

# UK Proxy Voting Policy

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# Section 1: UK Proxy Voting Policy

## A Global Approach

There are common elements which underpin good corporate governance. Our principles build on these common elements and are formulated to embrace the different models that exist and apply these principles globally. As global equity investors, RCM also recognises international variations in corporate culture, accounting standards and requirements, regulatory environments, legal frameworks and voluntary disclosures.

## UK Proxy Voting Policy

RCM's UK proxy voting policy is directly informed by the National Association of Pension Funds ("NAPF") approach to corporate governance and proxy voting as set out in its Guidelines (the "NAPF Guidelines") dated November 2007.

The NAPF Guidelines have themselves been written in accordance with the Combined Code on Corporate Governance (the "Code"). The Code applies to all companies listed on the Main Market of the London Stock Exchange, irrespective of domicile.

Our view is that such an approach, although formulated in the UK, can be applied globally. The NAPF Guidelines also specifically acknowledge the importance of the work of the UK Pre-Emption Group in matters relevant to equity issuance generally and the rights of existing shareholders.

Our overall approach therefore rests on the UK corporate governance model (loosely referred to as the "comply or explain" model) but gives us the flexibility of scrutinising issues on a case by case basis where we believe that such an approach adds value for our clients.

## RCM's commitment

RCM takes its obligation to exercise voting authority over shares in all its investment portfolios on a global basis very seriously.

We recognise that shareholder resolutions increasingly contain controversial issues involving, *inter alia*, shareholder rights, corporate governance and social and environmental concerns.

We believe that the exercise of proxy voting has an economic impact for our clients; it is therefore our fiduciary duty to cast votes in such a way that preserves and enhances the value of our client investments.

RCM's corporate governance objectives are summarised as:

- Our primary aim is to maximise shareholder value by securing good corporate performance. We aim to protect this value by ensuring that our investee companies operate within the framework of the Code;
- We believe that the social and environmental consequences of corporate activity are increasingly important to some of our clients and are in any event important factors in determining the creation and maximisation of shareholder value over the long term. We can tailor our approach to suit the specific requirements of our clients; ordinarily we apply the NAPF Guidelines as our basic voting approach.

We have developed good coverage of the major markets around the world and have contracted with specialised outside service agencies to enable us to expand coverage in other markets where shareholder information is not readily available. RCM votes in all markets wherever possible (save where share-blocking is a local requirement), and makes every effort to encourage both improved levels of disclosure among companies and proper voting infrastructure among custodians and agents globally.

## **UK Proxy Voting Committee**

The UK Proxy Voting Committee is responsible for formulating RCM's approach to proxy voting for its UK client base. In addition to setting policy, the UK Proxy Voting Committee reviews specific corporate governance issues raised by our London based portfolio managers and instructs the casting of votes in relation to these issues. The UK Proxy Voting Committee works in tandem with RCM's operations team, RiskMetrics (our appointed proxy voting agency) and custodians to ensure that our clients' votes are cast accurately and in time. The UK Proxy Voting Committee maintains close contact with the Proxy Voting Committees in Europe, US and Asia Pacific to ensure consistency globally.

## **Corporate Governance Guidelines**

Part 2 of this document sets out a summary of RCM's Corporate Governance Guidelines which are largely drawn from the NAPF Guidelines. It must be emphasised that this summary is not intended to be exhaustive. Our approach is deliberately flexible in order to permit divergence from these guidelines where we believe it is in our clients' best interests to do so.

RCM's guidelines are reviewed on a regular basis and revised when the UK Proxy Committee determines that a change is appropriate or that the guidelines need to be supplemented to address a new issue. The guidelines set out our general approach to certain issues and are applied consistently for all clients save where a specific clients' has requested that RCM applies a voting approach other than that endorsed by the NAPF.

It should be noted that whilst RCM ensures that its voting agent, RiskMetrics, casts all votes in accordance with our clients' mandates, it is generally not practical or cost effective for us to scrutinise each proxy on an individual basis.

Our approach to voting proxies is therefore to employ RiskMetrics to cast all routine and non-contentious proxies (principally routine shareholder resolutions to be proposed at Annual General Meetings or their overseas equivalent) in accordance with the NAPF Guidelines. RCM devotes its time and effort to the scrutiny of more contentious issues including all resolutions proposed at Extraordinary General Meetings of our investee companies. Responsibility for determining our approach with regard to a specific voting issue rests with the UK Proxy Voting Committee.

## **UK Proxy Voting Officer**

The UK Proxy Voting Officer is responsible for chairing the UK Proxy Voting Committee, ensuring that RCM's Voting Guidelines are in line with current best practice and acts as a link between portfolio managers, other RCM offices around the world, RiskMetrics and the RCM operations team.

## **Conflicts of Interest**

RCM may have a conflict of interest that affects how it votes on behalf of a client. Irrespective of the specific issue, votes are only cast in the best interest of the client that 'owns' the vote. For this reason, RCM will not vote shares in one client's account in a manner designed to benefit or accommodate any other client.

In order to ensure that all material conflicts of interest are addressed appropriately while carrying out its obligation to vote proxies, the UK Proxy Voting Committee is responsible for addressing how RCM resolves such material conflicts of interest with its clients.

## Section 2: Corporate Governance Guidelines

This section covers some of the areas that the UK Proxy Voting Committee considers when determining how to vote client proxies on contentious shareholder resolutions, principally at Extraordinary General Meetings. This section is not intended to be an exhaustive summary of our approach but should provide our clients with a general guide to RCM's approach to certain issues.

### Report and Accounts

Reports and accounts should be both detailed and transparent. They should meet accepted reporting standards, and company accounts should employ International Financial Reporting Standards or, in certain jurisdictions, local Generally Accepted Accounting Practice (GAAP). Reports should meet with the spirit as well as the letter of reporting standards.

Legal disclosures vary from market to market. If, in our opinion, a company's standards of disclosure (whilst meeting minimum legal requirements) are insufficient, we will either abstain to signal our concern, or vote against, depending on the circumstances. Similar consideration would relate to the use of inappropriate accounting methods.

### Auditors

#### Auditor independence

Auditors should provide an independent and objective check on the way in which the financial statements have been prepared and presented.

RCM will vote against the appointment of auditors in cases where their independence is perceived to be compromised. The length of time they have served in their capacity with a given company may be taken into account when determining perceived independence.

#### Auditor remuneration

Companies should be encouraged to delineate clearly between audit and non-audit fees. Audit committees should keep under review the non-audit fees paid to the auditor and in relation to the company's total expenditure on consultancy.

### Directors

#### Chairman and CEO

There should be a clearly accepted division of responsibility at the head of a company, such that no one individual has unfettered powers of decision. RCM believes that the roles of Chairman and Chief Executive Officer should be separate. RCM is supportive of the role of a Senior Independent Non-Executive Director. RCM will generally vote against combined posts of Chairman and Chief Executive Officer.

#### Independent directors

RCM favours Boards that consist of at least half by number (excluding the Chairman) of independent directors who demonstrate a commitment to creating shareholder value. RCM also believes that key Board committees (audit, compensation, and nomination) should include only independent directors to assure that shareholder interests will be adequately addressed.

#### Election of directors

Contentious votes on director nominees are reviewed on a case-by-case basis. When evidence demonstrates a conflict of interest or a poor performance record for a specific candidate, RCM may "withhold" votes from director nominees. RCM considers Board elections to be one of the most important voting decisions that shareholders make. For executive directors we generally vote against notice periods longer than one year to avoid inappropriately large payouts in the event of early termination.

### **Director remuneration**

RCM believe that the specific amounts and types of employee compensation are within the ordinary business responsibilities of the Board and the Company management. However, the remuneration of Directors should be determined by independent remuneration committees and fully disclosed to shareholders.

### **Director indemnification and liability**

RCM will vote against proposals that would limit or eliminate all liability for damages, for Directors and officers who violate the duty of care.

## **Incentive plans**

RCM will vote in favour of schemes with appropriate incentive structures and challenging performance criteria, and vote against those which are excessive or have performance criteria which are undemanding. Full details of each Director's share options should be disclosed, including exercise prices and expiry dates. A summary of any performance criteria should be included. Share options should never be issued at a discount. Unless there is evidence that a plan would have a positive economic impact on shareholder value, we generally vote against plans that result in excessive dilution or contain negative provisions, such as re-pricing or replacing of underwater options without shareholder approval.

## **Issue of equity**

RCM will vote in favour of increases in capital, which enhance a company's long-term prospects. RCM will generally vote against the issuance of equity capital (where this is greater than 10% of the equity capital) in instances where the pre-emption rights of existing investors are not respected or where there is not a satisfactory explanation as to why pre-emption rights have not been observed. We will also oppose attempts by Companies to seek authorities to issue shares that are not sanctioned by shareholders on an annual basis.

## **Issue of debt**

Reasons for increased bank borrowing powers are many and varied, including allowing normal growth of the company and the financing of acquisitions. RCM will vote in favour of proposals which enhance a company's long-term prospects. We will vote against an increase in borrowing powers which may result in the company reaching an unacceptable level of financial leverage.

## **Share repurchase programmes**

Boards may instigate share repurchase or stock buy-back programs for a number of reasons. RCM will vote in favour of such programmes where the repurchase would be in the best interests of shareholders.

## **Mergers and acquisitions**

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As a general rule, RCM will vote in favour of mergers and acquisitions where the proposed acquisition price represents fair value, where shareholders cannot realise greater value through other means, and where all shareholders receive fair and equal treatment under the merger/acquisition terms.

### **Anti-takeover mechanisms**

RCM does not support the adoption of poison pills on the grounds that they serve to entrench management. Improperly structured rights plans, excessive borrowings etc. have been used by boards to ward off offers which would otherwise have been beneficial to shareholders. Current owners should decide who will own the company, with advice and negotiation from the Board and management.

### **Voting rights**

RCM believes in the fundamental principle of “one share, one vote” and will encourage the elimination of dual voting rights or classes of share with restricted voting rights where they exist, and oppose attempts to introduce new ones. We feel that Directors should represent shareholders equally and not specific interest groups. Similarly, we will generally oppose amendments to require a supermajority (i.e. more than 51%) votes to approve mergers, consolidations or sales of assets or other business combinations.

### **Social and environmental responsibility**

RCM reviews shareholder proposals concerning social, environmental and ethical issues on a case by case basis to the extent that they apply to client portfolios that have specifically instructed us to adopt this approach to corporate governance and proxy voting. Consideration will be given to the circumstances of a particular social, environmental or ethical issue and whether this may have economic consequences, either directly or indirectly for the company. In these cases, the economic effects are considered in determining our vote. Our dedicated SRI team encourage coherent and informative opinions on best practice for all industries globally, guided by national and international law and voluntary codes of good practice developed by authoritative bodies. In instances where companies do not fully disclose their policies and approach towards the management of important environmental and social issues, the SRI Team will engage with company management.

