Report on the UK Corporate Governance Programme

This paper describes the broad trends seen in corporate governance during the period 1st April 2011 to 31st March 2012.

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

The main areas of concern for the Funds were remuneration reports and re-election of directors. Fund Managers continue to engage with investee companies where a vote has been cast against the company and is out of line with the ISS vote recommendation. Specifically, BAPIML has engaged with an Exploration and Production (E&P) company and an Asset Management company. Fund managers have also sided with incumbent management where investor sponsored resolutions had been proposed.

On 44 occasions during the period under review the Funds voted against at least one proposal at investee companies' Annual General Meetings (AGM) (26% of the total). This is a slight increase over the previous year when, between 1st April 2010 and 31st March 2011, the Funds voted against management on 41 occasions (22.4%). The Funds also voted against two Extraordinary General Meeting (EGM) resolutions.

The Funds voted against the remuneration report on 28 occasions in 2011/12. This is an increase from 21 in the previous year (2010/11). Whilst the annual vote on the remuneration report remains advisory, ISS and the wider shareholder community continue to scrutinise companies with perceived shortcomings in corporate governance. For a number of years BAPIML has been highlighting executive remuneration as an area of concern. The Funds continue to communicate this message to management by voting against non-compliant resolutions.

In general, over the past few years companies have shown restraint when reviewing their remuneration packages, with some announcing "salary freezes". However, after a few years of imposing restrictions and a widespread "wait-and-see" attitude of remuneration committees in respect of the timing and intensity of an economic recovery, 2011/12 saw a considerable number of companies implementing upward adjustments to total executive remuneration packages, through increases in both salary and bonus elements, as well as increased long term incentive awards.

The most cited reasoning behind any significant salary increase (in excess of inflation) was general benchmarking exercises and comparison to competitor salaries.

At an Exploration and Production (E&P) company, the Funds voted against the EGM to propose an amendment to the 2005 Performance Share Plan (PSP), which was in line with ISS's recommendation. The company stated that the Remuneration Committee had undertaken a comprehensive review of executive pay, which involved benchmarking pay at the company against those of a similar size and/or sector.

They concluded that basic salaries and total remuneration paid to the directors were lower quartile and at a level which the committee believes does not reflect the capabilities of the management team. They also suggested that the PSP in place was insufficient to motivate the directors to meet the Board's challenging goals. Consequently, the Committee proposed that the PSP award should be set as a fixed number of shares instead of a multiple of salary. The previous scheme's PSP set an individual award limit of 200% of basic salary and 300% in exceptional circumstances. The amendment being proposed would potentially result in the CEO being awarded 300k shares equivalent to 640% of his basic salary; the CFO and other executive directors being awarded 175k shares representing 622% and 660% respectively. Whilst we recognise the advantage of making awards over a fixed number of shares, to better align the interests of Directors and shareholders, we are concerned that the proposed grant over the next three years would represent a significant potential enhancement to the total remuneration package. The resolution was passed with 62.3% voting in favour.

In the case of an Integrated Oil company, the Funds voted against the remuneration report, contrary to ISS's recommendation to abstain. ISS, however, suggested a vote in favour for those shareholders having a fiduciary responsibility to vote either in favour or against. BAPIML felt that in light of the tragic events in the Gulf of Mexico and given their role as members of the executive management team, the CFO and CEO of Refining & Marketing should receive neither a salary increase nor a bonus.

We were also concerned about the overall remuneration package available on termination of contracts, for both the former CEO and head of E&P. Of particular concern is the potential award available to both former executives in relation to the 2009 and 2010 Executive Directors' Incentive Plan (EDIP) schemes. The amendment to the EDIP to award executives for "strategic imperatives" was also a contentious issue. Whilst BAPIML acknowledges changes in culture are paramount to the safety of workers and the environment in which they work, we do not believe executive management should be rewarded for it. The 2011-13 EDIP scheme suggests that 30% of shares will vest based on strategic imperatives for rebuilding trust; in particular reinforcing safety and risk management culture, rebuilding the company's reputation and reinforcing staff alignment, and will be measured on the basis of judgements of relevant committees. We believe, safety should be an integral part of the day to day running of the company and therefore should not require an additional compensation arrangement to ensure that targets are being met. As there is a lack of clarity on the deliverable components of, and measurement of, safety targets, we believe it is inappropriate to include this as part of the incentive scheme. The Fund Manager responsible engaged with the company to explain BAPIML vote decision. The resolution was passed with 88.4% voting in favour.

ISS continues to highlight the re-election of Non Executive Directors (NED) where they have concerns about 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 20 occasions compared to 25 over the same period last year.

At a Media Company's AGM, BAPIML voted against both the re-election of the Chairman and the Remuneration Report. ISS recommended an abstention on both resolutions. They, however, suggested a vote against for those shareholders having a fiduciary responsibility to vote either in favour or against. In previous years, BAPIML has voted against the re-election of the Chairman, due to his relationship with News Corporation and his move in 2007 from Chief Executive Officer (CEO) to Non-Executive Chairman at the Media Company. Our concerns with regard to the Chairman were exacerbated in 2010 as a result of the News Corporation bid and more recently the phone hacking scandal. Given the exceptional circumstances surrounding News International (a subsidiary of News Corporation) and the fact that the Chairman of the Media Company was at the time, the Deputy Chief Operating Officer and Chairman and CEO of News International, we questioned his suitability to serve at the Media Company. Since the investigation into the phone hacking intensified, he has resigned as Chairman of the UK listed Media Company; he will, however, remain on the board as a Non-Executive director. The vote result for the re-election of the Chairman was passed with 81% voting in favour.

The Remuneration Report also caused concerns, specifically the Long Term Incentive Plan (LTIP). The Remuneration Committee had failed to provide sufficient disclosure with regard to the operational measures used in awarding the 2010 and 2011 (which will vest in 2013) LTIP's. The Earnings Per Share (EPS) performance targets were also not deemed to be sufficiently stretching in view of broker forecasts. Similarly, the retention awards which are payable to the executive management team, in the form of an additional LTIP that was agreed at the outset of the News Corporation bid, are not in line with best practice. The company's policy is to set the remuneration package with the aim of retaining talent, consequently BAPIML deemed further awards to be unnecessary. The resolution was passed with 84% voting in favour.

Since the onset of the credit crisis we have seen increasing signs of political intervention in corporate governance issues. Initially this was in the form of curbing awards available to bankers. More recently, the business secretary unveiled plans to curb perceived excessive executive pay, due to the disconnect apparent between pay and company performance. The measures proposed include:

- Making firms' remuneration reports easier to understand and requiring them to explain executive salaries in relation to the earnings of other employees.

- Increasing transparency by requiring the publication of all directors' salaries.
- Giving shareholders a binding vote on executive pay, notice periods and exit packages.
- Encouraging a wider range of people onto company boards, including academics, lawyers, public servants and those who have never served on a board before.
- Requiring all companies to introduce "clawback" policies, allowing them to recoup bonuses in cases where they are later shown to be unwarranted.

We believe political pressure will continue in an attempt to restrain excessive boardroom pay and its perceived reward for failure.

The Funds continue to vote all shares where practicable at every investee company AGM and EGM.

Originator: **UK Portfolio Manager**
Date: **17th May 2012**

UK Corporate Governance	1st April 2011 - 31st March 2012
Total number of AGM's voted	**UK**
Total number of AGM's voted	**173**
Voted FOR on all proposals or voted in line with all management recommendations	129
% of votes for	74.6%
Voted AGAINST on at least one proposal or voted against a management recommendation	44
% of votes against	25.4%
Voted ABSTAIN on at least one proposal	0
% of votes abstained	0.0%
Taken NO ACTION	0
% of votes no action taken	0%
Breakdown of voting on individual proposals	
Number of individual proposals where voted against management in line with RREV recommendation	**62**
Against Directors	35
Against remuneration policy	19
Against Long Term Share Incentive Plan	4
Against Ammend articles of association	1
Against Approve Executive Portfolio	1
Against Approve value creation plan	1
Against Company investment plan	1
Number of individual proposals where voted Against contrary to RREV recommendation to vote for	**2**
Against remuneration policy	2
Number of individual proposals where voted for contrary to RREV recommendation to against	**7**
Remuneration policy	2
Director Election	2
Approval to issue of equity or equity linked securities with pre-emptive rights	1
Approval to issue of equity or equity linked securities without pre-emptive rights	1
Approve Tender Bid Requirement	1
Number of individual proposals where voted against contrary to RREV recommendation to abstain	**10**
Against Director Election	3
Against Remuneration policy	7
Number of individual proposals where voted for contrary to RREV recommendation to abstain	**12**
Director Election	9
Remuneration policy	1
Long Term Share Incentive Plan	1
Auditor appointment renumeration	1

Against Shareholder Proposal in line with RREV	**4**

UK Corporate Governance - 1st April 2011 - 31st March 2012	
Total number of EGM's - OGM's voted	**UK**
Total number of EGM's - OGM's voted	**22**
Voted FOR on all proposals or voted in line with all management recommendations	20
% of votes for	90.9%
Voted AGAINST on at least one proposal or voted against a management recommendation	2
% of votes against	9.1%
Voted ABSTAIN on at least one proposal	0
% of votes abstained	0.0%
Taken NO ACTION	0
% of votes no action taken	0%
Breakdown of voting on individual proposals	
Number of individual proposals where against for contrary to RREV recommendation to vote in favour	**1**
Approve the ammended operating agreement	1
Number of individual proposals where voted against management in line with RREV recommendation	**5**
Against Long Term Share Incentive Plan	2
Against Approval to issue of equity or equity linked securities with pre-emptive rights	1
Against Approval to issue of equity or equity linked securities without pre-emptive rights	1
Against Increase decrease authorised share capital	1