

## CORPORATE GOVERNANCE PROXY VOTING ACTIVITY

### DECEMBER 2006 TO FEBRUARY 2007

#### VOTING ACTIVITY

During the period the Fund voted at a total of 131 company meetings - 7 European, 29 US and 95 UK. In respect of these meetings (a mixture of EGMs and AGMs) the Fund abstained or opposed 176 resolutions out of a total of 947, representing approximately 19% of all resolutions. During this period there were 55 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.

#### 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:

<b>Meeting</b>	<b>Resolutions Causing Shareholder Concern</b>	<b>Shareholders Opposing %</b>
Chrysalis Group plc AGM	Approve the remuneration report	44%
Future plc AGM	Approve the remuneration report	27%
Lonmin plc AGM	Amend Shareholder Value Incentive Plan	41%
	Approve directors' remuneration report	19%
SCI Entertainment Group plc AGM	Approve the remuneration report	15%
Corus Group EGM	Approve the Scheme of Arrangement; approve the reduction and subsequent increase in share capital; capitalise reserves; issue equity with pre-emption rights and amend the article of association.	14%
J P Morgan Asian IT AGM	Increase directors' fees	12%
	Issue shares for cash	11%
	Authorise share issue	11%
Southern Cross Healthcare AGM	Elect Joseph Baratta	11%

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:

### **Chrysalis Group plc (AGM)**

The resolution to approve the remuneration report was opposed by more than 44% of the votes cast. Whilst the overall level of remuneration was not considered to be excessive, the company failed to meet the requirements for best practice. There was no clear disclosure of the performance targets required under the annual bonus scheme which made it difficult for investors to assess the value of the whole package.

**The Fund opposed the resolution.**

### **Future plc (AGM)**

The remuneration report at this meeting also attracted a lot of investor opposition. Primary concerns related to the introduction of a three-year bonus scheme which was intended to spur on results due to the company's ailing performance. Additionally, it was proposed that share bonuses be offered as part of a package to recruit a new chief executive and retain the existing finance director. These bonuses were not subject to performance conditions and therefore contravened best practice guidelines.

**The Fund opposed the resolution.**

### **Lonmin plc (AGM)**

Two pay related resolutions at Lonmin attracted high levels of opposition from shareholders. The first resolution concerned the remuneration report. Concerns were primarily to do with inadequate targets, as well as the chief executive's contract which contained provisions for termination payments of approximately one year's salary and benefits accompanied by an estimated bonus in lieu of notice.

The second proposal attracting a high level of opposition concerned the Incentive Scheme. Investors did not consider the stated performance targets to be sufficiently challenging. As a result almost 26% of votes cast opposed the resolution with a further 12% abstaining.

**The Fund opposed both resolutions.**

### **SCI Entertainment Group plc (AGM)**

Whilst the resolution to approve the remuneration report received only a modest opposition vote of 14%, it attracted a further 27% in abstentions, resulting in a cumulative dissatisfied vote of more than 40%. Whilst the chief executive's notice period had been reduced from 36 months to 12 months, there was no mitigation statement provided. Additionally, performance targets were not considered to be sufficiently challenging.

**The Fund opposed the resolution.**

## **Corus Group (EGM)**

The board of directors convened an EGM to approve a revised acquisition offer for the company by Indian steelmaker Tata Steel Ltd via a scheme of arrangement. In addition to approving the scheme of arrangement, the resolution sought authority for the reduction and subsequent increase in share capital and the capitalisation of reserves. Conditionally on the scheme being effective, the company also asked shareholders to approve a five year share issue (with pre-emption rights) authority. Lastly, the resolution sought authority to amend the articles of association to facilitate the acquisition. Although some investors had concerns over the five year share issue, it was considered that there were no significant corporate governance issues that would merit the Fund's opposition to this resolution.

**The Fund supported the resolution.**

## **J P Morgan Fleming Asian IT plc AGM**

Three proposals at this investment trust's AGM attracted similar levels of opposition, around 11% of the votes cast. The resolutions opposed were those dealing with increasing directors' fees and authority to disapply pre-emption rights. As none of these resolutions were considered to be out of line with acceptable market practice, PIRC recommended that the Fund support them in line with the voting template.

**The Fund supported all the resolutions.**

## **Southern Cross Healthcare plc AGM**

The re-election of Joseph Baratta received over 11% opposition from shares voted. Although he was not considered to be independent due to his position as Senior Managing Director of the Blackstone Group (the controlling shareholder), under the Fund's guidelines there was sufficient independent representation on the board.

**The Fund supported the resolution.**

## **OVERSEAS ISSUES**

### **Kinder Morgan EGM (US)**

In August 2006, US energy company Kinder Morgan announced that it would be taken private in a management-led leveraged buy-out for \$14.8bn. At the EGM in December, almost 97% of the shares voted were in favour of the deal, which now places it as the seventh largest buyout of this kind. Shareholders were asked to consider and vote upon the proposal to approve and adopt the Agreement and the Plan of Merger.

The Kinder board set up a special committee in May consisting of three directors, and empowered them to make any and all decisions regarding the proposal and any other alternatives, negotiate with the buyout group or any other party regarding the proposal or any other alternatives, and if appropriate, reject the proposal or recommend to the full board to accept any proposal. The special committee was made up of three directors. However, PIRC reported that only one of the directors could be considered independent, while the other two directors had served on the board for more than nine years and would therefore not be considered independent of the management.

As there was insufficient independent representation on the board and on the special committee, PIRC recommended that the Fund abstain on the proposal.

## **Capitalia EGM (Italy)**

PIRC recommended that the Fund oppose the resolution to elect directors and approve remuneration at the EGM of Italian bank Capitalia in December. The company's articles stipulate that shareholders who intend to present a list of candidates must deposit their proposals at least 15 days before the date of the meeting.

A list was received from members of a shareholders' pact signed by Capitalia's major shareholders (owning 32% of the company's share capital). The proposed list comprised of 20 candidates, 4 of whom were considered by the shareholders to be independent. However, this was contentious as none of the candidates could be considered independent as they are all bound by the shareholders' pact. Furthermore, the election of directors was bundled with the proposal to determine the directors' remuneration, which was not considered to be acceptable.

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