

11TH AUGUST 2004

ALL MEMBERS NEWSLETTER

# SWIP - The Underperforming 'Dog'

Lloyds TSB's No 1 and No 2 Pension Funds, which between them are worth approximately £8 billion, are managed by the Scottish Widows Investment Partnership. SWIP currently has some £70 billion of assets under management, a third of which is invested in the shares of UK companies.

Independent Investment Advisors, Bestinvest, run a regular guide to avoiding the worst performing funds - 'Spot the Dog' - and their most recent report shows that Scottish Widows (including SWIP) is the group with the largest pack of dogs. According to Bestinvest, commenting on retail funds, Scottish Widows and SWIP have £1.6 billion spread across no less than ten 'Dog' Funds. SWIP's underperformance

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**INSIDE**

**Best Financial Return Principle**

**Trustees Act**

**LTU Pensions Claim**

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is acknowledged by Archie Kane, the Chief Executive of Scottish Widows, who said in a recent interview with the Sunday Herald that "SWIP have had a variable performance on equities.". That is the understatement of the year.

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## Historical Underperformance

The 2003 Investment Report on the Lloyds TSB No 1 Pension Fund shows that the value of the scheme's net assets was £5,738 billion as at 30th June 2003, a decrease of £753 million from the preceding year. In 2003 the overall return on the Scheme's investments, which are managed by SWIP, fell by 7.3% compared to the WM50

median benchmark which fell by 5.5%. Over the past five years the cumulative annualised return for the No 1 Pension Fund was -1.2% compared to the fund benchmark which fell by 0.2%. The graph overleaf shows that in the last 5 years the No 1 Fund has outperformed the benchmark on only one occasion.

We accept that the fall in the value of the No 1 and No 2 Funds is not solely related to the performance of SWIP and nor are they the only underperforming fund manager. However, they are the Fund Managers managing our members' deferred pay and if they are consistently underperforming against a not too demanding

benchmark then they must be replaced by Fund Managers who can produce a superior performance.

Such historical underperformance by a Financial Consultant in the Bank would have almost certainly led to their dismissal. But SWIP, with teflon-like qualities, have managed to survive for far too long.

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## Best Financial Return Principle

The importance of the Lloyds TSB Pension Funds' account to the future profitability and viability of SWIP cannot be over estimated. SWIP is part of Scottish Widows' core strategy of making sure the bancassurance model, where an insurer sells its retail products through the branches of an associated bank, works. If Lloyds TSB's No 1 and No 2 Pension Funds terminated SWIP's contract and moved their funds elsewhere then other Pension Funds would follow. SWIP would be damaged and the Scottish Widows brand would suffer.

Some will argue that because both Pension Funds are guaranteed by the Bank then the performance of the Fund Managers is irrelevant. In 2003 and 2004 the Bank will contribute £450 million to the Pension Funds. That £450 million is a cost to the Bank which could have been

used to improve the benefits of the scheme, LTU's continuing claim is set out opposite, increase the size of the pay pot and move staff to the 'market' zone more quickly or could have been invested elsewhere within the business to increase the Group's profitability.

The argument that it doesn't matter about SWIP's management of the funds would, if expounded by the Trustees, cause them to be in breach of their fiduciary duty to act in the best interest of the beneficiaries of the funds. Trust Law says that for beneficiaries, best interest equates to their financial interest and trustees must do everything legally possible to maximise returns. Equally the sole consideration of the Trustees must be the interests of the fund and not the impact removing SWIP would have on Scottish Widows.

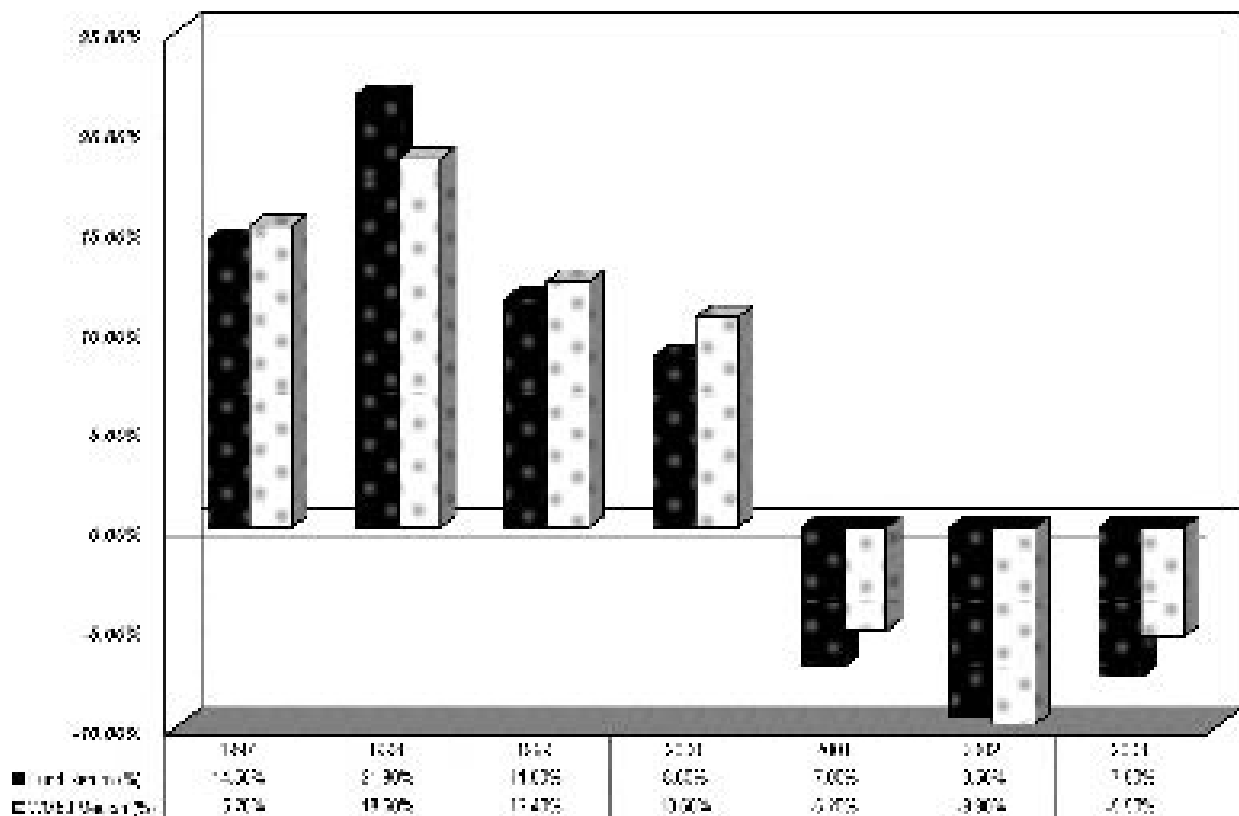
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## Trustees Act on Underperformance

LTU has been told that the Trustees of the No 1 and No 2 Pensions Funds have acted on SWIP's underperformance and agreed to move 13% of the SWIP investment portfolio, just over £1 billion, to a number of specialist managers to see how they perform against agreed benchmarks and to then compare that to the performance of SWIP over the same period. In a letter to the Head of Pensions LTU has asked

for "... details of the new funds, how much they have each been given, how performance will be measured, by whom and over what period? Also on what basis were the specialist fund managers chosen? Were SWIP involved in the choice of the specialist fund managers?".

We will keep members informed of developments.



# The LTU Pensions Claim

LTU's continuing claim to harmonise and improve pension benefits includes the following:

- **Spouse's pension to be harmonised on the TSB basis of 2/3rds of the member's pension, both for death in service and retirement.**
- **State pension clawback to be removed from the Lloyds scheme with pensions in payment to be increased to the level at which they would have been paid had clawback not previously applied.**
- **Definition of 'pensionable salary' to include bonuses and other taxable benefits.**
- **Minimum Annual Increases of 3%.**

**IAN PARTRIDGE**  
General Secretary