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Date: 10 July 2015

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Chancellor of the Exchequer & First Secretary of State
Rt Hon George Osborne MP
HM Treasury (HMT)
1 Horse Guards Road
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Dear Chancellor

Supporting Productivity with Long-Term Capital

We are long-term institutional investors and stewards of assets on behalf of pension savers and investors: the signatories to this letter are responsible for investing around £10 trillion of assets, including in long-term infrastructure and technology.

Since 2010, the UK has outperformed in job creation and GDP growth – a significant economic success for the Government. Productivity growth, however, remains 16% below its pre-2008 trend rate. Long-term capital investment in the UK is too low, which contributes to low productivity and low workforce pay.

We support your commitment to addressing UK competitiveness and productivity, including through a new Productivity Plan announced today. We would like to offer practical support for this – a collaboration between government, business and finance to increase investment, productivity, competitiveness and exports, through enhanced long-term investment.

We see our potential role as:

- Building on existing best practice in our sector to support long-term investment;
- Communicating more effectively with investee companies to reinforce our shared interest in their long-term success; and
- Working with government and institutions in the UK and EU on new initiatives to enhance productivity through improved equity and debt capital markets.

1) Building on Best Practice

We have a duty to act in the best interests of our customers, maximising investment returns from the companies in which we invest. This implies balancing short-term performance and sustainable growth: the latter is frequently driven by investment in research, technology, process improvements and developing employees.

Recent experience with corporate governance, diversity and the creation of the Investor Forum, has shown that a collaborative, principles-based approach delivers positive results. We now propose to develop an Action Plan led by the Investment Association to support long-term investment for productivity growth, building on the work of the Law Commission on Fiduciary Duties of Investment Intermediaries, the Stewardship Code and Professor Kay's 2013 Review recommendations. We will report back to you by the end of this year.

2) Our Interactions with Investee Companies

Supporting long-term investment requires effective dialogue with investee companies – misunderstandings can lead to a default to short-termism. Longer-term strategies need to be communicated well to investors and markets, and excessive reliance on quarterly reporting can undermine a long term focus by management and investors.

Through our company engagements, we will support companies investing for long-term growth and challenge those that are compromising long-term competitiveness and productivity. The Investor Forum is well placed to contribute practical solutions.

We expect appropriate returns to shareholders, but as part of a balanced capital strategy. We will not support short-term gains achieved by, for example, cutting appropriate capital expenditure, reducing equity through unjustified share buybacks, particularly where these are designed to artificially boost per share bonus targets, or excessive debt leverage. We will raise the issue directly with investee companies where we believe their long-term investment is insufficient.

3) Reinforcing the Equity Culture

Our collective influence as shareholders needs to be complemented by policy measures to enable capital markets to function more effectively and support long-term investment and productivity improvements.

Equity investment provides the best “slow money” for long-term growth. We would welcome an extended joint initiative, with government and representatives of UK industry, to extend and strengthen the UK’s equity base. This would include support for your work to improve equity market access and IPOs, including through reform to the Listing Rules and the EU Prospectus Directive.

We would look to develop proposals for further incentivisation of long-term investment and further steps to improve the flow of institutional funds into equity issued by both large and smaller companies.

4) Building Long-term Debt markets

Long-term debt can play a significant role in funding physical and digital infrastructure – a vital component in creating a more productive and competitive modern economy.

European debt capital markets currently lag the United States in scale, flexibility and ease of access. We support the initiative to develop more effective Private Placement markets but need to go further to remove unnecessary barriers – whether caused by market practice, cost or regulation – between pools of capital and long-term projects that will drive growth and productivity.

The EU Commission is already taking action on this issue as part of the Juncker Growth Plan and the Capital Markets Union being progressed by Lord Hill. The investment appetite and the expertise of the UK industry needs to be deployed alongside the UK Government to develop effective solutions in the UK’s and Europe’s interest.

There is no shortage of liquidity in the primary corporate bond market, and interest rates remain close to 400-year lows. We need to seize this opportunity to deliver long-term growth in the UK and Europe. A number of institutions are already stepping up long-term investment programmes, but capital available for long-term growth remains under-utilised: a missed opportunity to improve productivity and support the Government’s long-term economic plan.

We believe the four items outlined above can make a meaningful difference, and would therefore like to develop this agenda further. We see this as an ongoing process, supported by regular reports, the first of which would be by the end of this year. We hope this offers a useful way forward, and look forward to your response.

Yours sincerely

Elizabeth Corley, Allianz Global Investors

David Lis, Aviva Investors

Simon Fraser, Chairman Investor Forum

James MacPherson, Blackrock Investment Management
Co - Lead UK Equities

Mark Zinkula, Legal & General Investment Management

Helena Morrissey, Newton Investment Management & Chair Investment Association

Peter Harrison, Schroders Plc

Mark Burgess, Columbia Threadneedle Investments

Keith Skeoch, Standard Life Investments

Neil Woodford, Woodford Investment Management