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Date

12 February 2010

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

16 FEB 2010

Dear Paul,

Many thanks for your letter of 28th January which, perhaps inadvertently, was addressed to my Press Office.

As you know, M&G has a long history of taking seriously shareholder ownership responsibilities. We believe that governance has a natural and integral place in our active investment management activity.

Our investment time horizon is medium to long term, and we believe this approach serves our clients well, and provides an optimal position for our role in responsible corporate governance.

As active investment managers we believe it is essential to be "joined up" in our ownership role vis-à-vis investee companies, and have little sympathy with some manifestations of box ticking which do little to encourage long term corporate success for the benefit of the wider UK economy.

As significant investors we welcome Sir David Walker's thoughtful and constructive approach to achieving more effective dialogue between shareholders and the directors of their investee companies. Also, the ISC Statement of Stewardship Principles provides a useful summary of desirable and responsible shareholder behaviour.


You have asked us specifically what action we are taking to engage with the banks in relation to their bonus decisions in respect of 2009 performance. Our response to this is that we are, as is our normal procedure, meeting with both executive management and, separately, with Chairmen of bank remuneration committees.

It must be said that in the context of our active stock picking approach we have relatively low holdings in UK-based banks, and would note that in the cases of Royal Bank of Scotland and Lloyds Banking Group the largest and most influential shareholder is Her Majesty's Government itself. We are sympathetic to your point about the asymmetric nature of risks and rewards that has often been the case within banks and we are keen to see remuneration committees address this issue. At the same time we recognise that bank remuneration committees face a particular dilemma this year in seeking to retain genuine talent (where satisfied that it really exists) in the face of both significant international competition and the absence of a consistent regulatory approach around the world towards banking remuneration and capital requirements. Institutional shareholders do not have a silver bullet which will instantly solve this problem, but we are playing our part through our active dialogue with Boards and remuneration committees.

In your letter you rightly are alive to the dangers of micro management and we are doing our best to strike an appropriate balance between exerting pressure where necessary but not second-guessing every remuneration committee decision.

I hope this addresses your issues.

With kind regards,

Yours sincerely,


Michael McLintock

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