

Report on the UK Corporate Governance Programme

This paper describes the broad trends seen in corporate governance during the period 1st August 2008 to 31st March 2009. The switch of reporting date to end March will on this occasion result in significantly fewer AGM's being reviewed.

The Funds use the Research, Recommendations and Electronic Voting Ltd (RREV) advice, incorporating the views of National Association of Pension Funds. In the majority of cases votes were cast in line with the RREV guidelines, however, in certain instances an alternative course of action was taken.

The main areas of concern to the Funds are pre-emption rights, company remuneration reports, and non independent Non Executive Directors. Fund Managers continue to engage with investee companies' management on occasions where a vote has been cast against them and is out of line with the RREV vote recommendation.

On 10 occasions during the period under review, the Funds voted against at least one proposal at investee companies' AGM's (11.8% of AGM's). This is a significant increase in percentage terms over the previous year, when between 1st August 2007 and 31st July 2008, the Funds voted against management on 11 occasions (5.9% of AGM's). The Funds also voted against one resolution at an EGM.

The Funds voted against the remuneration report on three occasions in 2008/09, compared to five during the previous full year. The annual vote on the remuneration report remains advisory; however, widespread concerns in relation to executive remuneration have encouraged shareholders to take a more aggressive stance. We expect to see this trend continue. At one large industrial company the Funds voted against the remuneration report. The Chief Executive's contract allowed an excessive termination payment amongst other terms as well as generous terms for other directors. The Fund Manager responsible considers these legacy contracts to be out of line with best practice.

RREV continues to flag the re-election of Non Executive Directors where they have concerns about the directors' independence. The Funds use the voting service to highlight potentially controversial re-elections and make the voting decision on a case by case basis. Fund managers pay particular attention to any unique experience that Non Executive Directors might offer, whilst recognising the important principle of true independence. During the period under review the Funds voted against the re-election of Non Executive Directors on three occasions.

Where standards of corporate governance are considered to be a concern, the Funds have continued to lobby investee companies, both in one-on-one meetings and via other avenues. Specifically, the Fund Managers have engaged with 2 major banks and one large industrial company. Fund managers have also sided with incumbent management at a leading mining company where investor sponsored resolutions had been proposed.

Fund Managers have discussed concerns that in rescue capital risings, excessive dilution has been forced on existing shareholders and have made their views known were necessary to the Chairman and Non-Executive Directors.

In addition, some of the mergers and acquisitions caused concern over the levels of due diligence and concerns were raised with a number of companies.

The challenging economic conditions have brought corporate governance issues to the fore. Accordingly, RREV seem to be taking a tougher stance when confronted with controversial resolutions. The Funds continue to vote all shares where practicable at every investee company AGM and EGM.

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