

actively managed funds and those reduce the returns realised by the pension funds relative to that available to less costly, passively managed funds.

An Agenda For Appeasement

We expected the Bank and Watson Wyatt to try and discredit the two reports produced by Hymans Robertson's on the size of the pension deficit in the No 1 and No 2 Pension Funds but what surprised us, even by their low standards, was the position of Amicus. We can understand that at the moment they are distracted by their impending merger with the Transport and General Workers Union and don't have the time or resources to commission work on the state of the Bank's Pension Funds but to criticise LTU for doing what it can't do is completely unacceptable.

Amicus have accused LTU of 'scaremongering' and have chosen to side with the Bank on this important issue. Amicus have said that they have been told by the Bank that the pension schemes remain in good hands and as far as they are concerned that good enough for them. So no independent analysis - Amicus simply accept what they are being told by the Bank. It is disappointing that a once proud Union with roots going back to the formation of the trade union movement has now sadly become an appendage of the Bank's HR department

The question is why have Amicus chosen to turn a blind eye?

The reason Amicus has chosen to criticise LTU rather than the Bank on this issue is simply one of survival. Without the financial support of the Bank, and that comes with strings attached, Amicus could not operate in Lloyds TSB. Its officials who represent staff are paid for by the Bank. And the Bank has been unsurprisingly generous in providing Amicus with phones, cars and office accommodation, again paid for by the Bank.

This lack of financial independence means that when 'push comes to shove' Amicus will always side with the Bank because to do otherwise would be financial suicide. Only LTU is able to represent staff effectively and I would urge members to recruit any remaining colleagues who are not yet members.

Mark V Brown
Assistant General Secretary

7th March 2007

All Members Newsletter

Bank Agree To Appoint Independent Actuary

In our previous Newsletters on pensions we have said that one of our concerns with the running of the Lloyds TSB No 1 and No 2 Pension Funds, especially given the increased powers of the Trustees, is the role of the Scheme Actuary. Members will recall that at the moment Watson Wyatt advise both the Bank and Trustees. Although there is no criticism of Watson Wyatt's performance we do believe that there could be a perceived conflict of interest that can only be resolved by either the Bank or the Trustees appointing their own actuarial advisers.

We first raised this issue with the Bank in 2004 when we said "...the Trustees should have their own legal and actuarial advisors whom they can call upon to provide them with truly independent advice when there may be a potential conflict between the interests of Pension Fund members and the Bank as a corporate entity. It should be for the Trustees and not the Bank to determine when they need access to those advisors".

Whilst the potential for a conflict of interest has always existed, the fact is that now, when the schemes are in deficit, the Group would normally prefer to minimise, whilst the Trustees would prefer to maximise, the rate of employers' contributions.

Time to Shoot The Dog, Diversification Now and Active or Passive Management?

Having resisted changes the Bank has now agreed with LTU's proposal and in a letter to the Union Ewan Brown the Chairman of Trustee Directors for the No 1 and No 2 Pension Funds has confirmed that the Bank will be replacing Watson Wyatt with different actuarial advisers. We applaud the Bank's U-turn and now we just want the Trustees to bring forward the next actuarial valuation so that we have a clear picture of the state of the pension funds.

Members with any questions can contact the Bedford Office on 01234 262868 or they can email me at Mark.Brown@ltu.co.uk.

Time To Shoot The Dog

Members will recall from our previous Newsletters that LTU has been concerned for some time about SWIP's continuing management of the Lloyds TSB Pension Funds despite the fact that they are a serial under-performers.

It is our contention that this serial under-performance has gone unchecked because SWIP is part of the Lloyds TSB Group.

Any other investment manager would have been replaced a long time ago but the Trustees have in our opinion put the interests of the wider Lloyds TSB Group above those of the pension scheme members. That is unacceptable and it must stop now.

The broker Bestinvest, which names and shames the most poorly performing actively managed funds, has previously described some of SWIP's investment funds as "dogs with fleas". Bestinvest's January 2007 report identifies 60 dogs in the kennel compared to 52 last July and 38 a year ago. SWIP has moved up the dog row since July last year and is now in 3rd position behind Prudential and Henderson.

Like SWIP many investment managers have sought to buy new talent to try and turn around their under-performing funds but the evidence shows that doesn't always work. According to Bestinvest SWIP have made over 20 manager changes over the last three years but with limited success.

Hewitt Associates Financial Services Limited were asked to monitor the Civil Service AVC Scheme providers including Scottish Widows. In an internal report which LTU has seen Hewitt's concluded that the SWIP Global Equity Fund should be closed to new

14th December 2006

Mr E Brown
Chairman
Lloyds TSB Group Pension Trust (No 1) Limited
25 Gresham Street
London
EC2V 7HN

Dear Mr Brown

Thank you for your letter of 4th December 2006.

I appreciate that the Trustee Board appointed a number of new fund managers at the beginning of the year but the fact remains that the bulk of the fund is still under SWIP management.

In my letter I said "Simply ignoring the issue in the forlorn hope that with the passage of time SWIP's performance will improve is simply unacceptable". It seems to me from your response that is exactly what you have done and that you seem to be more interested in seeking to defend SWIP's reputation than you are in securing the best financial returns for the fund members.

For the record, might I suggest you look at page 16 of the 2006 Annual report and financial statements, which you signed on behalf of the Trustees, and which confirms that over a three year period the fund return was 14.7% against a scheme benchmark of 15.1% and over 5 years the fund return was 4.8% against the scheme benchmark of 5.5%. When it comes to determining the future investment strategy of the fund you should concentrate on those figures rather than defending SWIP by focusing on their performance over the last year. The Trustee Board seems to be delaying making any decision about the future investment strategy of the funds hoping that SWIP's serial under-performance can be turned around before any final decisions about their continuing involvement in the management of the funds have to be made.

Yours sincerely

Mark V Brown
Assistant General Secretary

Mr E Brown
Chairman
Lloyds TSB Group Pension Trust (No 1) Limited
25 Gresham Street
London
EC2V 7HN

Dear Mr Brown

I refer to your letter dated 25th November 2005

In that letter you said that the Trustees "... will be talking in depth with the bank about liability strategies and it is not anticipated that the final investment strategy and structures will be decided upon until next year." That statement was made 12 months ago and since then we have heard nothing from the Trustees. I appreciate that developing a new investment strategy and moving funds from existing structures can take time but the Trustees have had a year to do that, and that is long enough.

You will no doubt recall that the reason for sending the letter was our concern about SWIP's continuing management of the Lloyds TSB No 1 and No 2 Funds. We have repeatedly said that given SWIP's serial under-performance over the last few years, the Lloyds TSB Pension Funds should be moved to better performing funds, be they actively or passively managed. Simply ignoring the issue in the forlorn hope that with the passage of time SWIP's performance will improve is simply unacceptable. The Trustee Directors have a legal responsibility to maximise financial returns and I fail to see how you can be fulfilling your fiduciary duty whilst SWIP still manages a significant proportion of the Lloyds TSB Pension Fund.

I have sent a copy of this letter to each member of the Trustee Board and I look forward to your early response.

Yours sincerely

Mark V Brown
Assistant General Secretary

"Overall, we have significant concerns with SW in-house overseas equity capabilities and are not confident that the situation will improve in the foreseeable future".

"Scottish Widows have historically experienced staff retention problems".

Report from Hewitt Associates for the Civil Service AVA Scheme

investors and that investors should be told about alternative funds offered by State Street and UBS.

Hewitt says that their main concerns with Scottish Widows overseas equity fund relates to the restructuring of the in-house equity team and the resulting under-performance and the fact that

Scottish Widows have historically experienced staff retention problems.

Diversification Now

In respect of the Lloyds TSB funds, the latest data

confirms that over a three year period the fund return was 14.7% against a scheme benchmark of 15.1% and over 5 years the fund return was 4.8% against the scheme benchmark of 5.5%.

As we have said previously the Trustees have begun to act on SWIP's under-performance and agreed in 2004 to move 14% of the SWIP investment portfolio to a number of specialist managers to see how they perform against agreed benchmarks.

We believe that the pace of diversification has been too slow and that the Trustees should have moved more of the fund away from SWIP a long time ago.

When we raised this last year the Chairman of the Trustees said that the funds were currently reviewing their investment strategy and the outcome of that review would be made available to LTU. Since then we have heard nothing. We recently wrote to Ewan Brown the Chairman of the Trustees to question the outcome of the investment review and our letters are published opposite.

Active or Passive Management?

We understand that a number of large pension funds are moving away from actively managed funds and instead adopting a passive investment strategy whose aim would be to replicate the return on some broad market index at a minimum cost to the funds. Some may view such a strategy as risk averse but there is a growing body of evidence, both in the UK, the USA and Australia, which points to the fact that pension funds incur significant costs associated with