PIRC

Shropshire County Council Pension Authority

Proxy Voting Review
January 2011 – March 2011

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UK Voting Review

TUI Travel plc AGM 3rd February

The role of the auditor was an issue at TUI Travel.

PricewaterhouseCoopers LLP proposed replacing KPMG Audit which had decided not to seek re-election following the discovery of serious reporting inaccuracies. Consultancy-related non-audit fees of GBP 3m paid to KPMG were equivalent to approximately 100% of the audit fee during the year, and were equivalent to 60% of total audit fees on a three-year aggregate basis. This raised independence concerns over the external auditors. Given this fee ratio applied to the now former auditors, this was not a concern in itself and we will monitor non-audit fee levels. However, PWC were the incumbent auditor at the predecessor company where fundamental flaws in internal controls led to the reporting inaccuracies which led to the resignation of KPMG, that subsequently discovered these issues. The company was seeking to reinstate PWC as auditor of the continuing entity which we regarded as unacceptable. We therefore recommended shareholders oppose the appointment.

We also recommended that shareholders oppose the appointment of a number of directors. Dr Michael Frenzel, chairman had material links to TUI AG, the controlling shareholder with 54.92% of the issues share capital. PIRC considered this to have potentially serious implications for his capacity to act in an independent and impartial manner and therefore recommended opposition.

Non-executive Tony Campbell was not considered independent by PIRC due to his length of tenure on the boards of First Choice and TUI Travel. We were also concerned that Mr Campbell was unable to attend a full board meeting and one of each of the audit committee and remuneration committee – the company had explained that this was due to clashes with directorial obligations outside the company. However, given the situation at the company in relation to accounting irregularities, missing audit committee meetings was a serious concern. We recommended opposition.

Non-executive director Rainer Feuerhake was not considered independent by PIRC as he was formerly the CFO of TUI AG. We considered there to be insufficient independent representation on the Board and therefore recommended opposition.

Finally, we also recommended that shareholders oppose the remuneration report. Disclosure was considered adequate in terms of cash remuneration, share awards and pension arrangements. However, the company had not quantified the performance conditions for their annual bonus scheme. The TSR target under the DABS and PSP were considered challenging. We also welcomed the use of an underpin for awards to start to vest. EPS targets were not considered challenging in light of broker forecasts, and the same targets were used in two different plans, which did not offer an adequately wide range of criteria. Overall, the remuneration package was considered to be potentially excessive in light of all the schemes under operation as a multiple of basic pay, exacerbated given the CEO's salary ranked at the top end of the comparator group.

UK Voting Analysis

Table 1: Top Oppose Votes

	Company	Type	Date	Resolution	Proposal	Funds Vote	Oppose %
1	BELLWAY PLC	AGM	07 Jan 11	8	Issue shares with pre-emption rights	Abstain	9.48
2	MISYS PLC	EGM	11 Feb 11	2	Issue shares with pre-emption rights	For	7.79
3	CHEMRING GROUP PLC	AGM	24 Mar 11	16	Meeting notification related proposal	For	6.85
4	TUI TRAVEL PLC	AGM	03 Feb 11	20	Appoint the auditors	Oppose	6.30
5	TUI TRAVEL PLC	AGM	03 Feb 11	22	Issue shares with pre-emption rights	For	4.76
6	BELLWAY PLC	AGM	07 Jan 11	7	Approve the Remuneration Report	Oppose	3.11
7	TUI TRAVEL PLC	AGM	03 Feb 11	4	To re-elect Dr Michael Frenzel	Oppose	2.86
8	TUI TRAVEL PLC	AGM	03 Feb 11	10	To re-elect Rainer Feuerhake	Oppose	2.84
9	BELLWAY PLC	AGM	07 Jan 11	3	To re-elect Mr AM Leitch	Oppose	2.71
10	TUI TRAVEL PLC	AGM	03 Feb 11	19	To re-elect Horst Baier	Oppose	2.22

Note: Levels of opposition percentage represent opposition votes cast as a percentage of all votes cast either in favour or against a resolution.

Table 2: Votes by Resolution

Resolution Type	For	%	Abstain	%	Oppose	%	Withdrawn	%	Total
All Employee Schemes	0	0	0	0	0	0	0	0	0
Annual Reports	2	33	1	16	3	50	0	0	6
Articles of Association	1	100	0	0	0	0	0	0	1
Auditors	3	60	1	20	1	20	0	0	5
Corporate Actions	0	0	1	100	0	0	0	0	1
Corporate Donations	0	0	0	0	0	0	0	0	0
Debt & Loans	0	0	0	0	0	0	0	0	0
Directors	17	70	0	0	5	20	2	8	24
Dividend	4	100	0	0	0	0	0	0	4
Executive Pay Schemes	0	0	0	0	0	0	0	0	0
Miscellaneous	3	100	0	0	0	0	0	0	3
NED Fees	0	0	0	0	0	0	0	0	0
Non Voting	0	0	0	0	0	0	0	0	0
Say On Pay	0	0	0	0	0	0	0	0	0
Share Capital Restructuring	1	100	0	0	0	0	0	0	1
Share Issue/Re-purchase	9	75	3	25	0	0	0	0	12
Shareholder Resolution	0	0	0	0	0	0	0	0	0
Undefined	2	100	0	0	0	0	0	0	2

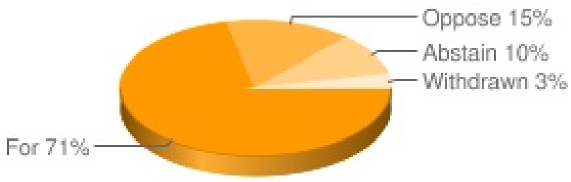
UK Voting Charts

These graphs include meetings where the client held a voting entitlement exercisable by PIRC according to portfolio details communicated to PIRC prior to execution of the vote.

Total Resolutions	
For	42
Oppose	9
Abstain	6
Withdrawn	2
Total	59

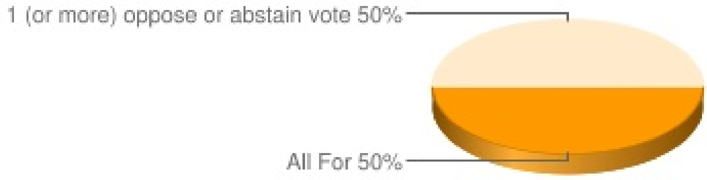
Meetings	AGM	EGM	Total
Total Meetings	3	2	5
1 (or more) oppose or abstain vote	3	1	4

UK Voting Record



UK AGM Record

UK EGM Record



UK Voting Timetable Q1 2011

List of meetings held throughout the period in the fund's portfolio.

Voted Meetings

Table 3: Meetings voted in the quarter

	Company	Meeting Date	Type	Date Voted
1	BELLWAY PLC	07 Jan 11	AGM	2010-12-17
2	TUI TRAVEL PLC	03 Feb 11	AGM	2011-01-21
3	CHEMRING GROUP PLC	24 Mar 11	AGM	2011-03-07

Not Voted Meetings

Table 4: Meetings not voted in quarter

	Company	Meeting Date	Type	Reason Not Voted
1	MISYS PLC	11 Feb 11	**EGM**	No ballot
2	MISYS PLC	11 Feb 11	**EGM**	No ballot

UK Upcoming Meetings Q2 2011

List of meetings scheduled to be held throughout the period by UK companies currently in the fund's portfolio.

Table 5: Upcoming Meetings

	Company	Meeting Date	Type
1	SMITH & NEPHEW PLC	14 Apr 11	AGM
2	BP PLC	14 Apr 11	AGM
3	RIO TINTO GROUP (GBP)	14 Apr 11	AGM
4	ROYAL BANK OF SCOTLAND GROUP	19 Apr 11	AGM
5	ANGLO AMERICAN PLC	21 Apr 11	AGM
6	ROTORK PLC	21 Apr 11	AGM
7	BARCLAYS PLC	27 Apr 11	AGM
8	ASTRAZENECA PLC	28 Apr 11	AGM
9	PEARSON PLC	28 Apr 11	AGM
10	JARDINE LLOYD THOMPSON GROUP	28 Apr 11	AGM
11	BERENDSEN PLC	28 Apr 11	AGM
12	BAE SYSTEMS PLC	04 May 11	AGM
13	WEIR GROUP PLC	04 May 11	AGM
14	RIGHTMOVE PLC	04 May 11	AGM
15	SAVILLS PLC	04 May 11	AGM
16	GKN PLC	05 May 11	AGM
17	GLAXOSMITHKLINE PLC	05 May 11	AGM
18	MONDI PLC	05 May 11	AGM
19	LANCASHIRE HOLDINGS LTD	05 May 11	AGM
20	CENTRICA PLC	09 May 11	AGM
21	SERCO GROUP PLC	09 May 11	AGM
22	CAPITA GROUP PLC	10 May 11	AGM
23	SPIRAX-SARCO ENGINEERING PLC	10 May 11	AGM
24	MARSHALLS	11 May 11	AGM
25	UNILEVER PLC	11 May 11	AGM
26	BOVIS HOMES GROUP PLC	11 May 11	AGM
27	ITV PLC	11 May 11	AGM
28	BG GROUP PLC	12 May 11	AGM
29	INCHCAPE PLC	12 May 11	AGM
30	AMLIN PLC	12 May 11	AGM
31	ARM HOLDINGS PLC	12 May 11	AGM
32	EVOLUTION GROUP PLC	17 May 11	AGM
33	ROYAL DUTCH SHELL PLC	17 May 11	AGM
34	STANDARD LIFE PLC	17 May 11	AGM
35	CSR PLC	18 May 11	AGM
36	RESOLUTION LTD	18 May 11	AGM
37	RSA INSURANCE GROUP PLC	23 May 11	AGM
38	HSBC HLDGS PLC	27 May 11	AGM
39	ANTOFAGASTA PLC	08 Jun 11	AGM
40	HISCOX LTD	08 Jun 11	AGM
41	MORRISON (WM) SUPERMARKETS	09 Jun 11	AGM

42	MEARS GROUP PLC	09 Jun 11	AGM
43	KINGFISHER PLC	17 Jun 11	AGM
44	WHITBREAD PLC	22 Jun 11	AGM

US Corporate Governance Review

Boston Common drops Cisco

Failed human rights commitment and dubious voting results led Boston Common to divest its Cisco holdings.

The US investment manager, which specialises in sustainable and responsible equity, led a coalition worth 20 million Cisco shares against the company since 2005 over its failed human rights risk management and unwillingness to engage on the issue. Boston Common also citied Cisco's manipulation of proxy voting results, which calculated proxy results using two different methods to downplay shareholder sponsored votes. After another failed attempt by Cisco to address Boston Common's concerns at the company annual meeting in November, the asset manager was instructed by its environmental, social and governance team to divest.

Since 2006, Cisco has appeared in federal court twice regarding its human rights activities and involvement in the marketing of equipment to the Chinese Ministry of Public Security.

US firms poor on GHG reporting

Just a handful of smaller companies listed in the Russell 2000 index disclosed greenhouse gas emissions (GHG), according to new research.

Risk and Opportunity in a Low-Carbon Business Climate: Small and Mid-Caps and Climate Change, a report by Helen Mou, Sustainability Intern at Pax World Management and Climate Fellow at Clean Air-Cool Planet, analyzed the reporting activities of 364 companies listed on the Russell 2000 index of small to medium businesses representing the top 50% of market capitalisation since 2009. Just four companies - Timberland, Otter Tail, Green Mountain Coffee Roasters and Jet Blue - disclosed their GHG emissions.

Results suggested that corporate social responsibility (CSR) or sustainability reports are not universal as climate-related risks have a greater chance of being disclosed by higher-emitting sectors within the group. Not a startling fact given that little pressure has been placed on these businesses. In fact, only 56 firms in the research published these reports whereas only 39 (10.7%) acknowledge climate change.

The dismal outcome was a far cry from the Carbon Disclosure Project's (CDP) 2010 S&P 500 report that found a 59% increase in GHG reporting with 54% including such data in their annual corporate reports.

One head is better than two

The award for least convincing argument in favour of combined chair and chief executive roles went to Rockwell Automation.

The US based firm said it has combined the roles of Chairman and CEO "to enhance the Board's effectiveness in overseeing risk." To us that read like they are saying that it's better to have just one set of eyes looking over risk than two.

Call for corporate board shake-up

Corporate board structures were the root cause of the present state of ineffective institutional reform according to a recent article in the Wall Street Journal.

In the opinion piece, Robert C. Pozen, chairman emeritus of MFS Investment Management and senior lecturer at Harvard Business School calls for a reshaping of the business model. He claims that an excessive number of board members with little relevant experience and a misdirected emphasis on procedure contribute to the weakened state of professional boards. Instead, Pozen suggests boards should comprise fewer but more proficient members who can allocate the time necessary to maintain the accountability of management.

Citing a theory utilised by Harvard psychologist Richard Hackman known as ‘social loafing,’ Pozen claims groups of individuals consisting of more than six or seven are less productive as they rely on others in the group to achieve the group’s goal. The average number of board members among the S&P 500 in 2009 was 11.

He also disagrees with the amount of time typically allocated to board business – one day face-to-face, every other month. Instead, he argues that for an outside director to be effective, at least two days per month should be dedicated to company business.

Pozen refutes any possible objection to his proposal on the grounds that roles of the board and management may become blurred given that “although the new model will give power to professional directors, it would not empower them to cross the line into day-to-day operations.”

Rather than implementing more procedures for corporate boards, he suggests increasing the number of proficient directors who view their board role as their principal profession.

Governance failures and the crisis

Failures in corporate governance and risk management at major financial institutions were key factors in the economic crisis, according to the report of the Financial Crisis Inquiry Commission (FCIC) in the US.

The FCIC’s report pointed to the widely misguided attitude among those in financial firms that regulation would inhibit innovation and that any form of risk-taking would, in turn, be shielded by the firm’s own survival instincts. Mathematical models replaced judgement in many instances at both credit rating agencies and financial institutions.

Citigroup CEO informed the Commission that a “$40 billion position in highly rated securities would not in any way have excited my attention,” while the co-head of Citigroup’s investment bank stated that only “a small fraction of 1%” of his time was spent on those securities.

In an environment where short-term gains became priority and “cheap money, intense competition and light regulation” the norm, any long-term consequences of these activities fell by the wayside. The result? Over 26 million Americans unemployed, 8.5 million without homes or have slipped into foreclosure and a loss of almost $11 trillion in household wealth. And it will likely be felt for a generation.

The Commission also attributed the economic crisis to: widespread failures in financial regulations and supervision; a combination of excessive borrowing, risky investments, and lack of transparency; an ill prepared government with an inconsistent response that contributed to the uncertainty and panic in the financial markets; a systemic breakdown in accountability and ethics.

Monsanto annual pay vote

At the first S&P 500 AGM under the new say-on-pay US regulations, Monsanto shareowners overwhelmingly denied management’s recommendation for triennial votes on executive compensation.

Just over 62% of investors supported an annual vote, 1.4% voted in favour of biennial and 35.9% supported the board’s suggested triennial poll. 0.5% abstained. The Monsanto result was significant as it was the first major company to face a vote since the Say on Pay rules came into force for US companies. PIRC views annual votes on executive compensation as best practice for companies and, therefore recommended an annual vote.

The outcome of the vote was also of particular importance given Monsanto’s large market capitalisation; potentially influencing other US investors to follow suit. Tim Smith, senior vice president at Walden Asset Management, said, “The Monsanto vote of 62% for annual votes on Say on Pay is the shot that will be heard around America’s boardrooms.”

The company’s other proposal, compensation of certain executive officers, received 64.92% of votes in favour with 33.8% voting against and 1.27% abstentions. PIRC found the compensation package could become excessive due to the compensation committee’s use of discretion when awarding annual bonuses and lack of information assuring challenging targets. Also, the stock options, which vest rateably over three years, did not have performance hurdles attached. PIRC believes long-term awards should vest after a performance period of at least three years. The change in control agreements were potentially excessive considering accelerated vesting of long-term incentives followed by a change-in-control. PIRC had recommended an oppose vote.

Ceres files 'fracking' resolutions

A coalition of leading US investors filed shareholder resolutions against nine giant oil and gas companies.

Ceres, an alliance of institutional investors with $9trl in assets, spearheaded the resolutions filed at ExxonMobile, Chevron, Ultra Petroleum, El Paso, Cabot & Gas, Southwestern Energy, Energen and Anadarko and Carrizo Oil & Gas. The resolution put pressure on companies to disclose their policies and strategies on issues and risks associated with natural gas hydraulic fracturing (known as "fracking") in the US. The shareholder proposal was also demanding companies adopt best management practices.

Thomas DiNapoli, New York State Comptroller, whose office filed a resolution with Cabot Oil & Gas, said: "The risks associated with unconventional shale gas extraction have the potential to negatively impact shareholder value."

Fracking has become more common in the industry as it allows companies to extract previously unattainable natural gas. Mismanagement of this method can lead to environmental risks such as drinking water contamination, well blowouts and gas leaks. These practices have led to increased reputational and litigation liabilities for companies while some states have adopted a temporary moratorium on new permits or instituted an outright ban. Research from the American Petroleum Institute estimates that 60 to 80 percent of natural gas wells drilled in the next decade will require hydraulic fracturing.

Investors are aware that fracking facilitates the use of natural gas and the crucial role it plays in reducing greenhouse gas emissions. Therefore, they were not calling on companies to discontinue production but they were requesting companies adopt best practices to avoid risks and make their risk mitigation and management strategies available to both investors and the public.

Siemens urged to leave Chamber

John C. Liu, New York City Comptroller, called on engineering conglomerate Siemens AG to sever all ties to the US Chamber of Commerce.

In a letter to the German firm, Liu requested Siemens revoke its membership pointing to the sharp contrast between the firm's role as a green technology leader and the Chamber's vehement anti-climate change stance.

"It's not right for our shareholders' money to support efforts that perpetuate environmental harm. Siemens is known for green innovation, but it's supporting a group that bends over backwards to stand in the way of environmental protection," said Liu.

Apple, Exelon and PG&E Corporation have already withdrawn Chamber membership on the same grounds.

Meanwhile, Liu and the NYC Pension Funds have also requested six companies publicly disclose their political contributions. The proposal asked Charles Schwab Corp., Coventry Health Care, DTE Energy Co., Regions Financial, Sprint Nextel Corp. and WellCare Health Plan, Inc. to disclose all of their political contributions, including payments to trade associations, twice a year to increase accountability. Norfolk Southern, a recent signatory to the proposal was cited as an example of commitment to transparency.

Lyons vs Citizens United

Vermont senator Virginia Lyons issued a resolution to amend the US Constitution, revoking corporations' rights to personhood.

The introduction of the bill fell on the one year anniversary of *Citizens United* – a Supreme Court ruling that allows corporations to contribute unbridled amounts of money in political elections; in effect giving corporations the same rights to free speech as American citizens. Sources believed the bill had a good chance of passing given the significant two-to-one margin in opposition to *Citizens United* among the American population.

Institutions fail Carbon Principles

More than two years after their launch, the Carbon Principles project continued to fall short of its original aspirations.

The project originated in 2008 on a promise by six leading financial institutions to make it "tougher to finance conventional coal-fired plants in the US" by encouraging renewable energy investment, endorsing energy efficiency and assessing risks linked to financing fossil fuels. However, *The Principle Matter*, a publication by the Rainforest Action Network (RAN) proved otherwise.

Findings from the report showed that founding signatories – Bank of America, Citi, Credit Suisse, JPMorganChase, Morgan Stanley and Wells Fargo - continued to finance coal plants. The report found no clear pattern emerged distinguishing CP banks from non-CP banks based on the percentage of financing deals involving utilities. Further research showed that the CP banks combined account for over "55% of the $125 billion loan and bond underwriting in the United States" since its 2008 inception.

RAN had recommended a more robust climate risk framework, phasing out support for new and existing coal-fired power plants, and coal extraction and delivery projects along with a commitment to financing renewable energy.

First Say on Pay defeat of 2011

Jacobs Engineering became the first US company to lose its Say on Pay vote as the resolution received nearly 54% against at the company's AGM.

The company also saw a clear majority support an annual vote on compensation on its Say When on Pay resolution. PIRC views an annual vote on executive compensation to be best practice for companies and, therefore, had advised investors to oppose the board's recommendation for a three year frequency.

The Dodd-Frank Act gave shareholders the right to vote on a board's remuneration every one, two or three years. Early indications were, unsurprisingly, that companies will propose triennial votes. However, shareholders generally supported an annual poll. At the end of January 39 institutional investors, representing more than $830bn in assets, issued a public call for companies to support an annual advisory vote.

AFL-CIO Key Votes Survey 2010

The American Federation of Labour and Congress of Industrial Organizations released its annual key vote survey *How Investment Managers Voted in the 2010 Proxy Season* .

The survey consisted of a record of how 98 investment managers, mutual funds and proxy voting consultants voted on key issues during the 2010 proxy season. Some of the worst performing investment managers to be included in the bottom tier were BlackRock, Fidelity, and Vangard.

CalPERS goes after Lehmans

As a last effort to recover losses, California Public Employees' Retirement System (CalPERS) filed a lawsuit against former Lehman Brothers executives and underwriters, as reported in the Financial Times.

The US pension fund, representing $1.6billion in assets, sued the investment bank over disingenuous information regarding its condition during the crisis. CalPERS suffered major losses on stocks and bonds purchased during June 2007 and September 2008. Defendants included chief executive Richard Fuld, and finance chiefs Christopher O'Meara and Erin Callan as well as numerous bond offering underwriters.

US climate resolutions increase

Energy sector shareholder engagement in the US surpassed prior years making 2011 the most climate centric proxy season to date.

Ceres, the Boston-based sustainable investment group, reported a surge in energy and climate related shareholder resolutions resulting in 66 climate filings at 41 coal, electric power and oil companies - a 50% increase compared to last year. Overall, the total number of resolutions stood at 96, including non-direct climate related business trends such as real estate, food companies, building and financial services, with the electric power sector receiving the majority.

Companies are pushed by the shareholder resolutions to consider climate related issues such as hydraulic fracturing in the US and oil sands extraction in Canada. Investors have also increased the number of fillings recommending linking executive compensation to sustainability metrics.

CSR pays say Conference Board

A report by The Conference Board Director Notes maintained a direct link between corporate social responsibility (CSR) and financial performance exists.

Investing in CSR to enhance Customer Value , part of a series of publications by business experts, suggested CSR related activities have the potential to enhance customer value. The report, consisting of a review of 163 articles, established the following four points as distinct forms of CSR-related value for customers: efficiency of a product or service, aesthetic appreciation of consuming a product, social status a customer acquires from using a product and the social or environmental benefit a community can derive from widespread dissemination of a product. Also included in the report were 10 recommendations for business leaders to improve CSR activity effectiveness on customer responses, such as: long-term commitment to each activity in the CSR portfolio and optimal level of CSR investment rather than over-investing. Further findings highlighted the importance of designing a CSR programme that reflects the numerous mediating variables involved to ensure positive outcomes.

CalPERS won Apple voting reform

A shareholder proposal filed with Apple by CalPERS seeking majority voting for director elections passed with an overwhelming shareholder backing of 74% of votes in favour at last week’s AGM.

CalPERS had issued a shareowner alert on the matter due to Apple board inaction. The proposal provided shareholders a more meaningful role in uncontested elections in contrast to the current plurality voting method. PIRC views majority voting to be best practice as it allows for the will of shareholders to be expressed. Therefore, PIRC recommended a vote in favour.

A second proposal filed by the Central Laborers’ Pension Fund calling on the company to adopt and disclose a written CEO succession planning policy received 30% votes in favour. PIRC found CalPERS’ proposal not overly prescriptive and enabled the Board to maintain a sufficient level of discretion over confidential information whilst informing shareholders on a key aspect of good corporate governance. PIRC advised shareholders to vote in favour.

As You Sow Proxy Preview

As You Sow’s Proxy Preview showed unprecedented investor support for environmental and shareholder resolutions last year, and expects the same in 2011.

The report, which contains a compendium of nearly 400 shareholder resolutions on governance and social issues, indicated continued growth in investor interest. One third or 131 resolutions fell into climate change, natural resource management and toxic categories. Coal and fracking resolutions dominated the group with 44 proposals. Political donations received the second highest amount of resolutions as 84 proposals were filed. Other issues with significant resolutions were diversity (46), labour and human rights

(30) and mortgage foreclosures (15). A number of major players such as the Interfaith Center on Corporate Responsibility and the New York State Common Retirement Fund filed the majority of resolutions at 55 and 33, respectively. The report was part of a collaborative effort by As You Sow, Sustainable Investment Institute and Proxy Impact.

The state of engagement

A study on engagement between US corporations and their investors found a significant increase in the level of activity.

According to the report, *The State of Engagement between U.S. Corporations and Shareholders* , 87% of public corporations (issuers), 70% of asset managers and 62% of asset owners engaged at least once over the past year. Almost no investors and just 6% of issuers reported a decrease in engagement in contrast to a reported increase among asset owners (53%), asset managers (64%) and issuers (50%).

Whilst engagement is on the increase, don't expect to hear much about it. In total 80% of issuers stated most of their engagement was undertaken in private, along with 72% of asset owners and 62% of asset managers.

Analysis from the report suggested that divergent perspectives among the three groups on what constitutes successful engagement played a significant role in how the groups viewed outcomes. Additionally, the study concluded that broad shareholder agreement is needed for engagement to lead to concrete change by issuers.

The report was conducted by Institutional Shareholder Services for the Investor Responsibility Research Centre Institute to address lack of analysis on investor/corporate engagement.

US investors back yearly pay vote

Results from a review of the first month under new Security and Exchange Commission (SEC) regulations showed strong shareholder support for annual "Say on Pay" votes but also contentment with executive salaries.

Nearly half of shareholder proxy results from companies involved in the analysis demonstrated preference for annual SOP votes thus, according to the research by Schulte Roth & Zabel, companies seeking a biennial or triennial vote will most likely meet strong opposition.

The analysis suggested that just three out of 14 companies with over $5billion in market capitalisation received shareholder support for biennial or triennial votes, while two of these companies had insiders holding over 50% voting power. Shareholders at companies with a $1bil to $5bil market capitalisation voted for biennial and triennial elections at just one out of nine companies with the one company having insiders holding over 50% of voting power. Smaller companies with less than $1bil market capitalisation received more shareholder support as 26 out of 38 voted in favour of biennial or triennial votes. However, at these companies, seven had at least 20% insider voting control and another seven had at least 50%. Despite these numbers, researchers believe boards will continue to push for biennial and triennial elections given that of the 213 companies filling proxy materials, 126 recommended triennial SOP votes, 63 recommended annual, 13 biennial and 11 made no recommendations.

In stark contrast, 93 out of 95 company AGMs saw shareholders approve SOP with an average of 90% votes in favour. Out of approximately 290 SOP votes in 2010, there were just three instances of a majority voting against NEO remuneration. However, researchers believe this is set to change during the coming proxy season given the new regulations requiring mandatory SOP voting.

Support for immigration reform

A coalition of over 60 institutional investors called for CEOs to speak out for immigration policy reform.

The diverse group of investors, with $145bn under management, wrote to CEOs at top US companies urging them to consider participation in debates on national level reform that will provide a path to citizenship for current unauthorised immigrants. Initiative leaders, City of New York Comptroller, Mercy

Investment Services, Inc., Boston Common Asset Management, Walden Asset Management and the Unitarian Universalist Association, argued that with an ageing US population, immigration reform is essential for long-term economic growth. The group also pointed to the current anti-immigrant climate as means for developing policies that address human rights issues in the US. Signatories pointed to a similar programme, Partnership for a New American Economy, as an example of how companies can achieve immigration reform in a positive way.

TIAA-CREF governance overhaul

Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF) issued a new edition of its corporate governance policy.

Particular emphasis was given to TIAA-CREF's implementation of "say-on-pay" votes mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act. It also declared preference for companies to choose an annual non-binding vote on executive compensation. Otherwise, companies should offer a "clearly articulate[d] rationale" for not doing so. The largest US private retirement system, with $453bil in combined assets, will generally vote for candidates who represent long-term shareholder interest in contested elections. Support may also be given for the separation of Chairman and CEO in the absence of an independent lead director.

Amendments were made to the Policy Statement, last revised in 2007, to reflect current developments in corporate governance and social and environmental policies. Issues such as executive pay, board elections, political contributions and labour and human rights are covered in the 6th edition.

TARP and director compensation

The Troubled Asset Relief Program, (TARP) is a program of the United States government to purchase assets and equity from financial institutions to strengthen its financial sector, to address the subprime mortgage crisis.

Some of the significant effects on director pay include the temporary stoppage of awarding annual bonuses and stock options until the TARP funds had been fully repaid.

This, along with several other restrictions on policies regarding director contracts and change-in-control payments was designed to keep bonus pay down while the company repaid the TARP funds.

However, there was one area which the TARP regulations did not address - base salary. US financial institutions were quick to pick up on this, and instead of offering bonuses, offered 'salary stock units.' Under this program, increased base salary amounts were paid in shares of common stock each semi-monthly pay period. The shares immediately vest as of the pay date and are not subject to any requirement of future service and are not performance-based. The shares are, however, awarded subject to restrictions on transfer, sale and disposition. The rationale of companies employing such payment measures include much of the standard justification seen with US compensation committees, mainly for the retention of employees and to have compensation amounts that were "more in line with market practice," in other words, providing a competitive salary in relation to peer group.

One instance of such payment was with PNC Financial Services Group Inc. CEO James E. Rohr, who received a salary of $1.6 million, with just over $1 million of that paid in cash and $538,462 in stock units paid in four segments in the first two months of the year. The company has since stated that they have eliminated salary stock units, now that the TARP funds have been paid, but despite this one cannot help but sense that it is a reflection of a market using whatever measure possible for some US institutions to utilise loopholes in pay restrictions in order to offer the most "competitive" salary possible. The use of salary stock units also increases the disparity between actual performance and performance related pay, something that has remained unaddressed during the economic recession. In a 2008 survey conducted to some 2,700 respondents, Corporate Library, an independent research and rating firm, said that there has been only a 0.08 drop in the median annual compensation of CEOs in publicly traded firms in 2008. Corporate Library also noted the very weak link between the high-salaries of the chief executives and the companies' performance during the recession.

It is clear that even a recession is not enough to prevent companies finding new methods to provide competitive salaries that may not be as performance-based as they appear. It seems that only a radical shift in compensation philosophy along with stricter restrictions across whole sectors will provide a fairer compensation system.

US tax avoidance targeted

Just ahead of Congress' return to Capital Hill, Vermont Senator Bernie Sanders published a list of the ten wealthiest companies avoiding US taxes.

The report was issued in a call for shared sacrifice and in opposition to cuts of governmental aid that helps low-income families, the elderly and students instead of raising taxes on top earners and corporations. Large companies use loopholes often referred to as *corporate welfare* or *corporate entitlements* to legally avoid paying taxes. According to Sanders, not only do these companies avoid taxation, they have either received a government bailout or a rebate from the Internal Revenue Service. General Electric, Chevron, Exxon Mobile, Bank of America, Boeing, Valero Energy, Goldman Sachs, Citigroup, ConocoPhillips and Carnival Cruise made the top ten list. Sanders called on his congressional colleagues to close the corporate tax loopholes and eliminate all tax breaks for oil and gas companies.

Pension funds seek class action

Nearly 100 of pension funds with over $2 trillion in assets petitioned the Securities & Exchange Commission to reverse the 2010 landmark Morrison vs. National Australia Bank case, according to Responsible Investor.

The US Supreme Court's last year ruling took away investors' rights to sue non-US companies for fraud or corporate abuse for shares purchased on a foreign exchange. Some investors claimed the ruling may prevent them from investing in companies with significant US exposure. The impact this ruling holds for legal action in the US against BP was a concern among investors, which holds a secondary listing on the New York Stock Exchange. Some non-US BP shareholders feared the ruling would strip them of their rights to participate in lawsuits against BP because their shares were purchased on the London Stock Exchange.

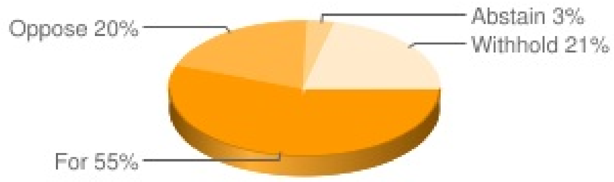
US Voting Charts

These graphs include meetings where the client held a voting entitlement exercisable by PIRC according to portfolio details communicated to PIRC prior to execution of the vote.

Total Resolutions	
For	84
Oppose	31
Abstain	5
Withhold	32
Withdrawn	0
Total	152

Meetings	AGM	EGM	Total
Total Meetings	13	0	13
1 (or more) oppose or abstain vote	13	0	13

US Voting Record



US AGM Record

US EGM Record

There where no EGMs during the last period in the clients portfolio.

US Voting Timetable Q1 2011

List of meetings held throughout the period in the fund's portfolio.

Voted Meetings

Table 6: Meetings voted in the quarter

	Company	Meeting Date	Type	Date Voted
1	FAMILY DOLLAR STORES INC	20 Jan 11	AGM	2010-12-29
2	MONSANTO CO.	25 Jan 11	AGM	2011-01-10
3	JOHNSON CONTROLS INC	26 Jan 11	AGM	2011-01-06
4	COSTCO WHOLESALE CORP.	27 Jan 11	AGM	2011-01-10
5	HORMEL FOODS CORP.	31 Jan 11	AGM	2011-01-13
6	EMERSON ELECTRIC CO.	01 Feb 11	AGM	2011-01-17
7	ROCKWELL AUTOMATION INC.	01 Feb 11	AGM	2011-01-21
8	TYSON FOODS INC	04 Feb 11	AGM	2011-01-21
9	APPLE INC	23 Feb 11	AGM	2011-02-08
10	QUALCOMM INC.	08 Mar 11	AGM	2011-02-21
11	FRANKLIN RESOURCES INC	15 Mar 11	AGM	2011-02-25
12	HEWLETT-PACKARD CO	23 Mar 11	AGM	2011-03-01
13	WALT DISNEY CO.	23 Mar 11	AGM	2011-03-03

US Upcoming Meetings Q2 2011

List of meetings scheduled to be held throughout the period by US companies currently in the fund's portfolio.

Table 7: Upcoming Meetings

	Company	Meeting Date	Type
1	T. ROWE PRICE GROUP INC	14 Apr 11	AGM
2	LILLY (ELI) & CO	18 Apr 11	AGM
3	US BANCORP	19 Apr 11	AGM
4	WHIRLPOOL CORP.	19 Apr 11	AGM
5	HUDSON CITY BANCORP.	19 Apr 11	AGM
6	NEWMONT MINING CORP. (HLDG CO.)	19 Apr 11	AGM
7	SHERWIN-WILLIAMS CO	20 Apr 11	AGM
8	TEXAS INSTRUMENTS INC.	21 Apr 11	AGM
9	HUMANA INC.	21 Apr 11	AGM
10	AMEREN CORPORATION	21 Apr 11	AGM
11	CITIGROUP INC.	21 Apr 11	AGM
12	HONEYWELL INTERNATIONAL INC.	25 Apr 11	AGM
13	BB&T CORPORATION	26 Apr 11	AGM
14	INTERNATIONAL BUSINESS MACHINES CORP	26 Apr 11	AGM
15	PNC FINANCIAL SERVICES GROUP INC	26 Apr 11	AGM
16	TERADATA CORP	26 Apr 11	AGM
17	METLIFE INC.	26 Apr 11	AGM

18	GRAINGER (W.W.) INC.	27 Apr 11	AGM
19	EATON CORP.	27 Apr 11	AGM
20	MARATHON OIL CORP.	27 Apr 11	AGM
21	COCA-COLA CO.	27 Apr 11	AGM
22	GENERAL ELECTRIC CO	27 Apr 11	AGM
23	FEDERATED INVESTORS INC.	28 Apr 11	AGM
24	JOHNSON & JOHNSON	28 Apr 11	AGM
25	LEXMARK INTERNATIONAL INC.	28 Apr 11	AGM
26	CORNING INC.	28 Apr 11	AGM
27	eBAY INC.	28 Apr 11	AGM
28	HCP INC	28 Apr 11	AGM
29	PFIZER INC.	28 Apr 11	AGM
30	VALERO ENERGY CORP	28 Apr 11	AGM
31	AT&T INC.	29 Apr 11	AGM
32	BERKSHIRE HATHAWAY	30 Apr 11	AGM
33	ZIMMER HOLDINGS INC	02 May 11	AGM
34	BOEING COMPANY	02 May 11	AGM
35	MOTOROLA SOLUTIONS INC.	02 May 11	AGM
36	AFLAC INC.	02 May 11	AGM
37	EXELON CORP.	03 May 11	AGM
38	PLUM CREEK TIMBER COMPANY INC	03 May 11	AGM
39	BRISTOL-MYERS SQUIBB CO	03 May 11	AGM
40	WELLS FARGO & CO	03 May 11	AGM
41	O'REILLY AUTOMOTIVE INC	03 May 11	AGM
42	TELLABS INC.	04 May 11	AGM
43	AUTONATION INC.	04 May 11	AGM
44	HESS CORPORATION	04 May 11	AGM
45	PEPSICO INC.	04 May 11	AGM
46	EMC CORP.	04 May 11	AGM
47	ROBERT HALF INTERNATIONAL INC	04 May 11	AGM
48	EXPEDITORS INTERNATIONAL OF WASHINGTON INC.	04 May 11	AGM
49	THE TRAVELERS CO'S.	04 May 11	AGM
50	DUKE ENERGY CORP.	05 May 11	AGM
51	EASTMAN CHEMICAL CO.	05 May 11	AGM
52	UNION PACIFIC CORP.	05 May 11	AGM
53	UNITED PARCEL SERVICE INC	05 May 11	AGM
54	PUBLIC STORAGE	05 May 11	AGM
55	VERIZON COMMUNICATIONS INC	05 May 11	AGM
56	DTE ENERGY CO.	05 May 11	AGM
57	SUNOCO INC.	05 May 11	AGM
58	CME GROUP INC.	05 May 11	AGM
59	FMC TECHNOLOGIES INC	06 May 11	AGM
60	ILLINOIS TOOL WORKS INC.	06 May 11	AGM
61	SIMON PROPERTY GROUP INC.	06 May 11	AGM
62	COLGATE-PALMOLIVE CO.	06 May 11	AGM
63	INTERNATIONAL PAPER CO	09 May 11	AGM
64	3M COMPANY	10 May 11	AGM
65	CUMMINS INC.	10 May 11	AGM

66	NISOURCE INC.	10 May 11	AGM
67	SPRINT NEXTEL CORP.	10 May 11	AGM
68	PRUDENTIAL FINANCIAL INC.	10 May 11	AGM
69	CEPHALON INC.	10 May 11	AGM
70	LEUCADIA NATIONAL CORP.	10 May 11	AGM
71	LOEWS CORP.	10 May 11	AGM
72	BOSTON SCIENTIFIC CORP	10 May 11	AGM
73	CAPITAL ONE FINANCIAL CORP	11 May 11	AGM
74	CONOCOPHILLIPS	11 May 11	AGM
75	PROGRESS ENERGY INC.	11 May 11	AGM
76	INTEGRYS ENERGY GROUP INC.	11 May 11	AGM
77	COMCAST CORP	11 May 11	AGM
78	CVS CAREMARK CORP	11 May 11	AGM
79	BANK OF AMERICA CORP.	11 May 11	AGM
80	MURPHY OIL CORP.	11 May 11	AGM
81	AVALONBAY COMMUNITIES INC.	11 May 11	AGM
82	PHILIP MORRIS INTERNATIONAL INC.	11 May 11	AGM
83	VENTAS INC	12 May 11	AGM
84	AMGEN INC.	12 May 11	AGM
85	FORD MOTOR CO	12 May 11	AGM
86	GILEAD SCIENCES INC	12 May 11	AGM
87	DOMINION RESOURCES INC	12 May 11	AGM
88	DOW CHEMICAL CO	12 May 11	AGM
89	MEDCO HEALTH SOLUTIONS INC.	12 May 11	AGM
90	NORFOLK SOUTHERN CORP.	12 May 11	AGM
91	Google Inc.	13 May 11	AGM
92	SEMPRA ENERGY	13 May 11	AGM
93	J.P. MORGAN CHASE & CO	18 May 11	AGM
94	MORGAN STANLEY	18 May 11	AGM
95	WELLPOINT INC	18 May 11	AGM
96	HALLIBURTON CO.	19 May 11	AGM
97	NORTHROP GRUMMAN CORP.	19 May 11	AGM
98	SAFEWAY INC.	19 May 11	AGM
99	INTEL CORP	19 May 11	AGM
100	DR PEPPER SNAPPLE GROUP, INC.	19 May 11	AGM
101	NATIONAL OILWELL VARCO, INC	19 May 11	AGM
102	ROSS STORES INC	19 May 11	AGM
103	XCEL ENERGY INC.	19 May 11	AGM
104	NETFLIX INC	20 May 11	AGM
105	COVENTRY HEALTH CARE INC	20 May 11	AGM
106	LORILLARD, INC.	20 May 11	AGM
107	TITANIUM METALS CORP.	20 May 11	AGM
108	UNUM GROUP.	20 May 11	AGM
109	ALTRIA GROUP INC.	20 May 11	AGM
110	MCDONALD'S CORP.	20 May 11	AGM
111	TIME WARNER INC.	21 May 11	AGM
112	UNITEDHEALTH GROUP INC	24 May 11	AGM
113	AMAZON COM INC.	25 May 11	AGM
114	MERCK & CO.	25 May 11	AGM

115	EXXON MOBIL CORP	26 May 11	AGM
116	CITRIX SYSTEMS INC	26 May 11	AGM
117	CHEVRON CORP.	26 May 11	AGM
118	LIMITED BRANDS INC.	27 May 11	AGM
119	VERISIGN INC	27 May 11	AGM
120	TERADYNE INC.	28 May 11	AGM
121	MOLSON COORS BREWING CO.	02 Jun 11	AGM
122	SANDISK CORP	02 Jun 11	AGM
123	TJX COS INC	02 Jun 11	AGM

PIRC Summary Report Appendices

UK

Analysis and final proxy results on "Oppose" and "Abstain" votes for resolutions at UK meetings for companies held by the fund during the period.

US

Analysis for "Oppose", "Withhold" and "Abstain" votes for resolutions at US meetings for companies held by the fund during the period.

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