

28th September 2004

All Members Newsletter

SWIP - Money for Nothing

The staff reaction to our last Newsletter criticising SWIPs management of the Lloyds TSB Pension Funds has been unprecedented. Staff who are criticised on a daily basis about their own performance are understandably concerned that over the past five years the cumulative annualised return for the No 1 Pension Fund fell by 1.2% compared to the fund benchmark which fell by just 0.2% and SWIP are still managing over 80% of the combined Funds.

What accounts for that under-performance and why has it been allowed to continue unchecked for so long? LTU have written to the Bank's Pensions Department asking them to provide us with details about the Pension Funds, their performance over the last three years and details of the contractual relationship between the Pension Funds and SWIP. An extract from our letter to the Bank's Head of Pensions is set out above. The Bank's response to our questions, including the Statement of Investment Principles for both funds, will be posted on LTU's website at www.ltu.co.uk.

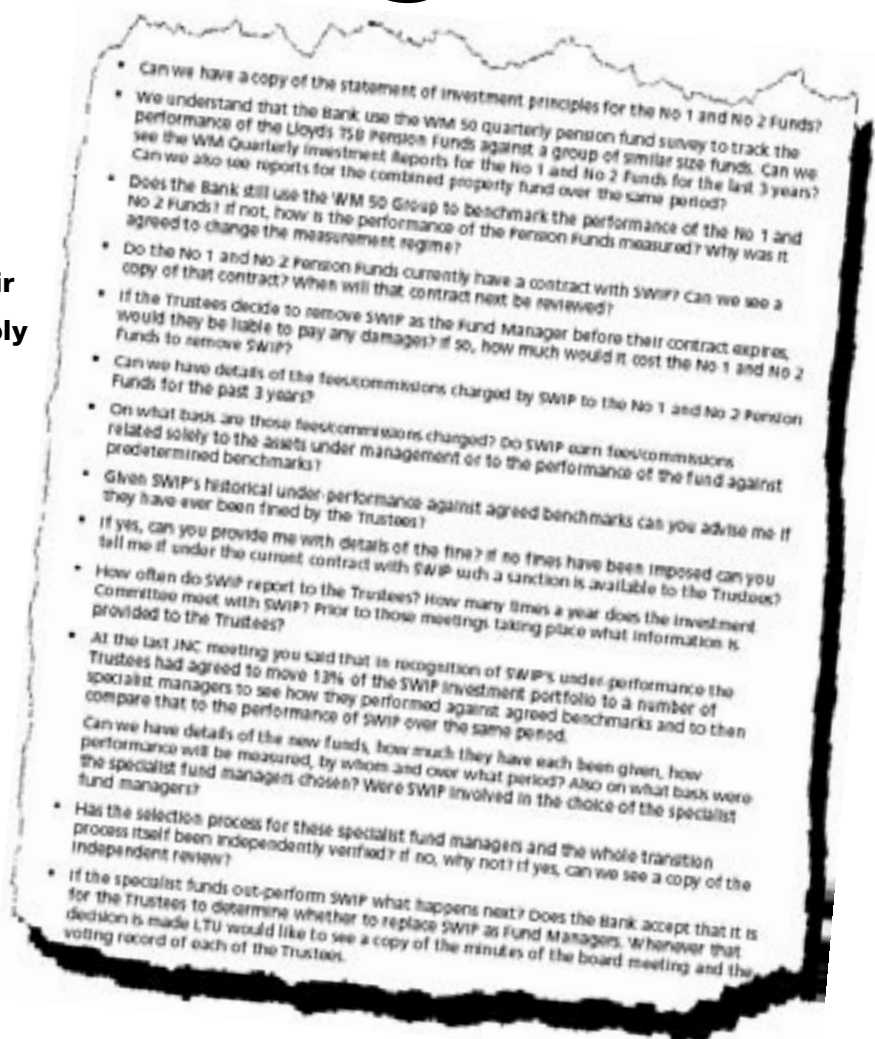


Table 1: SWIP's Historical Under-Performance

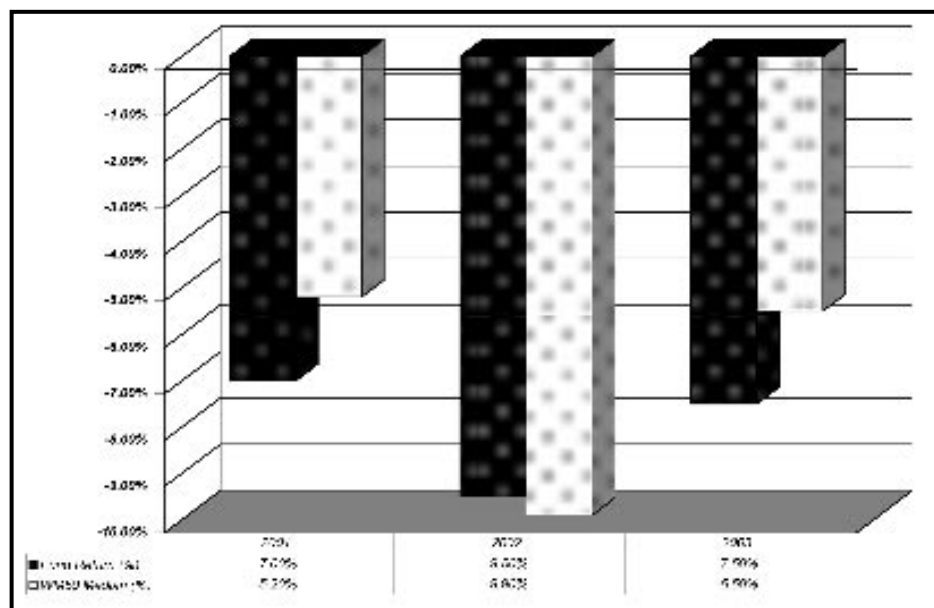


Table 2: SWIP's Management Fees

Year Ended	No 1 £'000	No 2 £'000	Total £'000
June 2003	5,601	3,323	8,924
June 2002	7,039	4,343	11,382
June 2001	8,435	4,755	13,190
Total	21,075	12,421	33,496

Performance Related Fees

Why is it that SWIP's management fees are not directly related to the performance of the No 1 and No 2 Funds?

Shunning the opportunity to pay performance-related fees to investment managers is not specific to Lloyds TSB but is in fact an industry wide issue. According to a recent survey by Watson Wyatt nearly all investment managers provide products with performance-related fees but only 13% of their clients take up the offer. That is despite the evidence that funds which demanded a performance-related element believed they had achieved better value for money.

Since 1999 SWIP has charged the No 1 and No 2 Funds £33.5million in management fees (Table 2 above sets out the figures in more detail) but their performance over the same period, as can be seen in Table 1, has been unimpressive. SWIP's pre-tax profits last year

amounted to just £2million at a time when the Lloyds TSB Pension Funds paid management fees of £8.9million. Are the Lloyds TSB Pension Funds propping up an unprofitable business?

In Bank speak, SWIP is currently languishing in the 'under-performing' zone. On its website SWIP says "We aim to provide our investors with consistently superior investment returns.". Whilst they might have achieved that aim for their other clients, they certainly haven't achieved it for the Lloyds TSB Pension Funds.

In our letter to the Bank we have asked whether under the current contract between SWIP and the Pension Funds, the Trustees have the power to levy fines for under-performance. If they don't, and there are no sanctions available to the Trustees, then there is no incentive for SWIP to ensure they outperform the agreed benchmarks. It seems that there is no specific penalty for under-performing and no specific reward for over-performing an agreed upon benchmark.

Time To Act Now

In my last Newsletter we said that the Pensions Funds had acted on SWIP's under-performance and had agreed to move 13% of the SWIP investment portfolio, just over £1billion, 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.

The investment managers that have been appointed, their benchmark, performance objective and initial percentage of total fund are set out in the Tables 3 and 4 below.

Table 3: Investment Manager Arrangements

Manager	Mandate	Initial % of total fund	Benchmark	Target outperformance
SWIP ¹	Multi-asset core	71.5	See below	0.5% pa / 3 yrs
SWIP ¹	Property	8.0	IPD Annual (£250-750m)	1% pa / 3 yrs
SWIP ¹	Private equity	2.5	FTSE All Share	5% pa / 5 yrs
SWIP ¹	Specialist UK equities	5.0	FTSE All Share	2% pa / 3 yrs
Liontrust	Specialist UK equities	2.5	FTSE All Share	2% pa / 3 yrs
Bernstein	Specialist UK equities	2.5	FTSE All Share	2% pa / 3 yrs
TCW	US large cap	4.0	S&P 500	2% pa / 3 yrs
Awad	US small cap	1.0	Russell 2000	2% pa / 3 yrs
Nomura	Japan	1.5	TOPIX	3% pa / 3 yrs
First State	Pacific Basin ex Japan	1.5	MSCI AC Asia Pacific (ex Japan)	3% pa / 3 yrs

Table 4: Analysis of Core Portfolio

	Benchmark Allocation (%)	Benchmark Index
UK equities	31.5	FTSE All-Share
Overseas equities	37.8	
Europe (ex UK)	14.7	MSCI Developed Europe ex UK
North America	7.7	S&P Composite
Japan	7.7	MSCI Japan
Pacific Basin (ex Japan)	2.8	MSCI Developed Pacific ex Japan
Emerging Markets	4.9	MSCI Emerging Markets Free
UK Bonds	28.0	
Fixed interest gilts	7.0	FTSE A All Stocks Gilts
Index-linked gilts	7.0	FTSE A ILG (Over 5 years)
Sterling non-government bonds	14.0	Barclays Total Corporate Bond Index (excluding BBB)
Cash	2.7	7 Day Sterling LIBID
Total	100.0	

The Trustees met in September and will be meeting again in November to discuss the performance of SWIP and the specialist fund managers. **LTU's position is clear. SWIP have had more than**

enough time to put things right but have consistently failed to do so. Enough is enough. SWIP has got to be replaced by Fund Managers who can deliver superior absolute performance.

Bank Taken to CAC - Again

The Bank is under a legal obligation to disclose on request information which LTU requires for the purposes of conducting collective bargaining on behalf of its members.

As part of our 2004 Pay negotiations we wrote to the Bank in January and asked it to provide us with a breakdown of staff numbers in each Branch Director Group. Following the introduction of the Local Market Strategy we also wrote to the Bank asking for further information on staff numbers.

The Bank, which seems to be more concerned about what we will do with the information rather than meeting its legal obligations, failed to provide the information despite repeated requests. Previously we have told the Bank that we cannot give any assurances regarding the publication of information if that information is fundamental to the Union's collective bargaining case. Why should staff be kept ignorant of the facts?

The Advisory, Conciliation and Arbitration Service, ACAS, who are responsible for promoting the improvement of good industrial relations have issued guidance on the kind of information to be disclosed by employers to trade unions. Whilst the exact details of the information to be disclosed will vary the examples provided by ACAS include "manpower numbers employed analysed according to grade, department, location, age and sex ...".

If an employer fails to provide the information requested then the Union can complain to the Central Arbitration Committee (CAC). LTU have issued proceedings against the Bank under Section 183 of the Trade Union and Labour Relations (Consolidation) Act on two occasions over the last few months. Some of the information we requested in our second complaint to the CAC was an update of information we had received following our first complaint.

The Bank's policy seems to be to force LTU to make a complaint under the 1992 Act, and then provide us with the information we originally requested, which they know they are legally obliged to provide, only when they get a letter from the Central Arbitration Committee advising the Bank that they are now involved in the dispute. In the meantime, the CAC is forced to appoint a Panel to consider the complaint. Such a policy is an abuse of the important work carried out by the CAC and, more importantly, a waste of taxpayers' money.

LTU have written to the CAC and asked for a formal meeting to discuss what they can do to ensure that the Bank honours its legal obligations.

Mark V Brown
Assistant General Secretary