this period the Fund also voted at 10 European meetings, opposing one or more resolutions at 6 of these meetings. In summary the Fund opposed approximately 27% of all resolutions both in the UK and in Europe.

The Fund uses its role to express its concern over corporate governance issues often alongside a number of other large institutional shareholders. The major issues are typically illustrated by the examples below where there was significant opposition to specific recommendations put forward by companies. Unless otherwise stated, the resolutions are those put forward by the company and not by shareholders.

<b><u>Meeting</u></b>	<b><u>Resolution Causing Shareholder Concern</u></b>	<b><u>Shareholders Opposing %</u></b>
SHL GROUP PLC 23.12.2002 EGM	To remove John Bateson as a director of the company.	58
SHL GROUP PLC 23.12.2002 EGM	To remove Neville Bain as a director of the company	50
SHL GROUP PLC 23.12.2002 EGM	To remove Peter Saville as a director of the company.	45
SHL GROUP PLC 23.12.2002 EGM	To remove Roger Holdsworth as a director of the company.	45
BALTIMORE TECHNOLOGIES PLC 16.12.2002 EGM	To approve the new employee Share Award Plan.	43
BALTIMORE TECHNOLOGIES PLC 16.12.2002 EGM	The authority to extend the Share Award Plan to overseas employees.	42
MERANT PLC 05.12.2002 AGM	To elect Michel Berty.	31
BSS GROUP PLC 19.12.2002 EGM	To amend the long-term incentive arrangements for Peter Wood and Kevin Higginson.	28

<u>Meeting</u>	<u>Resolution Causing Shareholder Concern</u>	<u>Shareholder Opposing %</u>
EDINBURGH DRAGON TRUST PLC 02.12.2002 AGM	Authority to allot shares.	25
EDINBURGH DRAGON TRUST PLC 02.12.2002 AGM	To issue shares for cash.	25
ALLIED DOMEQC PLC 04.02.2003 AGM	To re-elect David Malpas.	15
ASSOCIATED BRITISH FOODS PLC 05.12.2002 AGM	To receive the report and accounts.	14
WOLVERHAMPTON AND DUDLEY BREWERIES PLC 24.01.2003 AGM	To re-elect Peter Lipscomb.	14

Background details on some of these resolutions where opposition was significant are as follows, and as can be seen, the Fund as supported as well as opposed a number of the resolutions.

## **VOTING REVIEW**

### **SHL GROUP PLC (EGM)**

Shareholders were faced with an unusual situation in which the board was split down the middle, with each half of the board seeking shareholder approval to remove the other half. The requisitionist directors (Peter Saville and Roger Holdsworth, who were both non-executive directors and founders of the company) were dissatisfied with the performance of the current management of the company and the ability of the chief executive to take the business forward. They claimed the recent under-performance of the company was not only attributable to market conditions but also to inadequate management. It was a very closely fought situation with 20% of the votes being controlled by one substantial investor and the founders of the company. The Fund considered that 4 of the 6 non-executive directors were independent and as 3 of them supported the incumbent chairman and chief executive the Fund opposed the requisitionists, hence supporting the incumbent board. The majority of the shareholders opposed the requisitionists' proposals and the resolutions were just narrowly defeated.

The Fund opposed 2 resolutions and supported 2 resolutions.

### **BALTIMORE TECHNOLOGIES PLC (EGM)**

The directors were seeking shareholder approval for a new share award plan and its extension overseas. However due to very sharp decrease in the company's share price, existing awards were severely affected as they were based on a much higher previous price. To overcome this, the board proposed the creation of a new scheme using newly issued shares. Employees were given the opportunity to replace existing options with new nil cost options at a ratio of 2 old options to 1 new nil cost option. This repricing of the share award plan took out any element of performance incentive and the award was skewed totally in favour of the participants, which the Fund considered to be a breach of best practice.

The Fund opposed 2 resolutions.

### **MERANT PLC (AGM)**

Nearly one third of the shareholders opposed the re-election of the non-executive director Mr Michel Berty. As he was Chairman of the Remuneration Committee and also held share options he was not considered to be truly independent. The remuneration report contained a number of sensitive issues and many shareholders were concerned as the report was not put to the vote. It included a compensation payment of £844,000 that was made to a departing director and excessive bonus payments. It also enabled non-executive directors to hold share options which had no performance conditions.

The Fund opposed the resolution.

### **BSS GROUP PLC (EGM)**

The resolution in question here concerned amending the long-term incentive arrangements for 2 directors. The amendments included the removal of one of the two performance conditions previously applied, the alteration of the second condition to allow vesting against a sliding scale and an extension to the performance period by one year. The result would mean that 70% of the award would be for performance below the current target. Nearly 30% of the shareholders considered that a weakening in the performance conditions attached to the scheme without a corresponding decrease in benefit to the participant was not in line with best practice.

The Fund opposed the resolution.

### **EDINBURGH DRAGON TRUST PLC (AGM)**

Nearly one quarter of all shareholders voted against the two resolutions to authorise a issue of shares for cash with pre-emption rights. The issue fell within UK institutional dilution guidelines, however it is thought that many of the large overseas shareholders voted against the 2 resolutions.

The Fund supported both resolutions.

### **ALLIED DOMEQ PLC (AGM)**

Nearly 15% of shareholders voted against the re-election of Mr David Malpas who was a non-executive director but also the Chairman of the Remuneration Committee. The remuneration report had not been put to the vote and there were serious concerns over the continuing retention of executives on two-year rolling contracts and the failure to disclose maximum awards under all incentive schemes. There was also insufficient disclosure with regard to performance conditions attached to the share option schemes.

The Fund opposed the resolution.

### **ASSOCIATED BRITISH FOODS PLC (AGM)**

The resolution to approve the report and accounts at this AGM received an opposition vote of 14%, the reason being that the company had made political donations to both the Liberal and Labour Australian Political Parties, without prior shareholder approval or justification.

The Fund opposed this resolution.

### **WOLVERHAMPTON AND DUDLEY BREWERIES PLC (AGM)**

This was yet another resolution that involved a vote against the Chairman of the Remuneration Committee who also happened to be the non-executive chairman. The remuneration report once again had not been put to the vote, despite shareholders concerns over the two year service contract of the chief executive, compensation payments made to the non-executive chairman, and the use of only one performance criteria in respect of the share option schemes.

The Fund opposed the resolution.

PIRC (Pensions Investments Research Consultants) is the agent that the Fund uses to vote on its behalf, in accordance with the Fund's voting policy. Often, before deciding how to vote, PIRC writes to companies requesting further information to enable them to make an informed decision. It is interesting to note that 31 UK companies during the three-month period failed to respond to PIRC's request for further information.

## **EUROPEAN ISSUES**

### **FRANCE TELECOM (EGM)**

Six of the resolutions put forward by the board were voted against by the Fund. The issues voted against included the election of directors on 3 year contracts and the question of their independence. A second area of concern was the issue of stock without pre-emption rights, with no explanation of the potential dilution and no justification for the pre-emption rights remittance.