12 February 2010

Lord Myners  
Financial Services Secretary to the Treasury  
HM Treasury  
1 Horse Guards Road  
London  
SW1A 2HQ

Dear Paul

I am writing in response to your letter dated 28 January 2010.

Our engagement with banks is governed by the Corporate Governance framework we agree with our clients on whose behalf we are appointed to manage their money. This Corporate Governance policy applies to all our interaction with companies and is regularly updated to reflect ISC guidelines. I attach a copy for your records. Section 3 covers our policy on engagement, including management compensation.

Yours sincerely

Bill Smith  
Chief Executive

(Please note your letter was addressed to 'Phil').

Encs
Lazard Asset Management Limited

Corporate Governance Policy

Issued: April 2008
Revised: April 2009
1 INTRODUCTION

1.1 Lazard Asset Management Limited ("LAML") is a member of the Lazard Group and a subsidiary of Lazard Asset Management LLC ("Lazard"). Lazard is committed to maintaining high standards of corporate governance in order to safeguard the interests of its clients and shareholders.

1.2 LAML provides investment management services to institutions and private clients throughout Europe. LAML, as a fiduciary to its clients, seeks to serve clients' interests and at all times act in clients' best interests and treat each client fairly. With a full appreciation of the fact that we, as fiduciaries, are making investment decisions with clients' money, we seek to maximise shareholder value for our clients. As a result, our first priority and focus is on the value and profitability of a company. When necessary or appropriate in furthering these goals, we may seek to engage with companies as outlined in this policy. Appendix 1 includes examples of issues on which LAML focuses, using internal and external resources to analyse investments and whether they satisfy this overarching objective – to maximise shareholder value as part of our disciplined approach to investing. Engagement, in our view, involves a strong interaction with management teams in order to understand how companies are efficiently using their capital and conducting their business.

1.3 The firm supports the OECD Corporate Governance Principles in all material respects. As a global firm we recognise the fact that there are differing governance models adopted in various countries. Therefore, we focus primarily on what the firm believes are important global corporate governance issues and refer to the OECD Principles as they represent widely accepted standards for corporate governance in many countries. Notwithstanding that, the firm also recognises that local law and practices and, as a result, it is not practicable to set detailed guidelines covering all markets, nor to expect the same standards be adopted in all markets.

1.4 In the UK, we support the Statement of Principles on the Responsibilities of Institutional Shareholders and Agents prepared by the Institutional Shareholders' Committee ("ISC Principles"), as outlined in Appendix 2, in all material respects, while also supporting the recommendations of the Combined Code on Corporate Governance issued by the Financial Reporting Council ("Combined Code"). It is important to note that the ISC Principles only apply to UK companies regardless of their size or type. As a global firm, we recognise that local law and practices do vary and in all material respects apply the ISC Principles to our analysis of UK companies.

1.5 LAML expects that its corporate governance policy will evolve over time to reflect changes in business practices, business structures, technology and the law. Accordingly, we monitor our corporate governance policy on an ongoing basis and formally review our approach annually.

2 CORPORATE GOVERNANCE GUIDELINES

2.1 Corporate governance is an important aspect of the LAML investment process. LAML's research views on the corporate governance of potential investments (if any) are typically reflected in our investment thesis. Our views on the drivers of company returns are also reflected in our investment thesis.

2.2 LAML believes that there are no absolute hard and fast rules that guarantee that a company's management and its board adopt good corporate governance practices. Regardless of our rigor, we believe that there is no one single indicator with global application that identifies when companies are failing to adopt best corporate governance practices. Different markets adopt different practices and structures of corporate governance.

2.3 Corporate governance issues are not always easily tied to valuations and returns. As a fiduciary, we initially focus on valuation and returns to generate the best results for our clients. In this regard, LAML relies on intensive accounting validation and fundamental analysis to measure the performance of an individual company, including the impact of corporate governance. Every company and market is different and our approach may change according to the relevant local market practices. LAML has a list of potential corporate governance issues that may be used as starting points toward the development of a deeper understanding of a company and its governance. This list, which is not intended to be exhaustive and may vary in each of the countries in which we invest, is outlined in Appendix 1.
2.4 The firm's research process is not explicitly designed to detect fraud and we do not expect to be able to detect fraud. However, the firm has seen some instances where the accounting validation process has helped avoid investing in companies whose financial reporting has later been exposed as fraudulent or otherwise improper. We believe that while fraud itself is very difficult to identify, there are some red flags, both general and industry-specific, that can assist us in the stock selection and sale process. For example, some general red flags include:

- Inconsistencies between what management is saying and the actions they are taking;
- Contradictions and strategy reversals;
- Assessing the quality and strength of a company's business model, which is part of fundamental analysis;
- Extremely high capital expenditures that are outside the industry norm and/or significant write downs;
- High management turnover; and
- Overly aggressive acquisitions and poor asset quality.

3 ENGAGEMENT

3.1 When LAML deems it appropriate, LAML's Portfolio Managers/Analysts ("Portfolio Management") may engage with companies in order to seek to improve the performance of companies, thereby improving returns. Our approach is integrated into our fundamental analysis, and our decision to engage a company is driven off this fundamental research. On occasion, companies seek our input on a range of issues, and we use such opportunities to work with them and, when permitted by local regulation, may play an active role in seeking to effect changes that maximise shareholder value.

3.2 The key areas LAML may consider when deciding whether to pursue engagement would be with respect to the following:

(a) Strategic issues, including merger and acquisition activity, share buybacks, dividend policies and the general use of capital;

(b) Corporate governance issues, including board independence, majority ownership, quality of board membership, management protocols, management compensation policies and auditor independence; and

(c) Operational performance issues. Although LAML would not generally become involved in detailed operational issues, there may be circumstances where this may be necessary.

3.3 The normal methods through which LAML engages with companies are:

(a) Ongoing dialogue with the company management through regular meetings, visits and telephone calls; and

(b) Proxy Voting – see summary below.

3.4 In addition, where LAML's concerns have not been adequately addressed, LAML may consider the following:

(a) A private meeting with the Chairman or other Board members;

(b) A letter to the Chairman or the Board of the Company; or

(c) Where appropriate and deemed necessary, further action may be considered (i.e. resolutions, litigation, press activity etc.), although there are rarely circumstances where this conduct becomes necessary.
3.5 The Lazard Investment Council and the Legal / Compliance Department are generally consulted prior to initiating any significant written or public engagement activities, as they may have investment, regulatory or other legal implications. The Investment Council is a discussion forum designed to ensure the effectiveness of Lazard’s research and investment platforms. This group meets regularly to discuss matters relating to two central themes: 1) Portfolio Management interaction and communication and 2) resource allocation and staffing. The Council offers its recommendations to the Oversight Committee and reports directly to the CEO. The Investment Council currently consists of a dozen senior investment professionals. The Council also seeks the advice, opinion, and insight of other Lazard investment professionals, and its composition is expected to evolve over time. The Oversight Committee is responsible for reviewing and granting final approval for all new products.

3.6 LAML’s Portfolio Management communicate internally on the status of engagement activities and any outcomes arising, for the purpose of communicating to clients.

3.7 LAML Portfolio Management may hold regular investment discussion meetings at which issues including, but not limited to, corporate governance and shareholder value are discussed.

4 VOTING

Introduction

4.1 Generally, Lazard is willing to accept delegation from its clients to vote proxies. Lazard does not delegate that authority to any other person or entity, but retains complete authority for voting all proxies on behalf of its clients. Not all clients delegate proxy voting authority to Lazard, however, and Lazard will not vote proxies, or provide advice to clients on how to vote proxies, in the absence of a specific delegation of authority or an obligation under applicable law.

4.2 Where clients delegate the responsibility to vote proxies, Lazard, as a fiduciary, is obligated to vote proxies in the best interests of its clients. Lazard has adopted a written policy (the “Policy”) that is designed to ensure that it satisfies its fiduciary obligation. Lazard has developed a structure to aim to ensure that proxy voting is conducted in an appropriate manner, consistent with clients’ best interest, and within the framework of that Policy. See the Policy for details regarding proxy voting practices.

4.3 Lazard manages assets for a variety of clients, including institutions, pension funds, charities, local authorities and individuals. In the absence of specific guidelines provided by a client, our policy is to vote proxies on a given issue in the same way for all of its clients. The Policy is based on the view that, in its role as investment managers, Lazard must vote proxies based on what it believes will maximise shareholder value as a long-term investor, and the relevant votes it casts on behalf of all its clients are intended to accomplish that objective.

Administration and Implementation of Proxy Voting Process

4.4 Lazard’s proxy-voting process is administered by its Proxy Operations Department (“ProxyOps”), which reports to Lazard’s Chief Operations Officer. Lazard’s Proxy Processing – ProxyOps Workflow is outlined diagrammatically in Appendix 3. Oversight of the process is provided by Lazard’s Legal / Compliance Department and by a Proxy Committee consisting of senior Lazard officers, including representatives of the investment platform. To assist it in its proxy-voting responsibilities, Lazard currently subscribes to several research and other proxy-related services offered by Institutional Shareholder Services, Inc. (“ISS”), a member of the RiskMetrics Group, one of the world’s largest providers of proxy-voting services.

4.5 ISS provides Lazard with its independent analysis and recommendation regarding virtually every proxy proposal that Lazard votes on behalf of its clients. ISS receives all proxy information sent by custodians that hold securities of Lazard’s clients. ISS posts all relevant information regarding the proxy on its password protected website for Lazard to review, including meeting dates, all agendas and ISS’ analysis. ProxyOps reviews this information on a daily basis and regularly communicates with representatives of ISS in an effort to ensure that all agendas are considered and that LAM’s specific instructions for proxies are voted on a timely basis. ISS also provides Lazard with vote execution, recordkeeping and reporting support services.
4.6 Lazard’s Proxy Committee has approved specific proxy voting guidelines regarding the most common proxy proposals (the “Approved Guidelines”). These Approved Guidelines provide that Lazard should vote for or against the proposal, or that the proposal should be considered on a case-by-case basis. Similarly, the Manager of ProxyOps will consult with Portfolio Management with knowledge of the company to determine when it would be appropriate to consider a new guideline or voting contrary to an existing guideline.

4.7 Lazard believes that Portfolio Management is in the best position to evaluate the impact that the outcome of a given proposal will have on long-term shareholder value. Therefore, ProxyOps seeks Portfolio Management’s recommendation on all proposals to be considered on a case-by-case basis. Portfolio Management is also given the opportunity to review other than routine proposals where the Approved Guideline is to vote for or against, and, in compelling circumstances, to overrule the Approved Guideline, subject to the Proxy Committee’s final determination. The Manager of ProxyOps may also consult with Lazard’s Chief Compliance Officer or General Counsel and address the Proxy Committee for a determination regarding Portfolio Management’s contrary proxy vote recommendation or proposal.

4.8 Lazard invests in various overseas markets on behalf of many clients. Laws and regulations regarding shareholder rights and voting procedures differ dramatically across the world. In certain countries, the requirements or restrictions imposed before proxies may be voted may outweigh any benefit that could be realized by voting the proxies involved. For example, certain countries restrict a shareholder’s ability to sell shares for a certain period of time if the shareholder votes proxies at a meeting (a practice known as “share blocking”). In other instances, the costs of voting a proxy (i.e., by being required to send a representative to the meeting) may simply outweigh any benefit to the client if the proxy is voted. The Manager of ProxyOps will consult with Portfolio Management to determine whether they believe it is in the interest of the clients to vote the proxies. In these instances, the Proxy Committee will have the authority to decide whether it is in the best interest of LAM’s clients to vote the proxies.

4.9 Different strategies managed by Lazard may hold the same securities. However, due to the different investment objectives across varying strategies managed by Lazard, one Portfolio Management team may desire to vote differently than another, or one team may desire to abstain from voting proxies while the other may desire to vote proxies. In such event, Lazard would generally defer to the recommendation of each team to determine what action would be in the best interests of clients. In this case, it is possible that the votes may be split between the two teams. In such event, a meeting of the Proxy Committee will be held to determine whether it would be appropriate to split the votes.

Types of Proposals

4.10 Shareholders receive proxies involving many different proposals. Many proposals are routine in nature, such as a non-controversial election of Directors or a change in a company’s name. Other proposals are more complicated, such as items regarding corporate governance and shareholder rights, changes to capital structure, stock option plans and other executive compensation issues, mergers and other significant transactions and social or political issues. New or unusual proposals may be presented from time to time. Such proposals will be presented to Portfolio Management and discussed with the Proxy Committee to determine how they should be voted and an Approved Guideline may be adopted if appropriate.

Conflicts of Interest

4.11 The Policy recognizes that there may be times when meeting agendas or proposals create the appearance of a material conflict of interest for Lazard. A conflict could arise, for example, where an affiliated company is advising a target or bidder or company management in some way involving a corporate finance transaction. Should the appearance of such a conflict exist, Lazard will seek to alleviate the conflict by voting in a manner consistent with Approved Guidelines (to vote for or against), or, in situations where the pre-approved guideline is to vote case-by-case, with the recommendation of an independent source.
4.12 Currently, when a material conflict, or the appearance of a material conflict, arises regarding a proposal, and the Approved Guideline is to vote case-by-case, Lazard generally defers to the recommendation provided by an independent source, ISS. This allows Lazard to ensure that a vote is not influenced by a material conflict of interest, and nevertheless receives the benefit of ISS’ thorough analysis and recommendation designed to further long-term shareholder value. Whether a conflict is "material" will depend on the facts and circumstances involved. For purposes of this Policy, the appearance of a material conflict is one that the Proxy Committee determines could be expected by a reasonable person in similar circumstances to influence or potentially influence the voting decision on the particular proposal involved.

4.13 If ISS is in a conflicting position or if the recommendations of the two services offered by ISS, the Proxy Advisor Service and the Proxy Voter Service, are not the same, Lazard will obtain a recommendation from a third independent source that provides proxy voting advisory services, and will defer to the majority recommendation.

**Stock Lending**

4.14 Lazard does not vote proxies for securities that a client has authorised their custodian bank to use in a stock loan program, which passes voting rights to the party with possession of the shares. Under unusual circumstances, Lazard may determine to recall loaned stocks in order to vote the proxies associated with those securities. For example, if Lazard determines that the entity in possession of the stock has borrowed the stock solely to be able to obtain control over the issuer of the stock by voting proxies, Lazard may determine to recall the stock and vote the proxies itself. However, it is expected that this will be done only in exceptional circumstances. In such event, Portfolio Management will make this determination and ProxyOps will vote the proxies in accordance with the Approved Guidelines.

A copy of Lazard's Proxy Voting Policy is available on request. If you would like to receive a copy of the Proxy Voting Policy, or information about how Lazard voted securities held in your account, you should contact your LAML representative.

5 **ENVIRONMENTAL, SOCIAL AND GOVERNANCE (“ESG”)**

5.1 The UN Principles for Responsible Investment ("UNPRI") were developed by an international group of institutional investors in a process convened by the Secretary General of the United Nations. UNPRI are intended primarily for adoption by institutional investors, although signatories have also encouraged asset managers and others in the finance industry to become signatories.

5.2 The firm broadly endorses much of the overall philosophy of the UNPRI. Having said that, our view is that the UNPRI are currently set out in very general terms. In particular, the term “ESG issues”, although used frequently throughout the UNPRI, is not defined. This lack of clarity means that there could be differences of interpretation between the expectations of those who read the UNPRI expecting one thing from signatories and what the signatories actually do. After some consideration, to avoid any misinterpretation, Lazard has decided not to become signatories to the UNPRI at this time. We continue to evaluate the UNPRI and assess our position and look to make improvements based on these assessments, where appropriate. In the meantime, we explain below Lazard’s view regarding ESG issues.
5.3 Lazard’s approach to fundamental research provides us with in-depth information required to understand and analyse a company’s business. Portfolio Management conducts original research that includes one-on-one meetings with the management of companies and, as an integral part of that research, they cover basic areas that might present concerns for shareholders. Portfolio Management is particularly sensitive to any issues, concerns or philosophies to conducting business that might present a liability or an asset to the company’s shareholders. In this regard, they invest based upon their view of the financial characteristics of a company, with ESG criteria being one of the many factors in this analysis. Specifically:

(a) As a fiduciary, Lazard has an overriding obligation to act in the best interest of its clients and this has always been interpreted as best financial interest. This fundamental principle underlies Lazard’s investment process.

(b) Lazard recognizes that good (or bad) ESG standards can reflect the quality of management of a company and on the company’s long-term performance.

(c) Lazard’s investment process will take social standards into account where it is felt that any ESG issue that arises will have some material impact on a company’s financial returns and operating procedures.

5.4 Lazard’s investment professionals understand the term “Corporate Governance” to be defined broadly and include aspects that are part of “ESG Issues”. A dysfunctional board, a CEO whose incentives are not aligned with shareholders’ interests, a low-spirited workforce, unreliable or opaque accounts, unfair treatment of shareholders and product and environmental liabilities are all issues that impact on value. Portfolio management teams aim to ensure that we are in the best position possible to understand these factors, and any financial impact is incorporated into our valuations to the extent possible.

5.5 Examples of LAML’s engagement with companies that we have taken with a view to enhancing shareholder value are outlined in our Corporate Governance and Engagement Case Studies.

5.6 Lazard’s integrated investment approach and accounting validation process assists us with the stock selection process. We will work with investee companies to seek to maximise shareholder value and attempt to avoid companies where we believe sustained poor corporate governance practices will lead to deterioration in value.

5.7 Our view is that companies will generally be judged to be environmentally and socially responsible corporate citizens if they act in the interests of their shareholders, obey relevant local law and seek to comply with prevailing community expectations about corporate responsibilities. Standards and community expectations have evolved over time and we believe that this will continue. We keep ourselves abreast of social and environmental factors as well as other corporate governance issues through, inter alia:

- Discussions with the boards and management of companies that we analyse.
- Discussions with brokers’ analysts: We use broker research departments principally for access to companies and as sounding boards for our own research.
- Discussions with industry experts: In addition to personal contacts, our Portfolio Management can access industry experts globally.
- Attending seminars and conferences about topical investment matters.
- Keeping abreast of current news and events.

5.8 Lazard’s investment process depends heavily on the robustness of our proprietary stock valuations. Our valuations incorporate our best judgement of the likely impact of all factors that we believe to have a financial impact including, but not only, those of an ESG nature. We are active shareholders, engaging with most companies in which we invest for our clients and, when authorised, normally voting their proxies on all resolutions.
APPENDIX 1

Every company and market is different and our approach to corporate governance may change according to the relevant market practices in any given local market. Outlined below is an indicative list (which is not exhaustive) of potential issues that LAML may consider in developing a deeper understanding of a company and its governance practices.

(a) Use of capital
- Merger and acquisition guidelines
- Dividends
- Share buybacks
- Appropriate level of gearing

(b) Compensation Policies
- Executive compensation that may not be in line with responsibilities and performance
- Corporate incentives to align management with shareholder objectives
- Policies about shareholding by management and board members
- Corporate incentives for achieving pre-determined financial targets
- Linkage between long-term incentives and long-term performance criteria
- Protocols regarding dilution of shareholders' interests

(c) Board Independence
- Independence of Board’s judgment
- CEO-Chairman duality
- Accessibility of Senior Management to the Board
- Inside/outside make-up of the Board
- With regard to the company’s CEO:
  - Performance standards for the CEO
  - Annual Board review of CEO performance
  - Succession plan
- Board involvement in major strategic initiatives
- Leadership of the Compensation, Audit and Nominating Committees

(d) Quality of Board Membership
- Board member skills, knowledge and experience
- Screening and selection process for new directors
- Board member review
- Regular meetings

(e) Management Protocols
- Board involvement in material proposals by management
- Employment contracts for management
- Protocols around termination for performance reasons

(f) Labour/ Social Practices
- Role vs. stakeholder
- Labour/management conflicts
- Employment issues
- Environmental issues
APPENDIX 2
Institutional Shareholders’ Committee - Updated June 2007

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*. 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 engagement – 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 engagement 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.

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 engagement 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

* 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 2005, the members are: the Association of British Insurers; the Association shareholders and agents should keep under review how far the principles in this statement can be applied to other equity investments of Investment Trust Companies; the National Association of Pension Funds; and the Investment Management Association.
necessary, an active dialogue may need to be entered into with the investee company’s board and senior management.

- 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 and voting disclosure. 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.

In summary, institutional shareholders and/or agents will endeavour to identify problems at an early stage to minimise any loss of shareholder value. If they have concerns and do not propose to sell their holdings, they will seek to ensure that the appropriate members of the investee company’s board are made aware of them. It may not be sufficient just to inform the Chairman and/or Chief Executive. However, institutional shareholders and/or agents may not wish to be made insiders. Institutional shareholders and/or agents will expect investee 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 engagement. 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. 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 further reviewing and refreshing it, if needs be, in the light of experience and market developments.
Appendix 3

Lazard's Proxy Processing - ProxyOps Workflow