INVESTMENT MANAGEMENT ASSOCIATION

SURVEY OF FUND MANAGERS' ENGAGEMENT WITH COMPANIES

Investment Management Association

ima

CONTENTS

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IMA would like to thank all participants for their contributions, particularly the interviewees who gave their time.

1 EXECUTIVE SUMMARY

1. This is the second survey to measure the extent of fund manager engagement with the companies in which they invest.

2. 34 UK fund managers participated in the survey, which covered the year ended 30 June 2004. As at 30 June 2004, these managers managed UK equities worth £552 billion or 55% of all UK equities managed within the UK (Section 3).

POLICIES, STRUCTURE AND RESOURCES (SECTIONS 4 AND 5)

3. Most managers reported that investment management agreements already include provisions governing policies on voting, and will include reference to the ISC Statement of Principles, either as a matter of course as agreements are renewed or at the client's request (Table 1).

4. 21 of the 33 managers with engagement policies publish them in whole or in part on their websites, while a further 5 make them available on request; this compares with 14 and 4 respectively out of 28 in 2003 (Table 2).

5. While engagement policies are not normally a key criterion in fund manager selection, most managers report growing client interest in them (Tables 4 and 5).

6. With one exception, all the managers employ staff dedicated to corporate governance and/or SRI issues (Table 6); the numbers of staff have increased by about 10% since 2003 (Table 8). The great majority of managers employ outside agencies to help with the engagement process (Table 9).

7. Final decisions on contentious issues are taken at a senior level in the organisation in 16 of the 34 managers, and by or with the active involvement of fund managers in a further 17; in only one is the decision reserved to the corporate governance specialist (Table 7).

LEVELS OF ENGAGEMENT (SECTION 6)

8. The overwhelming majority of managers reported that they meet with company management at least once a year, and one does so many as 5 to 6 times and on occasion, significantly more (Table 10).

9. In addition, meetings may be held with independent directors; the 15 managers that responded reported an average of 11 such meetings in the quarter to 30 June 2004, broadly in line with the same quarter in the previous year (Table 11). Managers also communicate with executive management. In the three months to 30 June 2004, respondents reported over 1,000 communications with companies over and above the regular meetings, nearly two and a half times the level in the same quarter in the previous year (Table 12).

10. 11 managers reported that they had expressed concern through the company's advisers in 71 cases, involving 68 companies in the quarter ended 30 June 2004. This was approximately half the level of the same quarter the previous year (Table 13).

11. Other means of escalating engagement are rarely used. None of the respondents had tabled a resolution or requisitioned an EGM in 2004 or 2003. However, 7 had made a public statement in advance of an AGM, on average 7 times in the quarter ended 30 June 2004. This compares with a total of 10 statements by 4 managers during the same quarter in 2003 (Table 15).

VOTING (SECTION 7)

12. All participants, with two exceptions, have a policy to vote all their UK shares (Table 16) and the majority vote all or some of their international shares (Table 17). In both cases there has been an increase since 2003 in the shares on which it is express policy to vote.

13. 28 out of 34 managers report that they advise company management in advance all or most of the time when voting against the Board or consciously abstaining on their UK shares. This compares with 24 out of 33 in 2003 (Table 18).

14. 27 participants provided details of how they voted their UK shares. They voted on 96% of resolutions in the nine months to 31 March 2004 and 92% in the three months to 30 June 2004 (Table 19 and Appendices 3 and 4). In 3.1% of cases in the second quarter, votes were cast against the Board's recommendation, and there were conscious abstentions in a further 2.3%. The combined 5.4% compares with 6.9% of votes withheld or cast against the Board in the second quarter of 2003 (Table 19).

15. Participants were asked how they voted on 70 individual resolutions that could be considered contentious. Twenty-six responded and in aggregate 62% of resolutions were voted with the Board (2003: 62%) 25% against (2003: 23%) and 12% consciously abstained (2003: 15%) - (Table 20 and Appendix 6). The detailed voting patterns reveal variations in the approach to different issues (Appendix 6).

16. In January 2004, Paul Myners reported on his "Review of the Impediments to Voting UK Shares" and made a number of recommendations to improve the process. Specific questions were asked about the implementation of his recommendations.

    Communicating voting instructions electronically: 26 respondents reported that they gave instructions to vote electronically all or most of the time (Table 21).

    Recalling lent stock: The majority of participants reported that they will recall lent stock whenever a resolution is contentious although certain other considerations may apply. Of the 7 participants that never recall lent stock, 5 undertook very little lending (Table 23).

Include controls over the voting process in FRAG 21/94 reports: 20 participants answered this question, of which 16 reported that they include the voting process in their FRAG 21/94 reports or intend to do so in the near future (Table 24).

REPORTING (SECTION 8)

17. 32 of the 34 participants report quarterly to their clients, mainly covering details of how they have voted, notably resolutions voted against the Board or consciously abstained, together with the reasons (Tables 25 and 26).

18. Seven managers publish their voting records on their websites, compared with two in 2003 (Table 28).

2 INTRODUCTION

This survey aims to measure the extent to which IMA members are engaging and complying with the Institutional Shareholders' Committee[1] (ISC) Statement of Principles, the Responsibilities of Institutional Shareholders and Agents (the Statement of Principles), of October 2002. The Statement of Principles (Appendix 1) recommends that institutional investors should:

- publish a statement of their policies on engagement;
- monitor the performance of and maintain a dialogue with companies;
- intervene where necessary;
- evaluate the impact of their policies; and
- in the case of fund managers, report to their clients.

In addition, interested parties requested that the survey looked at:

- whether policies on voting and compliance with the Statement of Principles are in client agreements;
- whether clients are asking managers to engage;
- the resources dedicated to engagement; and
- whether managers are complying with the recommendations in Paul Myners' report on "Review of the Impediments to Voting UK Shares", of January 2004.

This is the second survey and covers the year ended 30 June 2004. Interviews were conducted with representatives from 34 managers who are mainly responsible for engagement with companies. This could be a dedicated corporate governance or SRI specialist, a fund manager, the Chief Investment Officer, all four, or any combination. In addition, participants were asked to complete a questionnaire and provide substantive details of engagement in the year. Not all participants were able to provide answers to all questions. The response rate is indicated with each result.

[1]The members of the ISC are: the Association of British Insurers; the Association of Investment Trust Companies; the National Association of Pension Funds; and the Investment Management Association.

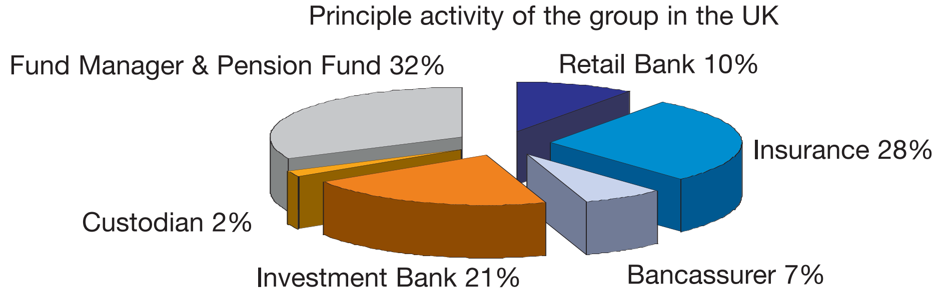
3 PROFILE OF MANAGERS

VALUE OF UK EQUITIES MANAGED

34 UK managers (2003: 33) participated in the survey. As at 30 June 2004, these managers were invested in £552 billion of UK equities (2003: £480 billion[2]) out of an estimated total of £996 billion[3] (2003: £897 billion) accounting for 55% (2003: 53 per cent) of all UK equities managed.

Chart 1 (below) sets out how this £552 billion is apportioned between participants according to the principal activity of the group: insurer; bancassurer; investment bank; retail bank; custodian; and fund manager/pension fund. The names of the 34 managers and the principal activity of their groups are set out in Appendix 2.

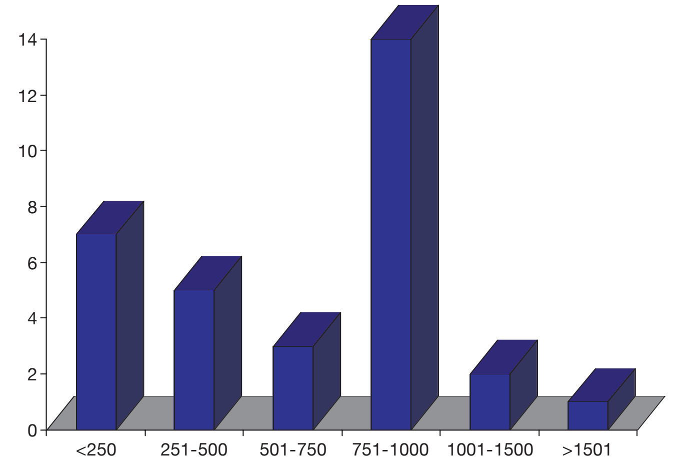
Chart 1: Value of UK equities managed according to the principal activity of the group



NUMBER OF UK INVESTEE COMPANIES

The survey covered engagement in relation to UK investee companies. As at 30 June 2004, participants' holdings in UK companies ranged from under 250 to just over 1,500 companies (the FTSE All Share is made up of approximately 850 companies). This is illustrated in Chart 2 for 32 participants.

Chart 2: Number of UK investee companies as at 30 June 2004



[2]From the IMA's Engagement Survey 2003.

[3]Figure per the IMA's Engagament Survey 2003 adjusted for the rise in the FTSE 100 index from June 2003 to June 2004

4 POLICIES ON ENGAGEMENT

AGREEMENTS SETTING OUT COMMITMENTS

The ISC submitted the Statement of Principles to the Treasury in October 2002 and undertook to develop a programme to ensure it would be put into practice. Its submission stated that "managers' commitments on engagement will be set out in client agreements so that their clients, be they pension funds, insurance companies or investment trusts, can require that they are adhered to".

Participants were asked whether client agreements include provisions that address their policies on voting and compliance with the Statement of Principles. Voting was separated from adherence to the Statement of Principles as agreements have tended to address voting for some time, whereas provisions relating to the Statement of Principles are more recent given that it was only issued in October 2002.

Currently, nearly two-thirds of participants' agreements include their policy on voting, and the remaining third are either revising existing agreements and/or including it in new agreements, albeit in four instances at the clients' request. The results are more mixed as to whether policies for adherence to the Statement of Principles are mentioned as set out in the IMA's Model Terms for Discretionary Fund Management which sets out model provisions for client agreements. Four managers' agreements make no mention of them, although the majority are taking steps to refer to them in new agreements, again in nine instances this is at the clients' request. In this respect, a number of participants highlighted that they always give clients a copy of their policy statements on engagement. These tend to reflect the Statement of Principles.

The results are set out in Table 1. Information was not obtained from one and two managers, respectively, and three do not have agreements in that:

- the assets are held by a pooled fund;
- the manager has no external clients; and
- the manager is also a pension fund and is owned by the sponsor.

Table 1: Agreements that include policies on voting and adherence to the Statement of Principles

	Voting	Statement of Principles
	Number of managers	
Agreements always included the policy (the policy on adherence to the Statement of Principles since late 2002).	19	2
Existing agreements have been revised or side letters sent and the policy is included in all new agreements	1	1
Existing agreements have been revised when requested and the policy is included in new agreements	-	2

	Voting	Statement of Principles
	Number of managers	
Existing clients are asked if they want to amend their agreements to include the policy and it is included in new agreements	1	1
New agreements include the policy	4	9
On the client's request existing agreements are amended and the policy is included in new agreements	1	2
On the client's request new agreements include the policy	4	9
Agreements do not include it	-	3
Total	30	29

POLICY STATEMENTS

The Statement of Principles sets out a number of recommendations as regards policy statements. Participants were asked whether these have been followed and whether:

- they have "a clear statement of their policy on engagement and on how they will discharge the responsibilities they assume";
- this statement is "a public document"; and
- the statement covers the matters the Statement of Principles states should be addressed.

Of the 34 participants, 33 had a finalised policy statement on engagement - one participant's statement is still in draft. This is improved from 2003, where out of 33 managers, five managers' statements were still in draft.

More managers' policy statements are public than in 2003. Just less than two-thirds have put their statement on their websites compared with half in 2003 - Table 2.

Table 2: To whom policy statements are issued

	30 June 2004	30 June 2003
	Number of managers	
It is public - all on the web	20	9
It is public - part on the web	1	5
To anyone who requests it	5	4
To existing and prospective clients	7	9
To existing clients	-	1
Total	33	28

There has also been a large increase in the number of participants that address the recommendations in the Statement of Principles on contents, albeit that more managers made their statements available for analysis (30 in 2004 as compared with 23 in 2003). Table 3 lists the recommendations on contents and the number of managers that address each one. Table 3 also covers whether policy statements address how managers tailor their portfolios to meet standards of socially responsible investment.

Table 3: Matters covered in managers' policy statements

	30 June 2004	30 June 2003
	Number of managers	
How investee companies will be monitored	26	19
Policy for requiring compliance with the Combined Code	26	18
Policy for communicating with an investee company's board and senior management	26	18
How conflicts of interest will be managed. (Three managers have few if any external clients and consequently this is not relevant)	19	14
Strategy on intervention	26	17
Circumstances when further action will be taken	23	16
Policy on voting	28	22
Policy on socially responsible investment	27	22

APPOINTMENT

Following a specific request, participants were asked whether they consider their policies on engagement influence clients' selection of managers and the extent to which they are asked to engage.

Responses varied. Two participants considered that engagement is a key criterion as to why they are selected and four believed it important. However, seven participants thought it rarely had any effect. Nevertheless, overall it appears that clients are more aware and increasingly enquire about engagement, particularly trustees from large pension funds or local authority plans. In addition, investment consultants are asking more informed questions and certain "Requests For Proposal" have sections devoted to engagement and corporate governance.

Tables 4 and 5 cover 28 managers in that for four managers, the question is not relevant as:

- one manages its own funds;
- one has mainly retail clients; and
- two do not have any external clients.

Information was not obtained from two managers.

Table 4: Views on whether engagement policies influence selection

	30 June 2004 Number of managers
Engagement policy is a key criterion as to why they are selected	2
Engagement policy frequently influences selection or does so most of the time	4
Policy on socially responsible investment is particularly important in influencing selection in that active enquiries are received.	1
"A major client made a big issue of it [policy on engagement]"	1
Increasingly clients are asking for more for engagement	5
Clients like to see that managers engage but it is not the main criterion as this tends to be investment performance	4
"There are signs of differentiation" between managers who engage and those that do not	1
It is not possible to distinguish whether the policy influences selection	3
Engagement policy rarely influences selection	7
Total	28

Table 5: The extent to which clients formally ask for engagement

	30 June 2004 Number of managers	Additional comments
Clients do not ask as it is a key criterion to why they are selected	1	
Both prospective and existing clients ask	4	Two managers considered that engagement is particularly important to prospective new clients and that "an increasing number of trustees are asking for engagement". One of these managers did not believe that it is necessarily under pressure to engage in that clients are "ticking a box and want to know what polices are in place".
Existing and increasingly new clients ask	5	One manager stated "existing clients are interested and consultants are asking for more"
Increasingly prospective clients are asking for more	3	Two managers considered that " new clients and relationship managers are increasingly asking but rarely existing clients".
Increasingly certain types of clients are asking	2	In particular, one manager stated that "local authority pension funds, large pension funds and charities". The other manager believed that "investment consultants are asking better questions but not trustees".
Existing clients are asking more so	1	"Existing clients are now enquiring in detail about what is going on whereas the position with new clients varies."

	30 June 2004 Number of managers	Additional comments
New clients are asking	1	"New clients tend to ask but it is not really well thought through."
It varies	2	"Some do not ask at all whereas others are very interested". "Mixed – all trustees are asking for voting records but minority ask for engagement".
Some clients ask	1	"Large four consultants are asking about engagement and some clients are demanding it, however, it is supply driven."
Certain clients are better resourced and tend to ask more but performance is the main issue	2	One manager stated "local authority pension funds and large pension plans are better resourced and tend to ask for more but investment performance is usually the main issue".
Not much or infrequently asked for	6	
Total	28	

5 STRUCTURE AND RESOURCES

HOW ENGAGEMENT IS STRUCTURED

Engagement takes place essentially in relation to companies':

- strategy and performance;
- approach to social responsibility; and
- conventional corporate governance, such as compliance with the Combined Code, Directors' remuneration, Board succession, internal controls etc.

Concerns had been raised that, on occasion, those responsible for corporate governance issues are presented to companies as the manager's voice on the issue, when they might not necessarily represent the views of the fund manager or analyst responsible for establishing the position and with whom company management has been encouraged to communicate. Thus, participants were asked how they structure engagement and whether it is integrated into the investment process.

In one participant, fund managers handle all engagement, which is co-ordinated by the Head of Research. For 30 participants, engagement in relation to strategy and performance is handled by fund managers/analysts and, due to the specialist knowledge required, particular individuals are dedicated to certain aspects, such as corporate governance and socially responsible investment. The dedicated specialists do not act in isolation from those involved with the investment process. Very often they sit with the fund managers/analysts and attend the same meetings. In addition, those involved with the investment process are frequently responsible for approving the policy for engagement and voting, and in deciding in a controversial or contentious situation - see Table 7.

The participants with dedicated specialists may have:

- separate specialists/teams for corporate governance and for socially responsible investment;
- one dedicated specialist/team that covers both corporate governance and socially responsible investment; or
- a dedicated specialist/team for corporate governance only.

This is summarised in Table 6.

Table 6: Structuring of engagement

	30 June 2004
	Number of managers
Separate dedicated specialists/teams for corporate governance and for socially responsible investment	13
An integrated dedicated team that covers both corporate governance and socially responsible investment	11
A dedicated specialist/team for corporate governance only	6
Total	**30**

Mainly the product of a different investment strategy, three managers are different to the above.

- Managers A and B invest in stocks they believe will outperform using their own proprietary analysis. Engagement is overlaid on this investment process to cover all shares held in that:

  - in manager A, three specialists handle all engagement, and interact and manage the relationship, with investee companies; and
  - in manager B, analysts are integral to the evaluation of corporate governance and socially responsible investment but it has four dedicated corporate governance and six dedicated socially responsible investment specialists.

- Manager C's investment strategy is based on the index/specialist approach. The core of its investments are passively managed but it has an overlay of specialist active portfolios. Dedicated "engagement specialists" handle all engagement. In addition, it also has a portfolio of specialist funds where it invests in under-performing companies with the aim of encouraging change where it has a team of around 45 staff dedicated to engagement. It involves itself in detailed discussions about a company's management and policy with the aim of influencing them. (Other managers do this to a lesser extent when they have specialist funds that invest in under-performing companies.)

  Even for those managers with a different investment strategy, those responsible for approving the policy for engagement and voting, and in deciding in a controversial or contentious situation are frequently those involved in the investment process. This is set out in Table 7 - essentially there has been no material change from 2003. (In one manager when the company is underperforming the dedicated corporate governance specialist will handle all engagement and manage the relationship.)

Table 7: Who approves the policy and makes the final decision in a controversial or contentious situation

	Who approves the policy	Who makes the final decision
	Number of managers	
The trustees	2	-
The main, non-executive or executive board	8	-
Chief Executive Officer and/or Chief Investment Officer	4	-
Managing Director/Head of Research/ Chief Investment Officer/Senior Head of Equities	-	7
As above, but jointly with the dedicated corporate governance specialist	-	1
A senior committee of business heads/corporate governance committee	10	8

	Who approves the policy	Who makes the final decision
	Number of managers	
Fund managers and/or Chief Investment Officer	-	2
Fund managers and/or analysts	-	5
Jointly by the dedicated corporate governance specialists and fund managers/analysts	1	2
The dedicated corporate governance specialists with the active involvement of the fund managers/analysts	-	8
The dedicated corporate governance specialists or "engagement specialists."	9	1
Total	34	34

During the year, two managers, managers C and E, each secured a client on whose behalf they exclusively handle corporate governance and voting, whilst other managers manage the investments.

RESOURCES

Following a specific request, participants were asked for details of the resources dedicated to engagement and whether this had changed from 2003. In addition, external agencies can provide an important resource, for example, to handle the process of voting or to provide research. Thus participants were asked for the number of agencies they use and for what purpose.

The resources dedicated to engagement increased from 2003 to 2004 by just over 10 per cent as set out in Table 8. This is indicative of managers engaging more and matching the increasing expectations of clients noted in Section 4. (One manager is excluded from the table as it does not have dedicated resources as, as noted above, all engagement is handled by fund managers/analysts.)

Table 8: Resources dedicated to engagement

			30 June 2004	30 June 2003
	No of managers		Total headcount	
Separate dedicated specialists/teams for corporate governance and voting, and for socially responsible investment – includes manager B	14	Corporate governance and voting	33	30.5
		SRI	32.5	30.4
Managers with integrated dedicated specialists/teams that cover both corporate governance and voting, and socially responsible investment – includes managers A and C*	14	Corporate governance and voting, and SRI	107.5	97

	No of managers		30 June 2004	30 June 2003
			Total headcount	
Managers with a dedicated specialist/team for corporate governance and voting only	5	Corporate governance and voting	14.25	11.75
Total	33		187.25	169.65

*Manager C has exceptionally high resources dedicated to engagement of 55 and 48 for the years ended 30 June 204 and 2003, respectively.

In addition to the above, all participants use external agencies to assist in some part of engagement, such as:

- processing voting instructions;
- providing research for the voting decision; and
- providing research into SRI.

All but three managers use agencies, sometimes two or more, to provide research into the voting decision (a research provider's recommendation may not necessarily be followed). Just less than two-thirds use an agency to process the voting instructions. The managers that use agencies for particular functions and the number of agencies used is set out in Table 9.

Table 9: Number of agencies managers use for each function

	Processing instructions	Research for the vote	Research into SRI
		Number of managers	
One agency	20	10	10
Two agencies	1	11	6
Three agencies	-	9	2
Six agencies	-	1	-
Managers using agencies for function	21	31	18

6 MONITORING AND ESCALATING ENGAGEMENT

Voting may be one of the more visible and easily quantifiable means of engagement but often more effective engagement occurs beforehand in that managers can influence resolutions put to members at a company meeting. Participants were asked about their engagement with investee companies, other than voting, and how they monitored companies and sought to escalate their action.

MONITORING

The ongoing monitoring of companies is important. The Statement of Principles recommends that: "institutional shareholders and/or agents, either directly or through contracted research providers, will review Annual Reports and Accounts, other circulars, and general meeting resolutions. They may attend company meetings where they may raise questions about investee companies' affairs. Also investee companies will be monitored to determine when it is necessary to enter into an active dialogue with the investee company's Board and senior management".

All participants undertake the desk-based monitoring envisaged. In addition, they meet with company management at least once a year, as set out in Table 10. Some do this before they invest in a company as part of their general research function; for others it is part of the post results review meeting.

Table 10: Regular meetings with company management

	30 June 2004 Number of managers
All investee companies between one and five times a year and, on occasion, significantly more	1
All investee companies at least twice a year	11
All investee companies at least once a year	14
The majority of investee companies once a year	6
Where the investment comprises more than 5% of the company's share capital, at least once a year	1
Total	33

In addition to the above, manager C with 55 "engagement specialists" meets at a minimum six times a year:

- the management of companies in its specialist funds, where there is long-term under-performance and where it is believed interaction could have a dramatic impact on value; and
- the management of a further 50 to 60 companies where there is core engagement.

ESCALATION OF ACTION

In general, managers seek to invest in well-managed companies. Consequently, whilst they all monitor and periodically challenge management, they only expect to have to take direct action to effect change in exceptional circumstances. The Statement of Principles sets out the ways in which fund managers may want to escalate their action, which includes:holding additional meetings with management specifically to discuss concerns;

- expressing concern through the company's advisers;
- meeting with the Chairman, senior independent director, or with all independent directors;
- intervening jointly with other institutions on particular issues;
- making a public statement in advance of the AGM or an EGM;
- submitting resolutions at shareholders' meetings; and
- requisitioning an EGM, possibly to change the Board.

Participants were asked about their general policy on the above and in a questionnaire for details of the number of times they may have interacted in the way described. The 2003 questionnaire covered the quarter ended 30 June - the main reporting and voting period for companies with 31 December year-ends. Thus in 2004 participants were asked for information for two separate periods: the nine months to 31 March 2004; and, so a comparison could be made with 2003, for the quarter ended 30 June 2004.

The results are set out below. In this respect, one participant's policy is that, where its holding is less than £5 million engagement is limited to proxy voting. Another's policy is that it prioritises engagement depending on the size of its holding, the likelihood that it can exercise influence and the seriousness of the issue. Another participant focuses on those companies where it has a meaningful holding, which tends to be in companies with a low capitalisation.

MEETINGS WITH INDEPENDENT DIRECTORS AND ADDITIONAL COMMUNICATIONS WITH MANAGEMENT

All participants regularly enter into dialogue with investee companies' directors and senior management where there are concerns. Certain managers maintain that they are proactive and enter into a dialogue to discuss matters in general and not just when there are concerns.

28 participants (2003: 22) answered the questionnaire and the results are set out in Tables 11 and 12.

Respondents demonstrated relatively consistent frequency of meetings with independent directors in 2003 and 2004. On average each had 11 meetings in the quarter ended June 2004, compared with 9 in the quarter ended June 2003. They averaged 75 additional communications with senior executive management in the quarter to June 2004 compared to 56 in the quarter to June 2003. (For the nine months to March 2004, the figures are 27 and 138, respectively).

Table 11: Meetings with independent directors

	Nine months to 31 March 2004		Three months to 30 June 2004		Three months to 30 June 2003	
Manager[1]	Number of meetings	Number of companies	Number of meetings	Number of companies	Number of meetings	Number of companies
1	94	70	32	25	50	35
2	47	29	21	21	19	19
3	47	42	19	17	11	8
4	37	35	17	17	10	10
5	35	35	17	14	10	9
6	26	26	15	15	6	5
7	25	25	15	15	5	5
8	25	25	8	8	5	5
9	15	15	8	8	4	4
10	9	7	4	4	2	2
11	7	7	2	2	2	2
12	4	4	2	2	3	1
13	3	3	3	1	1	1
14	2	2	1	1	1	1
15	-	-	1	1	-	-
Total	376	325	165	151	129	107

	Nine months to 31 March 2004	Three months to 30 June 2004	Three months to 30 June 2003
Average number of meetings	27	11	9
Number of managers that reported details	14	15	14
Number of managers that recorded details but did not report meetings	3	1	1
Number of managers that did not record details	11	12	7
Total	28	28	22

Table 12: Additional communications with management

	Nine months to 31 March 2004		Three months to 30 June 2004		Three months to 30 June 2003	
Manager[4]	No. of comms.	Number of meetings	No. of comms.	Number of meetings	No. of comms.	Number of meetings
1[5]	878	630	292	210	200	100
2	417	417	386	298	108	108
3	249	211	153	153	44	44
4	96	70	48	40	28	28
5	84	84	39	36	25	25
6	46	46	37	37	20	20
7	35	33	37	37	20	20
8	32	32	27	25	7	7
9	23	23	24	24	-	-
10	20	20	23	23	-	-
11	16	16	20	20	-	-
12	15	15	15	15	-	-
13	15	15	10	10	-	-
14	3	3	10	10	-	-
15	-	-	3	3	-	-
Total	1,929	1,615	1,124	941	452	352

	Nine months to 31 March 2004	Three months to 30 June 2004	Three months to 30 June 2003
Average number of comms.	138	75	56
Number of managers that reported details	14	15	8
Number of managers that recorded details but did not report meetings	-	-	2
Number of managers that did not record details	14	13	12
Total	28	28	22

4 Each manager has been allocated a number although a particular manager may not have the same number in 2003 as in the two periods in 2004, i.e. manager 1 in 2003 may not be the same as manager 1 in the two periods in 2004.

5 Includes all SRI meetings of which there were a total of 800 during the year ended 30 June 2004.

EXPRESSING CONCERNS THROUGH COMPANIES' ADVISERS

The majority of participants will provide feedback to companies' advisers, however, one rarely does so, and another does not have a policy to do so but would if necessary. The results are set out in Table 13.

On average each respondent had eight instances when they expressed concerns through advisers in the quarter ended 30 June 2004 compared with 14 during the same quarter in 2003 and 13 in the nine months ended 31 March 2004. However, when compared with Table 12, Additional communications with management, managers appear to be contacting company management directly far more in 2004 as compared to 2003 as opposed to going through third parties, i.e. companies' advisers.

Table 13: Expressing concerns through companies' advisers

	Nine months to 31 March 2004		Three months to 30 June 2004		Three months to 30 June 2003	
Manager [6]	No. of instances	Number of companies affected	No. of instances	Number of companies affected	No. of instances	Number of companies affected
1	30	30	18	18	42	28
2	30	30	16	16	27	27
3	27	27	15	12	25	25
4	25	25	8	8	16	15
5	15	15	5	5	15	15
6	10	10	3	3	15	15
7	10	9	3	3	6	6
8	5	5	2	2	5	5
9	2	2	1	1	4	4
10	2	2	-	-	1	1
11	1	1	-	-	1	1
12	1	1	-	-	-	-
Total	**158**	**157**	**71**	**71**	**157**	**142**

[6] Each manager has been allocated a number although a particular manager may not have the same number in 2003 as in the two periods in 2004, i.e. manager 1 in 2003 may not be the same as manager 1 in the two periods in 2004.

	Nine months to 31 March 2004	Three months to 30 June 2004	Three months to 30 June 2003
Average number of instances	13	8	14
Number of managers that reported details	12	9	11
Number of managers that recorded details but did not record meetings	3	7	3
Number of managers that did not record details	13	12	8
Total	**28**	**28**	**22**

INTERACTION WITH OTHER INSTITUTIONAL INVESTORS

All participants will interact with other institutional investors where necessary. The results are set out in Table 14 (comparative figures are not available for 2003). In 2004, on average each respondent interacted jointly in seven instances in the quarter ended 30 June 2004 and in the nine months to 31 March 2004.

Table 14: Joint intervention with other institutions

	Nine months to 31 March 2004		Three months to 30 June 2004	
Manager[7]	Instances of joint intervention	Number of companies affected	Instances of joint intervention	Number of companies affected
1	15	15	15	12
2	11	11	12	9
3	10	10	10	10
4	10	10	9	9
5	10	10	9	9
6	10	10	8	8
7	9	6	8	8
8	8	8	8	8
9	7	7	7	7
10	7	7	4	4
11	6	4	4	4
12	5	5	4	3
13	2	2	3	3

[7] Each manager has been allocated a number although a particular manager may not have the same number in 2003 as in the two periods in 2004, i.e. manager 1 in 2003 may not be the same as manager 1 in the two periods in 2004.

Manager[7]	Nine months to 31 March 2004		Three months to 30 June 2004	
	Instances of joint intervention	Number of companies affected	Instances of joint intervention	Number of companies affected
14	2	2	2	2
15	1	1	-	-
16	1	1	-	-
Total	114	109	103	96

	Nine months to 31 March 2004	Three months to 30 June 2004
Average number of instances	7	7
Number of managers that reported details	16	14
Number of managers that recorded details but did not report meetings	2	4
Number of managers that did not record details	10	10
Total	28	28

SUBMITTING RESOLUTIONS, MAKING A PUBLIC STATEMENT AND REQUISITIONING AN EGM

Making a public statement in advance of the meeting, submitting resolutions and requisitioning an EGM, can be costly and risk damaging the reputation of the company and long-term shareholder value. Thus few escalated their action in this manner in that the majority would do so only in extremis, where appropriate, after other avenues had been explored, or with other investors. However, some would not pursue these courses of action:

- two did not do any of these as a matter of policy; and
- three would not make a public statement in advance of the AGM - a number will disclose their position in advance, as opposed to making a public statement, whereas others would be more likely to make a public statement at the AGM as opposed to in advance.

None of the respondents had tabled a resolution or requisitioned an AGM in 2004 or 2003. As regards making a public statement, the results are summarised in Table 15. In summary, only seven managers made a public statement in advance of the AGM in each of the periods ended in 2004, compared with four in 2003. On average each

[7] Each manager has been allocated a number although a particular manager may not have the same number in 2003 as in the two periods in 2004, i.e. manager 1 in 2003 may not be the same as manager 1 in the two periods in 2004.

respondent had seven instances when they made a public statement in advance of the AGM in the quarter ended 30 June 2004, compared with three during the same quarter in 2003 and eight in the nine months ended 31 March 2004.

Table 15: Making a public statement in advance of the AGM

	Nine months to 31 March 2004	Three months to 30 June 2004	Three months to 30 June 2003
Manager[8]	Number of instances	Number of instances	Number of instances
1	28	25	6
2	10	10	2
3	9	5	1
4	5	4	1
5	2	2	-
6	1	1	-
7	1	1	-
Total	56	48	10

	Nine months to 31 March 2004	Three months to 30 June 2004	Three months to 30 June 2003
Average number of instances	8	7	3
Number of managers that reported details	7	7	4
Number of managers that recorded details but did not report making any statements	16	16	13
Number of managers that do not do so as a matter of policy	5	5	5
Total	28	28	22

8 Each manager has been allocated a number although a particular manager may not have the same number in 2003 as in the two periods in 2004, i.e. manager 1 in 2003 may not be the same as manager 1 in the two periods in 2004.

7 VOTING

POLICY FOR VOTING SHARES

The Statement of Principles recommends "institutional shareholders and/or agents should vote all shares held directly on behalf of clients wherever practicable to do so."

Participants were asked about their policies for voting their UK and international shares. The results are set out in Tables 16 and 17, respectively. In summary, all participants, with two exceptions, have a policy to vote all their UK shares. However, on international shares the position is less clear-cut in that in certain markets, concerns about share blocking, registration or other local practices can make voting impractical. That said, more vote their international shares in that now only one manager does not, compared to four in 2003, and over half have a policy to vote all international shares except where there are particular concerns - a slight increase from 2003. One manager does not hold international shares.

Table 16: Policy on voting UK shares

	30 June 2004	30 June 2003
	Number of managers	
Vote all UK shares	32	30
Vote all in the FTSE ALL Share, i.e. not fledgling and small cap	1	1
Vote all meetings of the top 350, all extraordinary meetings when hold more than 3 per cent and where otherwise agreed with clients	1	1
Vote when possible or when there are issues	-	1
Total	34	33

Table 17: Policy on voting international share

	30 June 2004	30 June 2003
	Number of managers	
Vote all international shares, except where concerns about share blocking, re-registration or it is otherwise impractical	19	16
Vote in selected markets	6	6
Vote major holdings	1	1
Vote at the clients' request	1	-
Vote when there are particular issues	4	4
When clients request will try to vote but may take a view on blocking and trading intentions	1	1
Do not vote international shares	1	4
Total	33	32

VOTING AGAINST THE BOARD OR CONSCIOUS ABSTENTIONS

The Statement of Principles recommends that institutional shareholders and/or agents should "not automatically support the Board; if they have been unable to reach a satisfactory outcome through active dialogue then they will register an abstention or vote against the resolution. In both instances it is good practice to inform the company in advance of their intention and the reasons why".

Participants were asked if they would consciously abstain as well as vote against the Board and if they advise management in advance of their intention in both instances. (For an abstention to be conscious, there should have been some communication with management that this was a conscious abstention.)

One participant only votes for or against the Board and does not consciously abstain (in 2003, two managers did not consciously abstain). The number of managers that advise in advance when voting against the board or consciously abstaining has increased. In 2003 four managers did not advise in advance (one on the basis all companies are given its policy), whereas now all endeavour to depending on the situation and just under two thirds always do so - Table 18.

Table 18: Advising management in advance

	30 June 2004	30 June 2003
	Number of managers	
Always	22	21
Most of the time	6	3
Depending on the issue	2	2
Function of regular discussion, not a matter of policy	1	
Depending on the issue and value of the stock	3	2
Only if consciously abstaining not if against	-	1
Not necessary as all companies are given policy		1
Do not	-	3
Total	34	33

VOTING IN THE YEAR TO 30 JUNE 2004

The questionnaire asked participants for details of their votes in the year ended 30 June 2004 where they had voting discretion, as opposed to where they follow their clients' instructions.

Twenty-seven managers provided details which are set out in Appendices 3 and 4, and summarised in Table 19. In analysing the results certain assumptions have been made:

- where the number of companies were reported but not the number of resolutions, each company had one meeting with ten resolutions;
- where the number of resolutions that could have been voted and companies affected was not known, this was the same as the number of resolutions voted and companies affected (this only affected one manager);and
- the number of companies in which each manager had an interest did not change over the year.

In summary, 27 respondents voted on 96 and 92 per cent of the aggregate number of company resolutions for the nine months to 31 March 2004 and three months to 30 June 2004, respectively. The respondents demonstrated consistency in the way they voted.

They voted against the Board on 2.9 per cent of resolutions in the nine months to 31 March 2004 and 3.1 per cent in the quarter to 30 June 2004, and consciously abstained on 2.3 per cent of resolutions in each period.

Table 19: Analysis of voting records

	Nine months to 31 March 2004		Three months to 30 June 2004		Three months to 30 June 2003	
Number of UK investee companies, where voting details given (number of managers)	17,225 (25)		18,635 (27)		12, 629 (21)	
	Total No.	Co/ meetings	Total No.	Co/ meetings	Total No.	Co/ meetings
Resolutions						
Resolutions could have voted	97,897	9,951	105,287	9,573	-	-
Resolutions voted	94,315	9,599	96,825	9,009	-	-
Percentage	96.3%	-	92.0%	-	-	-
Votes against the board						
Total resolutions voted, where relevant	94,315	9,599	96,825	9,009	48,724	6,141
Resolutions voted against the board	2,713	1,616	2,982	2,046	3,392*	1,536*
Percentage of resolutions	2.9%	-	3.1%	-	6.9%*	-
Percentage of the aggregate number of investee companies	-	9.4%	-	10.9%	-	12.1%*
Conscious abstentions						
Resolutions could have voted, where relevant	94,315	9,599	96,825	9,009		
Resolutions consciously abstained	2,192	1,360	2,186	1,346		
Percentage of resolutions	2.3%	-	2.3%	-		
Percentage of the aggregate number of investee companies	-	7.9%	-	7.1%		

* Figures for 2003 include both votes against and conscious abstentions.

Twenty-six respondents also reported details on how they voted on particular resolutions that were contentious or controversial in the year as set out in Appendix 6. Details were provided on how the managers voted on 70 resolutions taken from the meetings of 31 companies. In aggregate they voted 1,307 resolutions (2003: 214), of which 62 per cent were voted with management (2003:62 per cent), 25 per cent against (2003: 23 per cent) and 12 per cent consciously abstained (2003: 15 per cent) - Table 20.

There are variations in the approach to different issues between managers. In certain instances similar resolutions at a company meeting (for example, British Sky Broadcasting Group) were voted different ways whereas in others the voting patterns were consistent for all resolutions (for example, Cordiant Communications).

Table 20: Voting in a contentious situation

	Year to 30 June 2004	Three months to 30 June 2003
	Number	
Number of managers	26	18
Number of resolutions	70	13
Number of company meetings	31	13
Number of votes cast	1,307	214
Votes for (percentage)	816 (62)	133 (62)
Votes against (percentage)	329 (25)	50 (23)
Conscious abstentions (percentage)	162 (12)	31 (15)

REMOVING THE IMPEDIMENTS TO VOTING

In January 2004 Paul Myners reported on his "Review of the Impediments to Voting UK Shares" (the Review). The Review was undertaken following persistent concerns that the system for voting the shares of UK issuers is not as effective and efficient as it should be. Votes are "lost". The problems are largely the product of a process that is still quite manually intensive, where the chain of accountability is complex, where there is a lack of transparency and where there are a large number of different participants, each of whom may give a different priority to voting.

The Review concluded that each of the parties in the voting process needs to take certain steps. Set out below are the Review's recommendations for fund managers and the extent to which these have been taken up. (The recommendation on reporting to clients how voting responsibilities have been executed is set out in section 8.)

VOTE ELECTRONICALLY

The Review stated that "electronic voting remains the key to a more efficient voting system, and all parties, issuers, institutional investors and the intermediaries - need to make conscious efforts to introduce electronic capabilities in 2004".

Participants were asked whether they communicated their voting instructions electronically to the next entity in the voting chain - Table 21. This does not necessarily mean that the instructions were communicated electronically to the issuer/registrar as this is the responsibility of participants further down the voting process - just whether the managers discharged their obligations as recommended.

In conclusion, 50 per cent of participants communicated their voting instructions electronically to the next entity in the chain. A further 26 per cent had electronic voting capabilities but because of certain clients' custodial arrangements could not vote all their shares electronically. One of these managers had electronic voting capabilities throughout the year but as it acts as its own custodian and is a member of CREST, it can only vote electronically if the issuer has introduced electronic voting capabilities.

Of the two that do not have electronic capabilities and used faxes and proxy cards, one intends to have electronic voting capabilities within two months and the other plans to use a proxy-voting agency to vote electronically in due course.

Table 21: Communicating voting instructions electronically

	30 June 2004 Number of managers
Had electronic capabilities throughout the year and gave instructions to vote all UK shares electronically	18
Had electronic capabilities throughout the year and gave instructions to vote the majority of UK shares electronically	8
Had electronic capabilities part the way through the year and gave instructions to vote all UK shares electronically	1
Whether could deliver instructions electronically depended on the custodian – two voted all their UK shares electronically, one the majority and one where possible	4
Whether could deliver instructions electronically depended on clients paying for ADP	1
Did not have electronic voting capabilities and used faxes and proxy cards	2
Total	34

The Review also recommended that those voting through CREST should complete the necessary details of source so that registrars can query incorrect or invalid instructions. Participants that had communicated their instructions electronically and which ultimately would go through CREST, were asked if such details were completed. The results are set out in Table 22. In summary, it would appear that this is not an issue for managers but more for participants further down the voting chain that have an interface with CREST. Thus nine participants stated that it was an issue for the custodian or another department and eighteen were unable to answer the question.

Table 22: When voting through CREST complete the necessary details of source

	30 June 2004
	Number of managers
Did so	2
Service provider developing the process to do so	2
An issue for the custodian or another department	9
Did not	1
Total	14

RECALL LENT STOCK FOR THE PURPOSE OF VOTING

The Review identified that stocklending affects voting levels in that the lender does not retain the right to vote. Thus, whereas the borrower is obliged to pay an amount equivalent to any dividend received during the loan, the same cannot apply to votes. A vote cannot be castmore than once. The Review recommended that when a resolution is contentious the lender should automatically recall the related stock, unless there are good economic reasons for not doing so.

Participants' policies on recalling lent stock are set out in Table 23. This demonstrates that the majority will recall lent stock whenever a resolution is contentious, although a number require that other criteria are fulfilled. In this respect, one manager does not lend stock and for another the position was not confirmed. Of the seven that never recall lent stock, five undertook very little lending.

Table 23: Policies on recalling lent stock

	30 June 2004 Number of managers
Stock is always recalled	2
Stock is recalled whenever a resolution is contentious, to prevent the misuse of lent stock and where the manager wants to vote the full weight of its holding	1
Stock is recalled for all corporate actions, contentious issues and resolutions on “strategic” stocks	1
Stock is recalled whenever a resolution is contentious or the manager wants to demonstrate full support for management	1
Stock is recalled whenever a resolution is contentious	9
Stock is recalled whenever a resolution is contentious and the client agrees	5
Stock is recalled whenever a resolution is contentious, unless there are good economic reasons for not doing so	3
Stock is recalled whenever a resolution is contentious and size of holding makes it important	1
Stock is recalled whenever a resolution is exceptionally contentious	1
Stock is rarely recalled and only when a resolution is a commercial issue	1
Stock is never recalled	7
Total	32

FRAG 21/94 REPORTS INCLUDING CONTROLS OVER THE VOTING PROCESS

In recent years, as part of the due diligence process undertaken in the appointment and monitoring of third parties, it has become common practice for clients to request sight of a FRAG 21/94[9] report relating to the control environment. The Review recommended that as a matter of best practice, custodians and investment managers should include controls over the voting process in the production of FRAG 21/94 reports.

[9] The Financial Reporting and Auditing Group (now the Audit Faculty) of the Institute of Chartered Accountants in England and Wales periodically issues guidance to its members. One such guidance note was FRAG 21/94, Reports on Internal Controls of Investment Custodians Made Available to Third Parties, which the Audit Faculty updated in 1997.

The participants' responses as to whether they include the voting process in their FRAG 21/94 reports (or equivalent) are set out in Table 24. For the 21 participants that answered the question, the majority include the voting process in their FRAG 21/94 or intend to do so in the near future (for one manager the question was not relevant as they do not have external clients and 12 did not know whether voting processes were covered or not). As regards the five that do not include it, this position is likely to change as the Institute of Chartered Accountants in England and Wales has convened a working group that is looking to revise FRAG 21/94 to include control objectives that are specific for fund managers, which will address the voting process. Fund managers and the IMA are represented on the working group.

Table 24: Including the voting process in FRAG 21/94 reports or their equivalent

	30 June 2004 Number of managers
Do include the voting process	12
Will include the voting process in 2004	3
Will include the voting process in 2005	1
Do not include the voting process	5
Total	21

8 REPORTING

REPORTING TO CLIENTS

The Statement of Principles states "those that act as agents will regularly report to their clients details on how they have discharged their responsibilities. This should include a judgement on the impact and effectiveness of their engagement. Such reports will be likely to comprise both qualitative as well as quantitative information."

Participants were asked how frequently they report to clients and what they report. The results are set out in Table 25.

The majority of managers report quarterly to their clients. In 2003, it was noted that one manager did not report on the basis that it acts for its parent, an insurer and does not have any third party business. In 2004 it has started to put its voting records on its website and thus make them publicly available.

Table 25: Frequency with which managers report to clients

	30 June 2004	30 June 2003
	Number of managers	
Weekly where corporate governance clients and quarterly to others (manager C)	1	-
Monthly	-	1
Quarterly	31	29
As requested by clients	-	1
Plans to in the near future	1	1
Do not	1	1
Total	34	33

Paul Myners in his "Review of the Impediments to Voting UK Shares" recommended that managers should report to their clients on how they have executed their voting responsibilities and should "do so in a form and manner that is helpful and informative to the client" and "page upon page of statistics and tables will not suffice. Explanation is required".

The voting details that 32 participants report are set out in Table 26. All participants provide some form of explanation, particularly in instances when they have voted against the Board or consciously abstained. Table 26 also shows that participants frequently provide details of engagement other than voting.

Table 26: Voting details reported

	30 June 2004 Number of managers
All resolutions voted and where voting against the board, consciously abstaining and voting with the board in a contentious situation, then the reason	5
Bespoke reports	5
Company meetings voted, each resolution voted and where voting against the board, or consciously abstaining, then the reason	2
Company meetings voted and where voting against the board, consciously abstaining or for the board in a contentious situation, then the resolution and the reason	3
Company meetings voted and where voting against the board or consciously abstaining, then the resolution and the reason	9
Company meetings voted and where voting against the board, then the resolution and the reason	1
Company resolutions voted against the board or consciously abstained and the reason	4
Company resolutions voted against the board and the reason, one gives the holding	3
Total	32

Table 27: Other details reported

	30 June 2004 Number of managers
Meetings attended, either in summary or where there were issues	9
Matters of potential interest	8
Details of SRI	3
Other types of interaction	10
How effective their interaction has been	9

REPORTING PUBLICLY ON WEBSITE

Following a specific request, participants were asked whether they report details of engagement on their website.

The majority do not disclose details of their votes and other engagement on their websites, but are increasingly seeking to do so in that as at 30 June 2003 only two managers put voting records on their web-site, as compared to seven as at 30 June 2004. The results are summarised in Table 28.

Table 28: Reporting details publicly on website

	30 June 2004 Number of managers
Voting and other engagement on website	4
Voting only on website	3
Engagement on website	1
Details of SRI on website	1
Details on website but access restricted to clients	2
Do not put details on their website	23
Total	34

9 APPENDIX 1

THE RESPONSIBILITIES OF INSTITUTIONAL SHAREHOLDERS AND AGENTS - STATEMENT OF PRINCIPLES

1. Introduction and Scope

This Statement of Principles has been drawn up by the Institutional Shareholders' Committee[4]. It develops the principles set out in its 1991 statement "The Responsibilities of Institutional Shareholders in the UK" and expands on the Combined Code on Corporate Governance of June 1998. It sets out best practice for institutional shareholders and/or agents in relation to their responsibilities in respect of investee companies in that they will:

- set out their policy on how they will discharge their responsibilities - clarifying the priorities attached to particular issues and when they will take action - see 2 below;
- monitor the performance of, and establish, where necessary, a regular dialogue with investee companies - see 3 below;
- intervene where necessary - see 4 below;
- evaluate the impact of their activism - see 5 below; and
- report back to clients/beneficial owners - see 5 below.

In this statement the term "institutional shareholder" includes pension funds, insurance companies, and investment trusts and other collective investment vehicles. Frequently, agents such as investment managers are appointed by institutional shareholders to invest on their behalf.

This statement covers the activities of both institutional shareholders and those that invest as agents, including reporting by the latter to their institutional shareholder clients. The actions described in this statement in general apply only in the case of UK listed companies. They can be applied to any such UK company, irrespective of market capitalisation, although institutional shareholders' and agents' policies may indicate de minimis limits for reasons of cost-effectiveness or practicability. Institutional shareholders and agents should keep under review how far the principles in this statement can be applied to other equity investments.

The policies of activism set out below do not constitute an obligation to micro-manage the affairs of investee companies, but rather relate to procedures designed to ensure that shareholders derive value from their investments by dealing effectively with concerns over under-performance. Nor do they preclude a decision to sell a holding, where this is the most effective response to such concerns.

Fulfilling fiduciary obligations to end-beneficiaries in accordance with the spirit of this statement may have implications for institutional shareholders' and agents' resources. They should devote appropriate resources, but these should be commensurate with the benefits for beneficiaries. The duty of institutional shareholders and agents is to the end beneficiaries and not to the wider public.

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[10] In 1991 the members of the Institutional Shareholders' Committee were: the Association of British Insurers; the Association of Investment Trust Companies; the British Merchant Banking and Securities Houses Association; the National Association of Pension Funds; and the Unit Trust Association. In 2002, the members are: the Association of British Insurers; the Association of Investment Trust Companies; the National Association of Pension Funds; and the Investment Management Association.

2. Setting out their policy on how they will discharge their responsibilities

Both institutional shareholders and agents will have a clear statement of their policy on activism and on how they will discharge the responsibilities they assume. This policy statement will be a public document. The responsibilities addressed will include each of the matters set out below.

- How investee companies will be monitored. In order for monitoring to be effective, where necessary, an active dialogue may need to be entered into with the investee company's Board and senior management.
- The policy for requiring investee companies' compliance with the core standards in the Combined Code.
- The policy for meeting with an investee company's Board and senior management. How situations where institutional shareholders and/or agents have a conflict of interest will be minimised or dealt with.
- The strategy on intervention.
- An indication of the type of circumstances when further action will be taken and details of the types of action that may be taken.
- The policy on voting.

Agents and their institutional shareholder clients should agree by whom these responsibilities are to be discharged and the arrangements for agents reporting back.

3. Monitoring performance

Institutional shareholders and/or agents, either directly or through contracted research providers, will review Annual Reports and Accounts, other circulars, and general meeting resolutions. They may attend company meetings where they may raise questions about investee companies' affairs. Also investee companies will be monitored to determine when it is necessary to enter into an active dialogue with the investee company's Board and senior management. This monitoring needs to be regular, and the process needs to be clearly communicable and checked periodically for its effectiveness. Monitoring may require sharing information with other shareholders or agents and agreeing a common course of action.

As part of this monitoring, institutional shareholders and/or agents will:

- seek to satisfy themselves, to the extent possible, that the investee company's Board and sub-committee structures are effective, and that independent Directors provide adequate oversight; and
- maintain a clear audit trail, for example, records of private meetings held with companies, of votes cast, and of reasons for voting against the investee company's management, for abstaining, or for voting with management in a contentious situation.

companies and their advisers to ensure that information that could affect their ability to deal in the shares of the company concerned is not conveyed to them without their agreement.

4. Intervening when necessary

Institutional shareholders' primary duty is to those on whose behalf they invest, for example, the beneficiaries of a pension scheme or the policyholders in an insurance company, and they must act in their best financial interests. Similarly, agents must act in the best interests of their clients. Effective monitoring will enable institutional shareholders and/or agents to exercise their votes and, where necessary, intervene objectively and in an informed way. Where it would make intervention more effective, they should seek to engage with other shareholders.

Many issues could give rise to concerns about shareholder value. Institutional shareholders and/or agents should set out the circumstances when they will actively intervene and how they propose to measure the effectiveness of doing so. Intervention should be considered by institutional shareholders and/or agents regardless of whether an active or passive investment policy is followed. In addition, being underweight is not, of itself, a reason for not intervening. Instances when institutional shareholders and/or agents may want to intervene include when they have concerns about:

- the company's strategy;
- the company's operational performance;
- the company's acquisition/disposal strategy;
- independent directors failing to hold executive management properly to account;
- internal controls failing;
- inadequate succession planning;
- an unjustifiable failure to comply with the Combined Code;
- inappropriate remuneration levels/incentive packages/severance packages; and
  the company's approach to corporate social responsibility.

If Boards do not respond constructively when institutional shareholders and/or agents intervene, then institutional shareholders and/or agents will consider on a case-by-case basis whether to escalate their action, for example, by:

- holding additional meetings with management specifically to discuss concerns;
- expressing concern through the company's advisers;
- meeting with the Chairman, senior independent director, or with all independent
- directors;
- intervening jointly with other institutions on particular issues;
- making a public statement in advance of the AGM or an EGM;
- submitting resolutions at shareholders' meetings; and
  requisitioning an EGM, possibly to change the board.

Institutional shareholders and/or agents should vote all shares held directly or on behalf of clients wherever practicable to do so. They will not automatically support the board; if they have been unable to reach a satisfactory outcome through active dialogue then they will register an abstention or vote against the resolution. In both instances it is good practice to inform the company in advance of their intention and the reasons why.

5. Evaluating and reporting

Institutional shareholders and agents have a responsibility for monitoring and assessing the effectiveness of their activism. Those that act as agents will regularly report to their clients' details on how they have discharged their responsibilities. This should include a judgement on the impact and effectiveness of their activism. Such reports will be likely to comprise both qualitative as well as quantitative information. The particular information reported, including the format in which details of how votes have been cast will be presented, will be a matter for agreement between agents and their principals as clients.

Transparency is an important feature of effective shareholder activism. Institutional shareholders and agents should not however be expected to make disclosures that might be counterproductive. Confidentiality in specific situations may well be crucial to achieving a positive outcome.

6. Conclusion

The Institutional Shareholders' Committee believes that adoption of these principles will significantly enhance how effectively institutional shareholders and/or agents discharge their responsibilities in relation to the companies in which they invest. To ensure that this is the case, the Institutional Shareholders' Committee will monitor the impact of this statement with a view to reviewing and refreshing it, if needs be, within two years in the light of experience and market developments.

10 APPENDIX 2

Company	Parent	Principal Activity of Group in the UK
Aberdeen Asset Management	Aberdeen	Fund Manager
Aegon Asset Management	Aegon	Insurance
AXA Investment Managers	The AXA Group	Insurance
Baillie Gifford	Baillie Gifford	Fund Manager
Barclays Global Investors	Barclays	Retail Bank
Capital International	Capital International	Fund Manager
CIS	CIS	Insurance
Credit Suisse Asset Management	Credit Suisse Group	Investment Bank
Deutsche Asset Management	Deutsche Bank	Investment Bank
Fidelity Investments International	Fidelity International	Fund Manager
F & C Management	Eureko	Fund Manager
Gartmore Investment Management	Nationwide Mutual	Fund Manager
Goldman Sachs Asset Management	Goldman Sachs International	Investment Bank
Henderson Global Investors	Henderson	Fund Manager
Hermes Investment Management	Hermes Pensions Management	Fund Manager
HSBC Asset Management	HSBC	Retail Bank
Insight Investment Management	HBOS	Retail Bank
ISIS Asset Management	Friends Provident – 67%	Fund Manager
Invesco Perpetual	Amvescap	Fund Manager
JP Morgan Fleming Asset Management	JP Morgan Chase	Investment Bank
Jupiter Asset Management	Commerzbank	Investment Bank
Legal & General Investment Management	Legal & General Group	Insurance
M&G Securities	Prudential	Insurance
Martin Currie Investment Management	Martin Currie	Fund Manager
Merrill Lynch Investment Management	Merrill Lynch c	Investment Bank
Morley Fund Management	Aviva	Insurance
Newton Investment Management	Mellon	Custodian
Schroders Investment Management	Schroders	Fund Manager
SG Asset Management	Societe Generale	Investment Bank
Standard Life Investments	Standard Life Assurance	Insurance
Scottish Widows Investment Partnership	Lloyds TSB Group	Retail Bank
Threadneedle Asset Management	American Express	Retail Bank
UBS Global Asset Management	UBS	Investment Bank
Universities Superannuation Scheme	Universities Superannuation Scheme	Fund Manager

11 APPENDIX 3

Voting records of 27 managers - 1 July 2003 to 31 March 2004

	Total number of: companies; resolutions; and companies affected					Resolutions consciously abstained			Resolutions voted against the company		
	Number of investee companies	Number: Resolutions could have voted	Number: Companies affected	Number: Resolutions voted	Number: Companies affected	Number voted in total, where relevant	Number of resolutions consciously abstained	Number of companies affected	Number voted in total, where relevant	Number of resolutions voted against	Number. of companies affected
1	165	5,399	268	5,235	234	5,235	29	24	5,235	21	17
2	311	3,040*	304	3,040*	304	3,040*	18	18	3,040*	19	19
3	275	1,620*	162	1,620*	162	1,620*	38	29	1,620*	68	56
4	250	1,080	120	1,080	120	1,080	0	0	1,080	13	12
5	73	471	49	471	49	471	3	3	471	5	5
6	675	3,807	413	3,807	413	3,807	170	122	3,807	145	88
7	1,150	4,300	350	1,100	70	1,100	18	15	110	12	10
8	1,000	3,000	375	3,000	375	3,000	10	7	3,000	40	35
9	Not relevant	Not relevant	Not relevant	Not relevant	Not relevant	N/a	N/a	N/a	N/a	N/a	N/a
10	214	911	122	911	122	911	91	68	911	15	9
11	719	4,902	382	4,902	382	4,902	14	14	4,902	93	79
12	781	3,408	437	3,408	437	3,408	11	9	3,408	184	112
13	800	2,780	287	2,780	287	2,780	13	10	2,780	13	9
14	932	4,210	494	4,210	494	4,210	3	3	4,210	17	8
15	1,000	2,869	415	2,869	415	2,869	1	1	2,869	62	53
16	700	4,000	345	4,000	345	4,000	2	1	4,000	58	38
17	800	4,650	465	4,650	465	4,650	27	25	4,650	19	14
18	400	3,454	314	3,454	314	3,454	37	26	3,454	19	15
19	930	8,250*	825	8,250*	825	8,250	0	0	8,250	102	44
20	300	5,772***	594***	5,772	594	5,772	208	127**	5,772	246	147**
21	Not relevant	Not relevant	Not relevant	Not relevant	Not relevant	N/a	N/a	N/a	N/a	N/a	N/a
22	800	4,550	455	4,450	445	4,450	79	79	4,450	38	38
23	350	1,693	161	1,693	161	1,693	13	8	1,693	13	11
24	1,000	5,591	584	5,591	584	5,591	155	95**	5,591	234	140**
25	850	4,221	454	4,103	426	4,103	695	318	4,103	130	92
26	1,750	9,459	1,076	9,459	1,076	9,459	397	243**	9,459	772	353
27	1,000	4,460	500	4,460	500	4,460	160	115	4,460	375	212
	17,225	97,897	9,951	94,315	9,599	94,315	2,192	1,360	94,315	2,713	1,616

*Where the number of resolutions is not known it has been assumed that the investee companies had one meeting with 10 resolutions.
**Where the number of companies affected is not known then a proportion of the number of meetings has been taken based on the sum of the two columns.
***Where details are not known it has been assumed that the resolutions that could have been voted is the same as those actually voted.

N/a means information not available in which instances certain information is "not relevant".

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Voting records of 27 managers - 1 April 2004-30 June 2004

	Total number of: companies; resolutions voted; and companies affected					Resolutions consciously abstained			Resolutions voted against the company		
	Number of investee companies	Number: Resolutions could have voted	Number: Companies affected	Number: Resolutions voted	Number: Companies affected	Number voted in total, where relevant	Number of resolutions consciously abstained	Number of companies affected	Number voted in total, where relevant	Number of resolutions voted against	Number. of companies affected
1	165	4,270	150	4,228	143	4,228	26	20	4,228	23	12
2	311	1,630*	163	1,630*	163	1,630*	17	17	1,630*	9	9
3	275	1,610*	161	1,610*	161	1,610*	70	57	1,610*	20	9
4	250	1,301	135	1,301	135	1,301	3	3	1,301	16	15
5	73	708	71	708	71	708	6	5	708	8	8
6	675	3,962	358	3,962	358	3,962	253	165	3,962	213	96
7	1,150	11,880	800	3,690	270	3,690	5	5	3,690	6	4
8	1,000	2,250	425	2,250	425	2,250	10	6	2,250	70	65
9	850	5,280*	528	5,280*	528	5,280*	80	70	5,280*	108	86
10	214	1,108	112	1,108	112	1,108	143	58	1,108	29	19
11	719	3,872	352	3,872	352	3,872	18	18	3,872	10	10
12	781	3,593	330	3,593	330	3,593	6	5	3,593	122	89
13	800	3,532	310	3,532	310	3,532	22	14	3,532	31	19
14	932	3,519	355	3,519	355	3,519	20	17	3,519	26	18
15	1,000	4,306	474	4,306	474	4,306	2	1	4,306	66	45
16	700	4,700	365	4,700	365	4,700	2	1	4,700	58	30
17	800	3,310	331	3,310	331	3,310	26	23	3,310	3	3
18	400	2,321	211	2,321	211	2,321	37	33	2,321	20	20
19	930	3,360*	336	3,360*	336	3,360	0	0	3,360	40	23
20	300	2,910***	266***	2,910	266	2,910	76	46**	2,910	94	66**
21	560	4,284	313	4,284	313	4,284	15	14	4,284	4	4
22	800	3,410	341	3,260	326	3,260	55	55	3,260	19	19
23	350	2,110	179	2,110	179	2,110	3	3	2,110	16	14
24	1,000	5,424	427	5,424	427	5,424	118	72**	5,424	215	150**
25	850	4,643	424	4,563	412	4,563	675	318	4,563	329	160
26	1,750	11,712	1,246	11,712	1,246	11,712	340	206**	11,712	1,129	885
27	1,000	4,282	410	4,282	410	4,282	158	114	4,282	298	168
	18,635	105,287	9,573	96,825	9,009	96,825	2,186	1,346	96,825	2,982	2,046

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Voting records of 24 managers - 1 April 2003 to 30 June 2003

	Total number of: investee companies; resolutions voted; and companies affected			Number of resolutions voted with company in a contentious situation and the number of companies affected			Number of resolutions voted against the company or consciously abstained and the number of companies affected		
	Number of investee companies as at 30 June 2003	Number of resolutions voted in total	Number of companies affected	Voted in total, where relevant	Voted with the company in a contentious situation	Number of companies affected	Voted in total, where relevant	Voted against or consciously abstained	Number. of companies affected
1	150	295	24	Not relevant	N/a	N/a	295	66	14
2	320	1,430*	143	1430*	45	33	1,430*	40	28
3	260	1,250*	125	Not relevant	N/a	N/a	1250*	65	45
4	260	1,316	125	1,316	1	1	1,316	26	20
5	71	698	62	Not relevant	N/a	N/a	698	21	11
6	200	960*	96	960*	5	4	960*	5	4
7	1,000	2,500	500	2,500	10	10	2,500	6	6
8	1,100	6,410*	641	6,410*	2	2	6,410*	217	131
9	150	1,231	102	1,231	0	0	1,231	171	74
10	800	3,843	403	Not relevant	N/a	N/a	3,843	24	9
11	800	3,857	392	Not relevant	N/a	N/a	3,857	205	145
12	950	3,170	297	Not relevant	N/a	N/a	3,170	248	140
13	600	3,167	314	3,167	30	20	3,167	17	11
14	400	5,426	432	5,426	2	2	5,426	99	63
15	900	2,531	261	Not relevant	N/a	N/a	2,531	177	77
16	700	4,000	38	4,000	29	29	4,000	36	21
17	800	3,463	338	Not relevant	N/a	N/a	3,463	36	29
18	N/a	2,340	234*	2,340	80	56	2,340	58	37
19	1,000	4,045	416	4,045	5	5	4,045	586	293
20	851	3620*	362	Not relevant	N/a	N/a	3,620*	117	49
21	N/a	2,851	285*	Not relevant	N/a	N/a	2,851	323	N/a
22	317	1,520*	152	1520*	33	33	1,520*	12	12
23	1,000	Not relevant	Not relevant	Not relevant	N/a	N/a	Not relevant	N/a	N/a
24	N/a	3,991	399	Not relevant	N/a	N/a	3,991	837	317
	12,629	48,724	6,141	24,025	195	195	48,724	3,392	1,536

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How managers voted on particular resolutions

Company and date of meeting	Resolution	Managers with an interest	Voted for	Voted against	Conscious Abstent.
Incepta 2/7/04	To approve the Remuneration report (6).	21	8	11	2
Burberry Group 15/7/03	To approve the Remuneration report (2).	9	-	8	1
British Land 18/7/03	To re-elect Dr Christopher Gibson-Smith (4).	23	21	1	1
Cordiant Communications Group plc 23/7/03	To remove: • Nigel John Stapleton (1)	11	2	8	1
	• David Lovat Gordon Heard (2)		2	8	1
	• Andrew Kenneth Boland (3).		2	8	1
	To appoint: • Richard John Norwood Wheatley as director and executive chairman (4)		2	8	1
	• Stephen James Davidson as director and finance director (5).		2	8	1
Cable & Wireless 25/7/03	To approve Remuneration report (2)	22	12	5	5
	To re-elect: • Richard Lapthorne (3)		20	1	1
	• Anthony Rice (7)		21	1	-
	• Bernard Gray (8).		21	1	-
British Sky Broadcasting Group Plc 14/11/03	To elect James Murdoch as a Director (3)	25	13	9	3
	To elect Chase Carey as a Director (4).		11	10	4
	To re-elect Lord St John of Fawsley as a Director (6).		3	20	2
	To approve the Remuneration report (9).		5	20	-
Associated British Foods plc 5/12/03	To approve Remuneration report (2).	21	9	5	7
	To re-elect the Rt Hon Lord MacGregor as a director (4).		19	1	1

How managers voted on particular resolutions

Hays Plc 18/12/03	To approve the proposed disposal of the trading operations and certain assets of the logistics division (1).	22	20	-	2
Allied Domecq 31/1/04	To approve Remuneration report (3).	22	10	8	4
Compass Group plc 16/2/04	To approve Remuneration report (2).	23	8	11	4
Liberty International 31/3/04	To re-elect: • D Bramson (5)	19	14	2	3
	• M Rapp (7)		11	5	3
	To approve Remuneration report (9).		13	4	2
Eurotunnel S A 7/4/04	To dismiss all members of the Board and related matters (1).	12	5	5	2
BP Plc 15/4/04	To instruct the company to prepare a report making certain disclosures on matters of control and risk in protected and sensitive areas (17).	25	2	23	-
WPP 16/4/04	To approve the adoption of draft rules of the 2004 Leadership Acquisition Plan (1).	22	9	9	4
ITV Plc 19/4/04	To re-elect: • John McGrath (4)	23	16	2	5
	• Etienne de Villiers (7)		16	2	5
	• Sir Brian Pitman (5)		16	1	6
George Wimpey Plc 22/4/04	To re-elect J M Blackburn (4).	20	20	-	-
Abbey National plc 22/4/04	To approve Remuneration report (2).	22	15	2	5
Carnival P&O 22/4/04	To re-elect: • Micky Arison (1)		16	6	-
	• Richard G Capen Jr (2),		17	2	3
	• Arnold Donald (4),		16	3	3
	• Pier Luigi Foschi (5)		16	4	2
	• A Kirk Lanterman (8)		19	2	1
	• Modesto Madique (9),		16	3	3

How managers voted on particular resolutions

	• John P McNulty (10),		15	4	3
	• Stuart Subotnick (13)		16	3	3
	• Uzi Zucker (14)		17	3	2
	To approve Remuneration report (18).		14	8	-
Northern Rock 27/4/04	To approve Remuneration report (8).	22	13	3	6
Alliance & Leicester 4/5/04	To re-elect F Cairncross (7).	21	19	-	2
BAE Systems 5/5/04	To approve Remuneration report (2).	23	13	4	6
Trinity Mirror plc 6/5/04	To approve political donations: • by MGN Ltd (7)	21	16	5	-
	• Scottish Daily Record and Sunday Mail Limited (8)		16	5	-
	• Trinity Mirror Regionals Plc (9).		16	5	-
Psion plc 14/5/04	To receive and consider the audited financial statements and reports of the directors and auditors for the year ended 31 December 2003 (1).	12	11	-	1
	To approve Remuneration report (2).		2	8	2
Cadbury Schweppes PLC 21/5/04	To approve Remuneration report (3).	25	18	3	4
SMG Plc 4/6/04	To re-elect: • Calum MacLeod (5)	17	15	1	1
	• Allan Shiach (7)		13	1	3
	To approve Remuneration report (9).		7	4	6
Caledonia Investments plc 11/6/04	To approve the proposed amendment to the Articles of Association to extend the Board's powers to re-issue shares from treasury up to a specified amount as if Section 89 of the Companies Act 1985 did not apply (2).	18	12	4	2

How managers voted on particular resolutions

	To authorise the Company to allot or issue shares from treasury up to the amount proposed as if Section 89 did not apply (3).		12	4	2
	To grant the Company the authority to make market purchases of its own shares (4).		13	3	2
	To approve the waiver of the obligation that could arise on the Concert Party pursuant to the City Code on Takeovers and Mergers to make a general offer for all of the issued ordinary share capital following the purchases of ordinary shares by the Company (5).		10	6	2
Signet Group 9/6/04	To approve Remuneration report (2).	21	13	5	3
Whitbread Plc 15/6/04	To approve Remuneration report (2).	20	17	1	2
Laura Ashley Holdings Plc 17/6/04	To re-elect: • Ms Lillian Tan Lian Tee (2)	8	5	1	2
	• David Walton Masters (3)		6	2	-
	• Nick Ashley (4)		3	2	2
	To approve Remuneration report (6).		3	2	3
	To authorise the directors to allot relevant securities pursuant to section 80 of the Companies Act, having an aggregate nominal value of up to £12,309,584 (7).		8	-	-
	To authorise the directors to allot securities, under section 95, wholly paid up in cash to an aggregate nominal amount of £3,730,177 (9).		4	3	1
Body Shop International plc 24/6/04	To approve Remuneration report (2).	12	2	5	5
	To re-elect Dame Anita Roddick (4).		9	1	2
WPP 28/6/04	To approve Remuneration report (8).	21	11	5	5
	To approve amendments to and the partial deferral of the awards under the Capital Investment Plan (9).		19	1	1
Total			816	329	162

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