

## CORPORATE GOVERNANCE PROXY VOTING ACTIVITY

### DECEMBER 2009 TO MARCH 2010

#### VOTING ACTIVITY

During the period the Fund voted at a total of 116 company meetings – 88 UK, 56 European and 49 US. In respect of these meetings (a mixture of EGMs and AGMs) the Fund opposed, abstained or withheld\* 611 resolutions out of a total of 2,098, representing approximately 29% of all resolutions. During this period there were at least 29 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 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”.

#### UK 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>Company</b>	<b>Meeting</b>	<b>Resolutions Causing Shareholder Concern</b>	<b>Shareholders Opposing or Abstaining %</b>
Mitchells & Butlers Plc	AGM	Re-appoint Simon Laffin	64%
Mitchells & Butlers Plc	AGM	Re-appoint Tony Bates	59%
Punch Taverns Plc	AGM	Approve the Remuneration Report	55%
Grainger Plc	AGM	Approve the Remuneration Report	52%
St. Modwen Properties	AGM	Approve the Remuneration Report	49%
Debenhams Plc	AGM	Approve the Remuneration Report	43%
Mitchells & Butlers Plc	AGM	Appoint Michael William Balfour	33%
Mitchells & Butlers Plc	AGM	Appoint Jeremy John Foster Blood	31%
Mitchells & Butlers Plc	AGM	Remove Drummond Hall	30%
Edinburgh Dragon Trust Plc	AGM	Re-elect Mr Frame	30%
Edinburgh Dragon Trust Plc	AGM	Re-elect Mr Tyrie	30%

Although the Fund may often oppose a resolution, it will support 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 below:

### **Mitchells & Butlers plc (AGM)**

Piedmont Inc, a 22.8% shareholder, proposed to remove the former Chairman Drummond Hall from the board. Mr Hall had previously indicated his intention to retire but following the recent removal of four directors from the board under controversial circumstances, he had stated that he intended to stand down as soon as a replacement could be found. In addition, Mr Hall was considered to be independent. As a result, the proposal attracted a high level of opposition.

#### **The Fund opposed the resolution**

Two further individuals, Simon Laffin and Tony Bates were seeking election to the board as Chairman and Non-Executive Director respectively. Despite both being considered independent, it is thought that the high level of opposition was likely to be the result of Piedmont voting against the proposal.

#### **The Fund supported both resolutions**

Piedmont also proposed the appointment of four further directors including Michael William Balfour and Jeremy John Foster Blood. However, the supporting statement did not provide a comprehensive rationale for the appointments and there were grave concerns over whether these candidates would act in the best interests of all shareholders.

#### **The Fund opposed both resolutions**

### **Punch Taverns plc (AGM)**

Punch Taverns became the fifth UK company to see its remuneration report rejected in 2009 as investors were evermore focussed on company pay and benefits. Whilst the company set out the principles of its remuneration policy, it was difficult to discern a clear link between remuneration structures and corporate objectives. Furthermore, the performance conditions were limited and not considered to be sufficiently challenging.

In addition, executive directors at the company are employed on one-year rolling contracts and contractual termination payments are limited to 12 months salary. In spite of this, two former executive directors who resigned during the year, received payments following cessation of office worth 167% and 182% of annualised salary respectively.

#### **The Fund opposed the resolution**

### **Grainger Plc (AGM)**

Remuneration was also an issue at Grainger. There was limited information supplied to support the Long Term Incentive Scheme. This made it difficult to assess whether the performance conditions under the scheme were sufficiently challenging.

The company also operates an Annual Bonus Scheme. During the year, the total awards were not generally considered to be excessive. However, there were concerns over the one-off “compromise payment” of £2.83m paid to the departing Chief Executive, as this equated to 6 times his salary. All of his Long Term Incentive Scheme awards were also vested in full after his departure. As a result, the proposal attracted a high level of opposition.

**The Fund opposed the resolution.**

### **St Modwen Properties (AGM)**

The remuneration report at property company, St Modwen drew a high level of opposition. Questions were raised over the “one-off” awards that were handed to the Chief Executive and the Finance Director in addition to their annual bonus and awards under the Performance Share Plan (PSP).

There were also issues with regard to the performance targets that were used in the calculation of both the PSP and the Executive Share Option Plan. Little or no information was supplied to enable investors to assess whether the targets were sufficiently challenging.

**The Fund opposed the resolution**

### **Debenhams Plc (AGM)**

At the Debenhams AGM, remuneration issues continued to be of concern to shareholders. There appeared to be no link between performance and remuneration arrangements. Whilst bonus awards during the year were equivalent to almost 64% of base salary, no awards were granted under the Performance Share Plan and Equity Share Option Scheme.

There were also concerns over directors’ benefits. Directors’ have one year rolling contracts, but they include provision for the payment of basic salary, benefits and average bonus over the previous two years which was deemed to be excessive.

**The Fund opposed the resolution**

### **Edinburgh Dragon Trust (AGM)**

Two of the proposals to appoint non-executive Directors at investment trust manager, Edinburgh Dragon received a high percentage of opposition. The two individuals concerned, Mr Frame and Mr Tyrie had both served on the board for more than nine years and were therefore not deemed to be independent. Overall, there were concerns that generally there was insufficient independent representation on the board.

**The Fund opposed the resolution**

## **Euromoney Institutional Investor (AGM)**

The election of non-executive directors was also an issue at publisher Euromoney. All three nominees were not considered to be independent and had served on the board in excess of nine years. One candidate, Viscount Rothermere was also Chairman of Daily Mail & General Trust, Euromoney's parent company.

In fact, only two of the non-executive directors at the company were considered to be independent and the annual report gave no indication as to how the company operates independently from the parent group.

### **The fund opposed the resolutions**

## **OVERSEAS ISSUES**

### **Apple (AGM) – US**

The company proposed the appointment of Ernst & Young to replace the current auditor, KPMG. Generally, auditor rotation is encouraged; however in this case, reasons for the proposed change were uncertain.

Best practice encourages audit committees to publicly provide shareholders with a full explanation for a change in the company's external auditors.

As there was no vote to re-appoint KPMG in 2009, this also raises questions as to the relationship between the two parties in recent months. As information regarding this proposal, is so limited it became difficult to make an informed decision.

### **The Fund abstained on the resolution**

### **Volkswagen (EGM)**

It was proposed that VW's major shareholder (State of Lower Saxony) should be entitled to appoint two members to the board as long as they continued to hold at least 15% of the company's shares.

However, this resolution would result in the appointed directors giving preferential treatment to the controlling shareholder rather than acting in the best interests of all shareholders.

### **The Fund opposed the resolution**

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