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All Members Newsletter

SWIP's Endemic Underperformance

Dogs bark, politicians lie and SWIP underperforms.

SWIP, who currently manage 86% of Lloyds TSB's No 1 and No 2 Pension Funds which between them have assets of nearly £10 billion, have proven yet again that they are serial underperformers.

The 2004 Annual Report for the Lloyds TSB Group Pension Scheme No 1 shows that the overall return on the Scheme's investments, from both income and capital appreciation combined, was 13.4%. That looks a good return. **However, the scheme benchmark, which was agreed with SWIP, was 15%. So yet again, SWIP have underperformed against the agreed benchmark by 1.6%.**

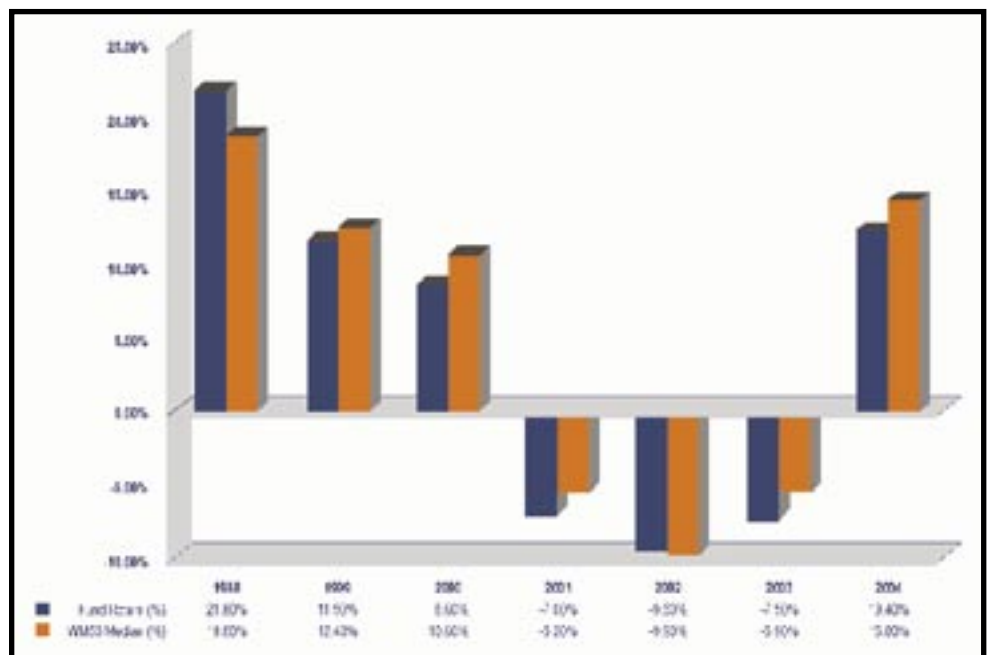
Over the last 5 years the cumulative annualised return for the No 1 Pension Fund was -0.8% compared to the fund benchmark of 0.5%. The updated graph opposite shows that in the last 6 years the No 1

Fund has outperformed the benchmark only on one occasion.

Whilst a straightforward comparison with other schemes is a useful exercise it should be viewed with caution. However, that said, it does provide a useful indication of the relative investment performance of funds and their investment managers.

According to Russell/Mellon's UK Pension Fund Results the fund median return over the 5 years ending 31st March 2004 was 0.6% compared to

Lloyds No 1 Pension Fund ... overall return on investments



TOP 100 PENSION SCHEMES

SCHEME	2006 £bn	2005 £bn	SCHEME	2006 £bn	2005 £bn
1. BT Pension Scheme	26.20	26.00	61. SAA Pension Fund	2.79	2.56
2. British Coal Pension Schemes	25.10	18.75	62. Zurich Financial Services UK Pension Scheme	2.70	2.70
3. Universities Superannuation Scheme	19.60	19.60	63. Officers' Superannuation Committee	2.70	2.70
4. Electricity Supply Pension Schemes	17.27	15.88	64. Scottish Power Pension Scheme	2.68	2.22
5. Royal Mail Pension Scheme	16.20	14.80	65. Co-operative Group CWS Pension Fund	2.67	2.81
6. Barclays Bank UK Retirement Fund	13.00	10.70	66. Smiths Group Pension Scheme	2.66	2.80
7. BP Pension Scheme	12.61	9.96	67. Diageo Pension Scheme	2.63	2.88
8. Scottish Teachers' Superannuation Scheme	12.00	12.80	68. Lloyds Pension Fund	1.87	1.82
9. Royal Bank of Scotland Gap Pension Fund	11.66	14.40	69. Asa UK Group Pension Scheme	1.86	1.67
10. Railways Pensions Scheme	11.00	13.50	70. Mistletoe Pension Fund	1.83	2.80
11. Lattice Group Pension Scheme	10.14	14.80	71. Essex County Council Pension Fund	1.82	1.86
12. Lloyds TSB Group Pension Schemes	10.00	11.89	72. British Energy Generation Group of Electricity Supply Pension Schemes	1.80	1.82
13. British Airways Pension Schemes	10.00	9.67	73. Phillips Pension Fund	1.80	1.76
14. Shell Continental Pension Fund	8.62	10.72	74. Halifax Retirement Fund	1.78	1.80
15. British Steel Pension Scheme	7.74	7.20	75. Bank Superannuation Fund	1.72	1.62
16. Greater Manchester Pension Fund	7.20	6.29	76. GEM plc Group Pension Schemes	1.70	1.22
17. Strathclyde Pension Fund	6.70	6.80	77. O2 Employees' Pension Scheme	1.66	1.62
18. ICI Pension Fund	6.69	6.71	78. BA Pension Scheme	1.66	-
19. B&E Systems Pension Scheme	6.24	6.99	79. Lathrop UK Pension Plan	1.63	-
20. BIC Pension Fund	6.04	6.80	80. Staffordshire County Council Pension Fund	1.62	1.61
21. HSBC Bank Pension Scheme	6.00	6.60	81. Bath & North Somerset Council Pension Fund	1.59	1.61
22. West Yorkshire Pension Fund	6.00	4.50	82. The M&P Pension Plan	1.58	1.58
23. GVA/VA Staff Pension Scheme	5.89	6.80	83. Reed Elsevier UK Pension Scheme	1.56	1.26
24. GlasGlas BMO Pension Plan	4.04	3.20	84. Scottish & Newcastle Pension Plan	1.56	1.56
25. West Midlands Metropolitan Authorities Fund	4.00	3.70	85. AMP UK Staff Pension Scheme	1.55	1.87
26. Marks & Spencer Pension Scheme	3.64	3.85	86. Hampshire Pension Fund	1.55	1.80
27. Prudential Staff Pension Scheme	3.64	3.80	87. Nottinghamshire County Council Pension Fund	1.55	1.48
28. Tesco Group Pension Scheme	3.57	3.80	88. Marsh Masey Pension Fund	1.52	-
29. Ford Pension Funds	3.40	4.40	89. Granada Pension Scheme	1.52	1.70
30. BAW (UK) Operations Pension Scheme	3.27	3.11	90. Cheshire Pension Fund	1.49	1.28
31. IBM UK Pension Plan	3.24	4.70	91. Bank of England Pension Fund	1.48	1.25
32. LBT Pension Fund	3.15	3.28	92. Royal London Group Pension Scheme	1.46	-
33. Civil Aviation Authority	3.10	4.60	93. Allied Domeq Pension Fund	1.46	1.46
34. Unilever Pension Fund	3.11	3.50	94. The BHM Pension Scheme	1.41	1.41
35. Rolls Royce Pension Fund	3.00	3.40	95. East Kentment Plan	1.40	1.40
36. J Sainsbury Pension Schemes	2.89	2.62	96. Cable & Wireless Superannuation Fund	1.40	1.40
37. The Boots Company Pension Scheme	2.81	4.67	97. The MIRA Group Pension Scheme	1.40	1.22
38. The London Pensions Fund Authority	2.80	2.80	98. Coors Pension Plan	1.29	1.43
39. TSN/Garnett Admin UK Local Pension Scheme	2.77	4.20	99. Moriel Newcastle UK Pension Plan	1.28	1.23
40. Merchant Navy Officers' Pension Fund	2.72	2.72	100. Gas UK Retirement and Death Benefit Plan	1.22	1.22
41. Electricity Supply Pension Scheme (Energy)	2.70	4.70			
42. South Yorkshire Pension Fund	2.65	2.25			
43. AstraZeneca Pension Fund	2.60	4.20			
44. Lancashire County Pension Fund	2.55	2.43			
45. Monopole Pension Fund	2.50	4.80			
46. Tyne & Wear Pension Fund	2.26	1.87			
47. The Pensions Trust	2.24	1.80			
48. Texaco Pension Scheme	2.22	1.75			
49. The GEC TSD Plan	2.20	4.20			
50. Imperial Tobacco Pension Fund	2.20	2.20			
			101. Vauxhall Motors Ltd Pension Plan	0.80	1.22

-0.8% for the Lloyds TSB Group No 1 Fund. The upper quartile return, which is what you would expect a high performing pension fund to be aiming to achieve, was 1.6%, some 2.4% better than that achieved by the No 1 Fund. Table 3 gives members some idea of how

other pension schemes have performed over the last 3 and 5 years. In fact, out of a total of 83 surveyed by Russell/Mellon, only two - the Audit Commission and AEA Technology - had a worse performance record than the Lloyds TSB No 1 Fund over five years.

Are You Thinking - What We're Thinking?

What do Nottinghamshire County Council and Lloyds TSB have in common? Well believe it or not their pension schemes are managed by the same Investment Manager, SWIP. Of the top 100 Pension Schemes in the UK, details of which can be found on page 4 of this Newsletter, only Lloyds TSB and Nottinghamshire County Council use SWIP as their investment managers. In fact, Nottinghamshire County Council, no doubt to spread risk and maximise performance, employ two other investment managers, Henderson Global Investors and Schroder Investment Management, to help manage their pension funds. Given that many pension schemes are changing their investment managers far more frequently than they previously did, the fact that no other pension scheme in the top 100 employs SWIP to manage their pension scheme speaks volumes about their investment

performance. The top investment managers, together with the number of pension schemes they represent, are set out in Table 2 below.

Table 2

TOP 10 INVESTMENT MANAGERS	
Legal and General Investment Management	31
Barclays Global Investors	30
Capital International	26
Merrill Lynch Investment Management	23
Schroder Investment Management	22
Henderson Global Investors	16
Deutsche Asset Management	16
UBS Global Asset Management	14
Fidelity Investments	13
Baillie Gifford	10

Time For Action

The Pension Fund Trustees have begun to act on SWIP's serial underperformance and agreed to move 14% of the SWIP investment portfolio to a number 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.

Whilst a step in the right direction, the Trustees, have a legal responsibility to maximise financial returns and they should be moving more of the

fund away from SWIP now. Giving SWIP more time to turn round their investment performance puts them in breach of their fiduciary duty to act in the best interest of the beneficiaries of the funds. **If the Trustees continue to bury their collective heads in the sand in the vain hope that SWIP's investment performance will improve, then LTU will be forced to act to protect the interests of our members.**

Table 3

Investment performance for DB schemes as at 31st March 2004		
Scheme	3-year return	5-year return
Audit Commission	-3.7%	-2.0%
BMW (UK)	4.2%	4.6%
Co-operative Bank	-3.2%	-0.3%
British Coal Staff	1.3%	2.5%
Prudential	-1.2%	-0.7%
AEA Technology	-4.0%	-1.9%
Next Group	-1.1%	-0.3%
Unilever	-	1.2%
Essex CC	0.5%	0.6%
Leicestershire CC	0.3%	1.6%
Pennon Group	-	1.8%
West Yorkshire	-0.5%	1.0%
Ricardo Group	-1.5%	1.0%
Exel	-1.1%	0.0%
Imperial Tobacco	3.0%	4.0%
Kimberly-Clark	-3.0%	1.9%
Tyne & Wear	0.7%	2.2%
Jaguar Pension Plan	-0.1%	1.0%
Ford Hourly and Salaried	-	0.1%
United Utilities	0.6%	1.6%
John Laing	0.3%	1.5%
Kingfisher	-0.5%	0.8%
East Midlands Electricity	-0.1%	1.3%
London Regional Transport	0.0%	0.1%
Somerfield Kwiksave	2.5%	2.1%
House of Fraser	3.4%	0.9%
W H Smith	-0.7%	1.0%
Lattice Group	1.5%	2.2%
British Steel	2.2%	2.2%
Tate & Lyle	2.0%	3.2%
Metal Box	3.4%	3.9%
BA	3.0%	3.1%
Invensys	0.9%	2.0%
Vivendi	0.3%	0.4%

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