



Lloyds Chambers
1 Portsoken Street
London
E1 8HZ

April 19th 2006

Mr T Sheehy
Chief Executive
Chartered Secretaries Australia
Tim.sheehy@CSAust.com

Dear Mr Sheehy,

Direct voting: expressing the voice of shareholders

By way of background, Hermes is a pension fund manager based in London, managing money and providing stewardship services to three of the five largest UK pension schemes among our 200 clients. We have £61 billion under management and a further £10 billion under advice (as at end December 2005). We are well-known for our involvement and expertise in matters of corporate governance and take a close interest in such matters in all markets in which our clients have investments.

We warmly welcome the opportunity to respond to the discussion paper produced by Chartered Secretaries Australia regarding direct voting by shareholders. This is a thoughtful document with an innovative premise which we believe deserves international interest and consideration. A move to direct voting would bring what are frankly antiquated legal structures more closely into line with the modern realities of shareholding arrangements and make use of available technology. We are writing to welcome the paper and to encourage CSA to develop its thinking further, perhaps in conjunction with its sister organisations around the world. In particular we would welcome this proposal being brought together with the current work on dematerialisation by the (UK) Institute of Chartered Secretaries and Administrators (ICSA).

In answer to the first four questions asked: we do agree in principle with the introduction alongside proxy voting of a direct voting method; we do believe that this would have positive implications for shareholder participation, particularly in jurisdictions where show of hands voting remains prevalent; we believe that the CSA paper captures the principal benefits of this direct voting proposal; and we can think of no particular disadvantages to direct voting.

On the final question, we do believe that further consideration needs to be given to certain of the consequences of a proposed shift to direct voting. In particular, there have been a few General Meetings in the UK where an adjournment has been proposed at

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the meeting, or where such a proposal has been threatened prior to the meeting. In such cases it has not been clear under English law whether the powers of a proxy extend to voting in relation to such an adjournment proposal; this meant that many institutions felt obliged to attend through corporate representatives to ensure the meeting could continue as intended. It would seem to us very important for any method of direct voting to restrict – indeed to prevent entirely – or to allow some scope for responding to such last-minute proposals such that the will of the majority of shareholders, who have expressed their view by direct vote, are not interfered with by a smaller group of shareholders personally present at the General Meeting. It may be that the implication of this concern is that proposals to adjourn meetings can be brought only by the chair of that meeting, and that no other last minute proposals may be brought forward by anyone. It would seem to us that any alternative structure risks disenfranchising the substantial bulk of shareholders.

We would welcome participation in the further development of your thinking on the issue of direct voting.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'P. Lee', with a horizontal line underneath.

PAUL LEE
Director
Hermes Investment Management Ltd

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