

2nd March 2005

All Members Newsletter

SWIP Branded "Dog With Fleas"

Again Scottish Widows has been branded the worst of the worst by broker Bestinvest. SWIP has topped the 'Spot the Dog' league table, in which Bestinvest names and shames the most poorly performing actively managed funds, since July 2003.

SWIP has claimed that improvements to its research processes and UK and European Equity teams had boosted performance but "not across all allocated funds to the same extent." They also said that "We will not allow disappointment in short-term performance figures to affect our investment discipline."

But Bestinvest, who branded those leading the pack in under-performers as "dogs with fleas", said that "Market Conditions have continued to offer some reprieve to fund managers. However, this leaves many of the funds included in our guide with nowhere to hide; the managers must accept they have consistently failed to deliver through their own failings."

But we know that SWIP are past masters at finding excuses for their under-performance. In fact, if SWIP was as good at share picking as it was at finding excuses for its under-performance the No 1 Fund would be massively in surplus. Over the past 5 years the cumulative annualised return for the No 1 Fund fell by 1.2% compared to the fund benchmark which

fell by just 0.2%, (See Table 2 on page 4 of this Newsletter). **SWIP has only managed to outperform the agreed benchmark on one occasion since 1997. However, in that time period SWIP has charged the No 1 Fund just over £21 million in management fees and expenses, (See Table 3).**

Diversification Now

Members will be aware that the Pension Fund Trustees have begun to act on SWIP's serial under-performance and agreed to move 13% of the SWIP investment portfolio, just over £1 billion, to a number

Table 1: 'Dog Row'

Group	Funds £bn	'Dogs' £bn	%
Scot Wids/SWIP	11.08	1.55	14
New Star	3.16	1.22	39
Henderson	6.03	1.18	20
Fidelity	14.85	0.95	6
Prudential / M&G	8.84	0.94	11
Insight	3.07	0.67	22

The fund must have underperformed its benchmark in **each of the last three years,**
AND
The fund must have underperformed its benchmark by at least 10% **over the past three years cumulatively** (this weeds out tracker funds).

Pension Fund Statistics

Table 2: SWIP's Historical Under-Performance

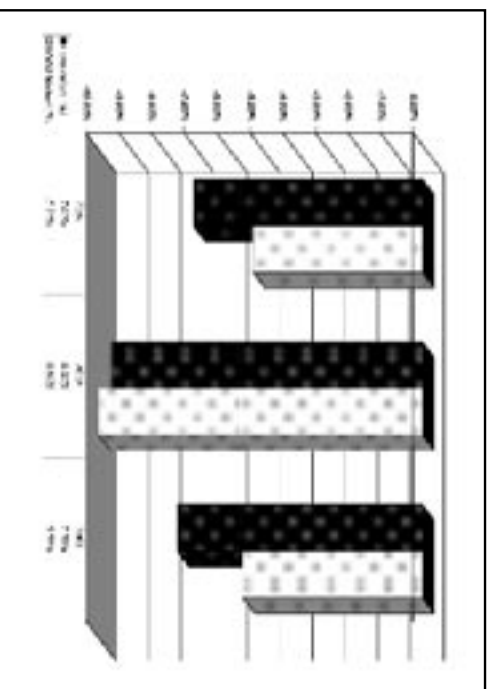


Table 3: SWIP's Management Fees

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

Table 4: 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 5: 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	

of specialist managers to see how they perform against an agreed benchmark and then to compare that to the performance of SWIP over the same period, (See Tables 4 and 5). **Notwithstanding that exercise, the Trustees, whose sole responsibility is to maximise financial returns, should be moving more of the fund away from SWIP now. For the Trustees to give SWIP more time, given their performance to date, could put them in breach of their fiduciary duty to act in the best interest of the beneficiaries of the funds.**

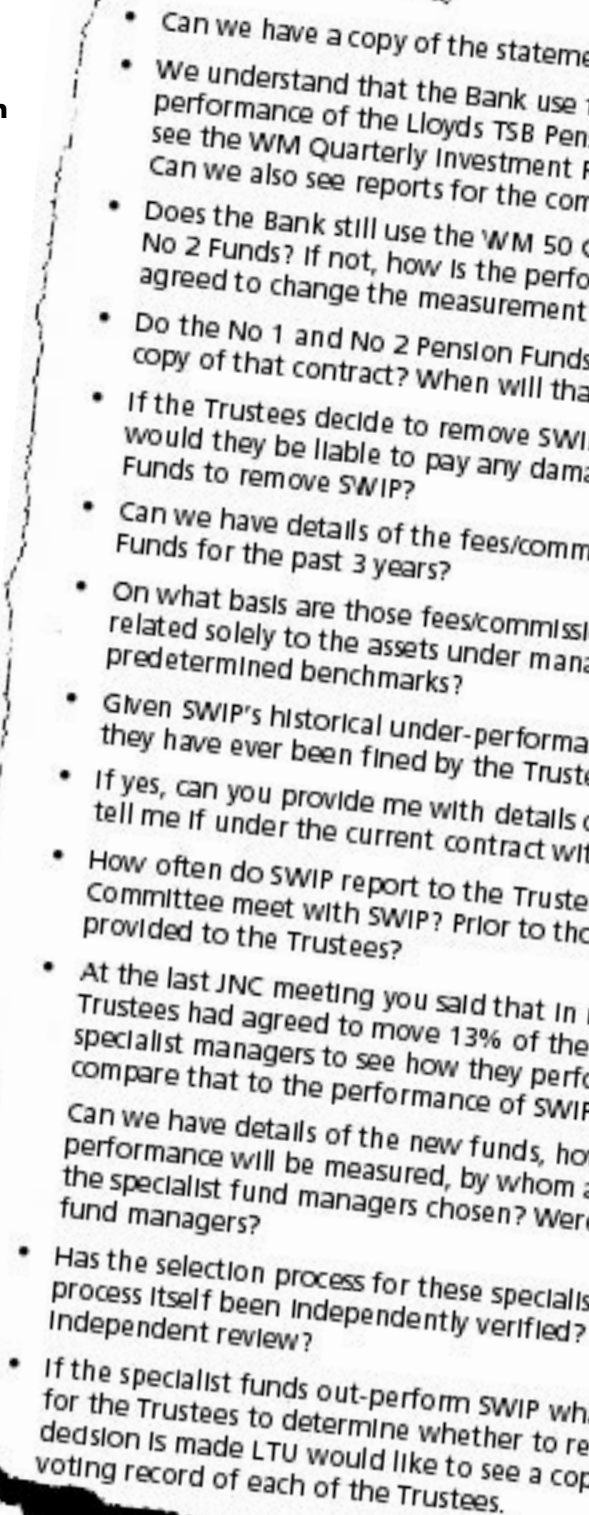
LTU's Freedom of Information Request Denied

Members will recall that back in September we wrote to the Bank 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 Pensions Funds and SWIP. The list of questions which we sent the Bank is set out opposite.

Since then the only information we have received from the Bank is the Statement of Investment Principles for the No 1 and No 2 Funds and the management fees charged by SWIP in the last three years. Those documents will be posted on the LTU website at www.ltu.co.uk shortly. In the meantime, if you would like a copy of the investment principles then you can contact Janet Gilkison at 24hours@ltu.co.uk.

Apart from the Statement of Investment Principles, which they are legally obliged to provide, and the management fees charged by SWIP, the Bank has so far refused to provide any of the detailed information we have requested on the performance of the pensions funds, the performance of SWIP, or details of the contractual relationship between SWIP and the Bank. What have they got to hide? Staff should have access to the information on the performance of the Pension Funds as a matter of course.

The Bank has said that a decision to provide the information we have requested can only be made by the Trustees but they met in November and the Bank failed to put our request to them for discussion despite saying they would.

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- Can we have a copy of the statements?
 - We understand that the Bank use the performance of the Lloyds TSB Pension Funds to see the WM Quarterly Investment Funds. Can we also see reports for the comparison?
 - Does the Bank still use the 'WM 50' for the No 2 Funds? If not, how is the performance agreed to change the measurement?
 - Do the No 1 and No 2 Pension Funds have a copy of that contract? When will they be able to see a copy?
 - If the Trustees decide to remove SWIP, would they be liable to pay any damages to the Funds to remove SWIP?
 - Can we have details of the fees/commission for the Funds for the past 3 years?
 - On what basis are those fees/commission related solely to the assets under management and predetermined benchmarks?
 - Given SWIP's historical under-performance, have they ever been fined by the Trustees?
 - If yes, can you provide me with details of the fine? Tell me if under the current contract with SWIP?
 - How often do SWIP report to the Trustees? How often does the Committee meet with SWIP? Prior to the meeting, what is provided to the Trustees?
 - At the last JNC meeting you said that in the past the Trustees had agreed to move 13% of the funds to specialist managers to see how they perform. Can we compare that to the performance of SWIP?
 - Can we have details of the new funds, how their performance will be measured, by whom and what the specialist fund managers chosen? Were they approved by the Trustees?
 - Has the selection process for these specialist managers been independently verified? Can we have an independent review?
 - If the specialist funds out-perform SWIP, would the Trustees determine whether to remove SWIP? If a decision is made, LTU would like to see a copy of the voting record of each of the Trustees.

Equally, some of the questions we have asked are directed at the Bank specifically, and they still haven't been answered yet. We will be formally asking that our request for

information on the performance of the Pension Funds is put to the Trustees at their meeting in March. It goes without saying that any information we get from the Bank in response to our questions will be posted on the LTU website at www.ltu.co.uk.

LTU's Pension 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%.**

Because both the Pension Funds are underfunded, we have to be realistic about achieving any of our claim fully in the short term. However, the Bank's contributions in 2003 and 2004, the movement of fund assets away from SWIP and a more benign investment environment could herald a period of strong growth for the Pension Funds and our claim will then become much more financially viable.

Mark V Brown
Assistant General Secretary