

# SWIP's Performance Update

Actively managed funds should beat index tracking funds but that iron law of investment management doesn't apply to every actively managed fund. **LTU have been extremely critical of SWIP, which actively manage the Lloyds TSB Pension Funds, over the last few years and we believe that more of the Lloyds TSB No 1 and No 2 Funds should be moved to better performing funds be they actively managed or index tracking.**

Members will recall from our previous Newsletters that 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 latest report identifies 58 dog funds this time compared with 93 a year ago and 149 two years ago. In the UK sector there are just six dog funds, the fewest ever recorded by the fund. But before our colleagues in SWIP crack open the iron bru the report says much of this is down to a strong performance from medium and smaller companies which have made it easier for active managers to outperform the FTSE All Share Index rather than the skill of investment managers.

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Scottish Widows Investment Partnership has improved to second place in the league of shame, now just a dog. **In respect of the Lloyds TSB Funds, the latest data for Q1 2005 shows that SWIP underperformed the benchmark for the No 1 Fund by -0.5% and the No 2 Fund by -0.6%. Over the past five years the cumulative annualised funds for the No 1 and No 2 Funds have both fallen by -1.2%. In fact, SWIP has only managed to out perform the agreed benchmark on one occasion since 1997.**

# Diversification Now

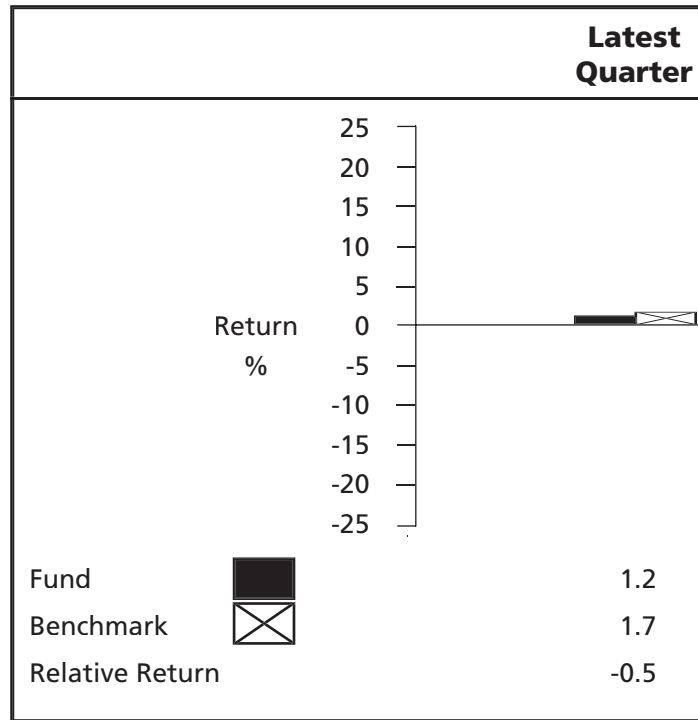
The Pension Fund Trustees have already begun to act on SWIP's serial underperformance and agreed last year to move 14% of the SWIP investment portfolio to a number of specialist managers to see how they perform against an agreed benchmark and then to compare that to the performance of SWIP over the same period. Details of these specialist funds are set out in Table 1 overleaf.

LTU have said that the pace of the diversification has been too slow and the Trustees should have moved more of the fund away from SWIP sooner rather than waiting in the hope that SWIP's performance improved.

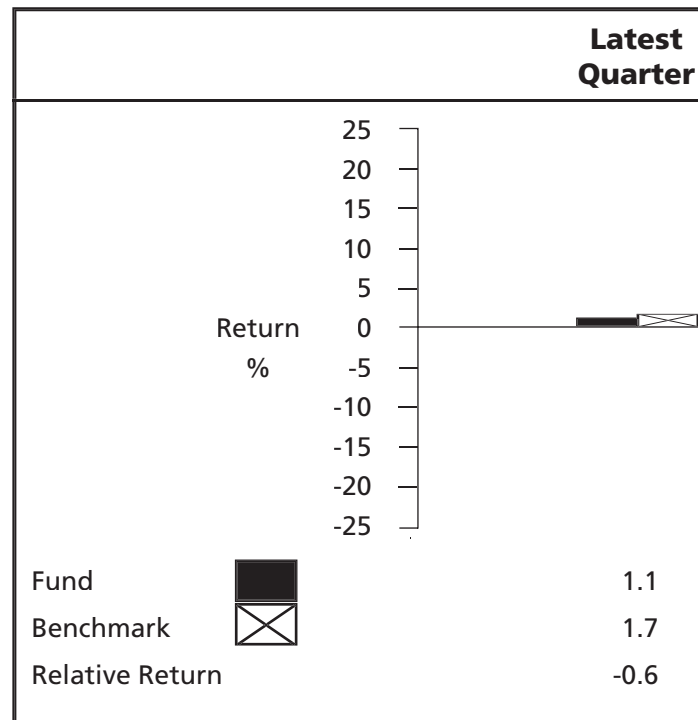
**We understand that a number of large pension funds are moving away from actively managed funds and instead adopting a passive investment strategy whose aim would be to replicate the return on some broad market index at a minimum cost to the funds. Some may view such a strategy as risk averse but there 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 actively managed funds and those reduce the returns realised by the pension funds relative to that available to less costly, passively managed funds.**

The Directors of the Lloyds TSB No 1 and No 2 funds are currently reviewing their investment strategy for the next few years and we will provide members with more information once the results of that review becomes available.

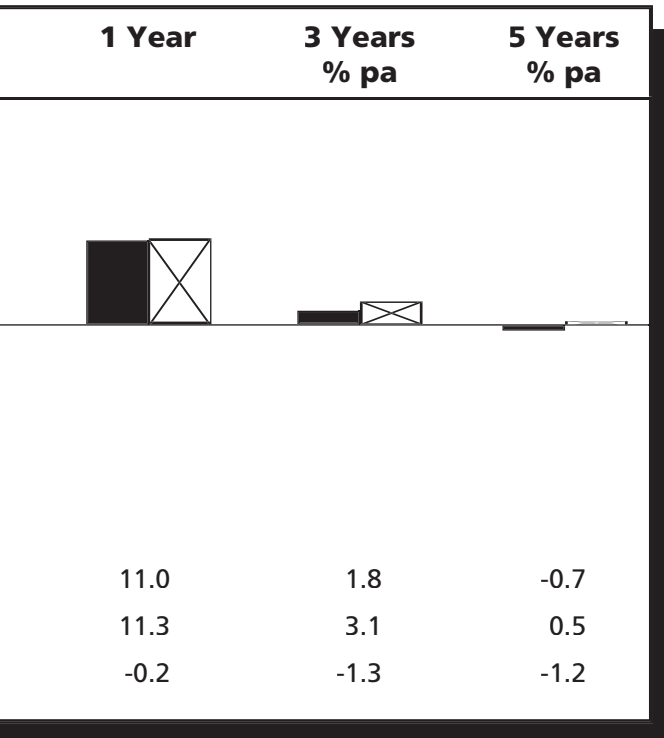
## Lloyds No 1 Fund - Performance



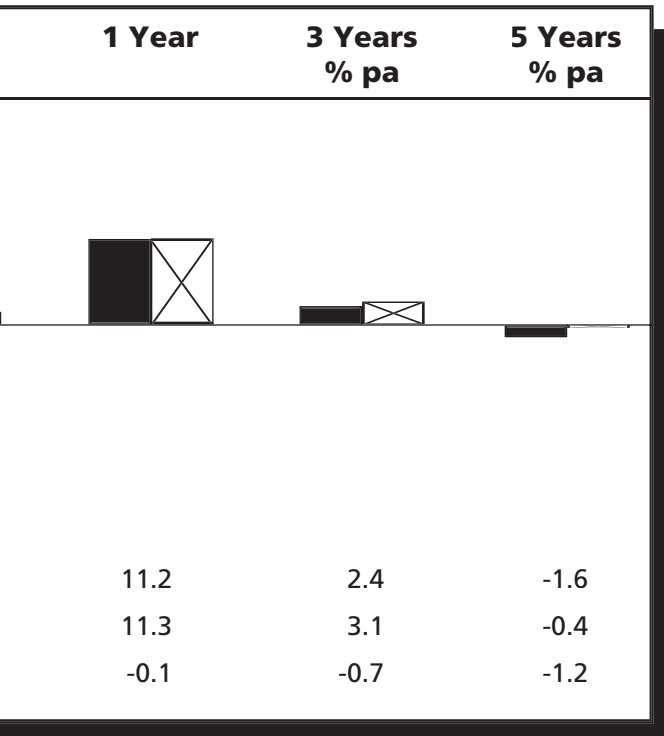
## Lloyds No 2 Fund - Performance



## Performance Summary



## Performance Summary



## Trustees Publish Investment Reports

Members will recall that LTU 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.

Originally, the Bank said that a decision to provide the information we had requested could only be made by the Trustees but the Bank failed to put our request to them for discussion despite saying they would.

LTU wrote to the Bank formally asking that our request for information on the performance of the Pension Funds be put to the Trustees at their meeting in March. **We are pleased to announce that the Directors of the pension fund agreed to provide us with most of the information we had requested. The WM50 Quarterly Pension Fund Survey, which tracks the performance of the LTSB Funds against a group of similar sized funds, is now available and those members who want a copy should contact Janet Gilkison at [Janet.Gilkison@ltu.co.uk](mailto:Janet.Gilkison@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 viable financially.

## Table 1: LTSB Investment Managers

<b>Manager</b>	<b>Mandate</b>	<b>Initial % of total fund</b>	<b>Benchmark</b>	<b>Target outperformance</b>
SWIP <sup>1</sup>	Multi-asset core	71.5	See below	0.5% pa / 3 yrs
SWIP <sup>1</sup>	Property	8.0	IPD Annual (£250-750m)	1% pa / 3 yrs
SWIP <sup>1</sup>	Private equity	2.5	FTSE All Share	5% pa / 5 yrs
SWIP <sup>1</sup>	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

Mark V Brown  
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