



10th February 2010

The Rt Hon. The Lord Paul Myners
Financial Services Secretary to the Treasury
HM Treasury
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Dear Lord Myners

Thank you for your letter of the 28th January with regard to engagement with the UK banks on their bonus decisions.

As I am sure you are aware Threadneedle takes corporate governance extremely seriously and we have had a governance team in place since 1998. This team works closely with all our fund managers and makes sure we engage constructively on matters of corporate governance with all the companies we invest in.

I agree with much of your analysis of the current situation with regard to bank profitability and remuneration policies as well as the need to establish sustainable business models that can both hold the confidence of the public and deliver attractive returns to shareholders. Indeed the rationale for our engagement process as a whole is to work towards achieving this. As the banking industry is to a great extent, a global industry we believe that we need to proceed cautiously as there is a real risk in the UK being isolated from the rest of the world in relation to steps taken to mitigate such issues as excessive remuneration. We would urge that more should be done to achieve a collaborative international approach.

As regards your question of what actions we have taken to engage with banks on remuneration I would like to draw your attention to a number of key points.

We see the management and non-executives of banks regularly throughout the year. Governance issues, including remuneration, are brought up in mainstream meetings as well as in dedicated governance meetings. Over the past 18 months we have spoken to the major UK listed banks on a variety of issues, including remuneration. In terms of how we appraise remuneration committee decisions, we also use proxy voting as a key tool for influencing companies. In all such cases, our primary objective always is to protect and promote the interests of the beneficial owner.

In addition to this we also engage actively on a collaborative basis through the Association of British Insurers (ABI), where our Head of Governance and Responsible Investment holds a seat on the Investment Committee. We have also supported developments such as the FSA Remuneration Code, the Walker Review, the ISC Code and the ABI's Position Paper on Executive Remuneration from December last year.



In all areas we refer to market corporate governance best practice codes and have already incorporated the ISC Principles into our corporate governance guidelines. These guidelines are available on our corporate website.

Finally, as the UK Government is a major shareholder in two of the UK's leading banks we would hope that the government would take a leading role in driving the debate forwards and helping us to achieve what, I think we can all agree, is a desirable outcome for shareholders, tax payers and employees.

I hope this is helpful in answering your queries but do let me know if you have any follow up questions.

Yours sincerely

A handwritten signature in blue ink, appearing to read "Sarah Arkle".

Sarah Arkle
Chief Investment Officer