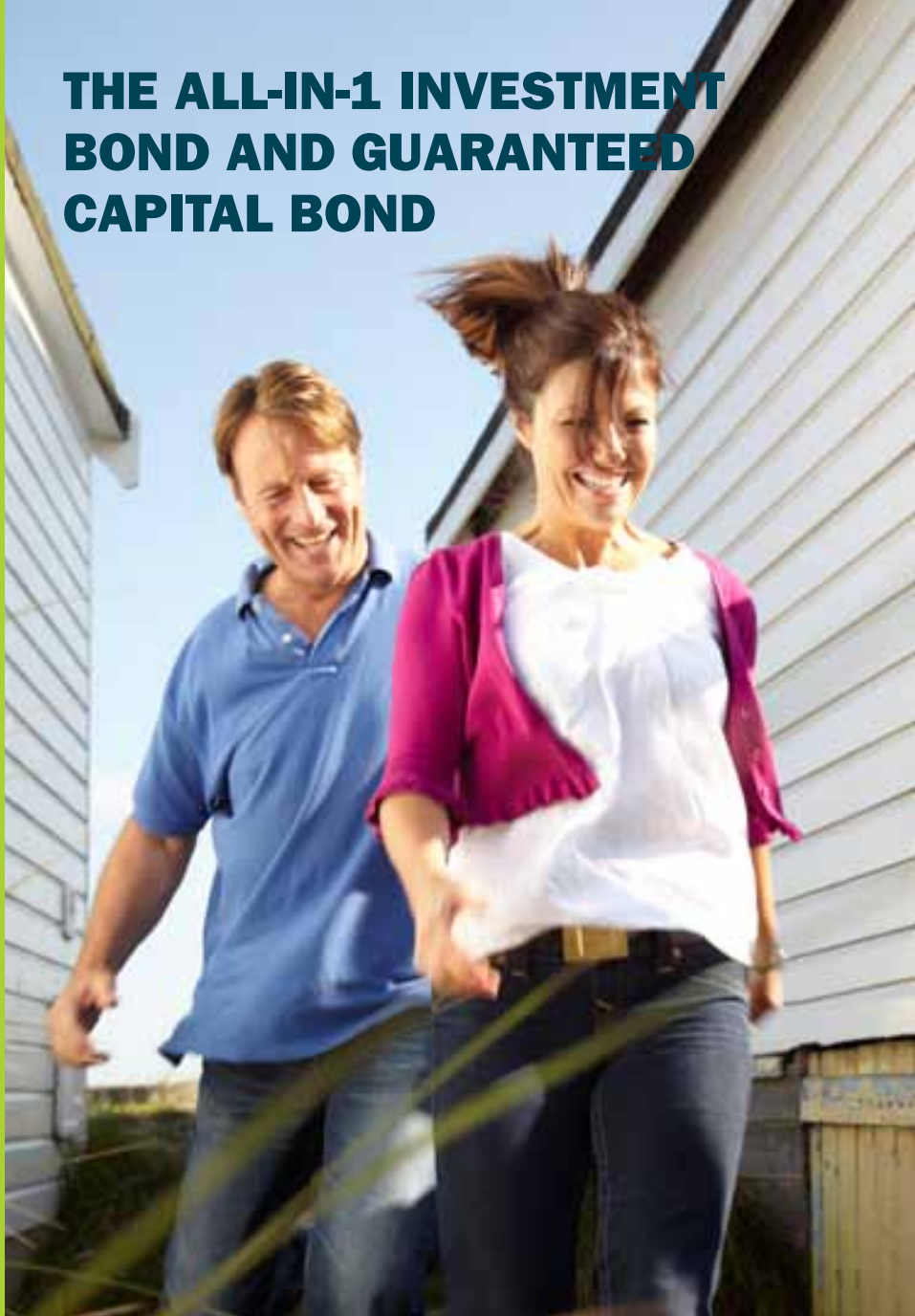


# Investment Report 2010

## THE ALL-IN-1 INVESTMENT BOND AND GUARANTEED CAPITAL BOND



# THE ALL-IN-1 INVESTMENT BOND AND GUARANTEED CAPITAL BOND

## Investment Report 2010

This report provides information on the performance of your bond, for the period 1 January 2010 to 31 December 2010. The investments are managed by Liverpool Victoria Asset Management Ltd. The performance of each of the investment types is measured against an external benchmark, which our fund managers are targeted to beat.

**This information does not constitute investment advice and we recommend that you speak to a suitably qualified financial adviser before making any investment decision based upon this, or any other, information.**

Every company that offers With Profits investments is required to document the Principles and Practices (the beliefs and behaviours) behind how they manage their With Profits investments so that consumers can understand what to expect from the provider they invest with, or are considering investing with. Our consumer friendly version can be found on the LV= website at [www.LV.com/withprofitsguide](http://www.LV.com/withprofitsguide) or a hard copy is available on request.

## Unit price and performance of each fund option available

Within the following pages you'll find the performance of each fund option for your bond.

Please see your individual statement for the current price of the units you hold, the value of your bond and the fund option in which you are invested. You can find the current unit price of your bond at [www.LV.com/aioprices](http://www.LV.com/aioprices).

This information should be read alongside your policy document. You need to be aware that in each fund option your investment can go down as well as up. The higher the amount invested in stocks & shares, the more frequently this will happen and the more significant the changes in value will be.

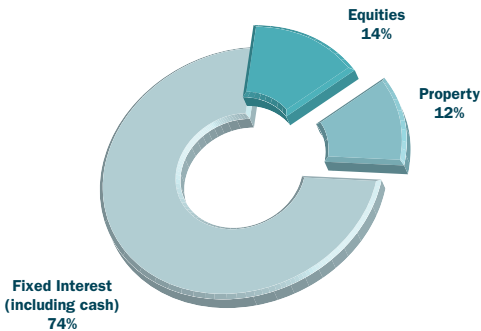
**Please note:** the Guaranteed Capital Bond is invested in the Growth Fund Option.

## Cautious

This fund option is designed to provide modest growth with a lower chance of losing money than the Balanced and Growth fund options. It invests mostly in fixed interest investments with the balance in property and equities.

This is the lowest risk fund option under this Bond and therefore offers the lowest growth potential.

### Asset allocation as at 31 December 2010



Fund Price Date	31 Dec 10*	31 Dec 09*	31 Dec 08*	31 Dec 07*	29 Dec 06*	30 Dec 05**
Fund Price	129.4p	118.9p	110.5p	110.0p	106.6p	103.0p
Growth (%)	8.8%	7.6%	0.5%	3.2%	3.5%	
<b>Total Percentage Growth of Fund Price from 4 November 2005 (launch date) to 31 December 2010</b>						<b>29.4%</b>

\* The fund price quoted is the Averaged price.

\*\*The fund price quoted is the Underlying price as the Averaged price did not exist.

Please see your annual statement and policy documentation for an explanation of this.

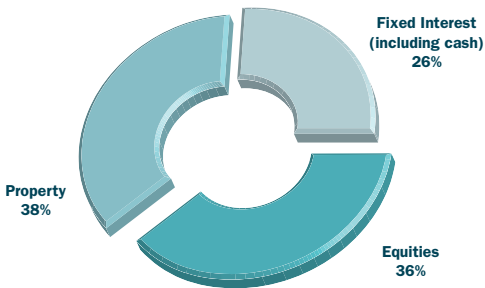
**Please note:** Product charges are by way of unit cancellation rather than reflected in the unit price. Past performance is not a reliable guide to future performance.

## Balanced

This fund option is designed to provide the potential for modest growth without exposure to undue risk. It invests broadly in equal amounts of equities, fixed interest investments and property.

This is the middle risk fund option and is higher risk than the Cautious fund option and lower risk than the Growth fund option.

### Asset allocation as at 31 December 2010



Fund Price Date	31 Dec 10*	31 Dec 09*	31 Dec 08*	31 Dec 07*	29 Dec 06*	30 Dec 05**
Fund Price	128.4p	111.5p	109.7p	120.9p	112.1p	103.2p
Growth (%)	15.2%	1.6%	-9.3%	7.9%	8.6%	
<b>Total Percentage Growth of Fund Price from 4 November 2005 (launch date) to 31 December 2010</b>						<b>28.4%</b>

\* The fund price quoted is the Averaged price.

\*\*The fund price quoted is the Underlying price as the Averaged price did not exist.

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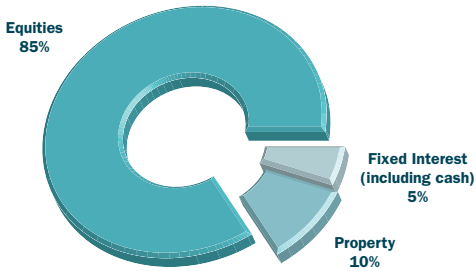
**Please note:** Product charges are by way of unit cancellation rather than reflected in the unit price. Past performance is not a reliable guide to future performance.

## Growth

This fund option is designed to provide the potential for the highest level of capital growth of the three fund options but with an increased risk to capital. This fund option invests mostly in equities with the balance invested in property and fixed interest investments.

This is the highest risk fund option and offers the highest growth potential.

### Asset allocation as at 31 December 2010



Fund Price Date	31 Dec 10*	31 Dec 09*	31 Dec 08*	31 Dec 07*	29 Dec 06*	30 Dec 05**
Fund Price	130.0p	113.2p	105.2p	123.3p	113.2p	104.6p
Growth (%)	14.8%	7.6%	-14.7%	8.9%	8.2%	
<b>Total Percentage Growth of Fund Price from 4 November 2005 (launch date) to 31 December 2010</b>						<b>30.0%</b>

\* The fund price quoted is the Averaged price.

\*\*The fund price quoted is the Underlying price as the Averaged price did not exist.

Please see your annual statement and policy documentation for an explanation of this.

**Please note:** Product charges are by way of unit cancellation rather than reflected in the unit price. Past performance is not a reliable guide to future performance.

# All-in-One Investment Bond and Guaranteed Capital Bond Performance Review

## Equities

Equities, and particularly UK equities, accounted for the majority of the Fund's overall outperformance. In the UK your fund benefited from having relatively little invested in BP (which fell after its well publicised problems in the Gulf of Mexico) and also from holding companies in the financial sector which did better in share price terms than their rivals. The Fund's holdings in Japanese and Asian equities also rose further in value than those wider markets. This was because, across the year as a whole, we tended to choose the right companies in the right industry sectors.

### Total Equity Performance from 31 December 2009 to 31 December 2010 (LV= against Benchmark)

	LV=	Benchmark
12 months	18.7%	14.5%

This measures our gross equity performance against the FTSE All Share Total Return Index

### Standardised Performance

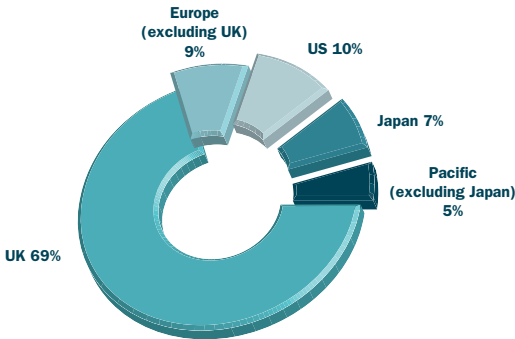
These figures show the percentage growth of the equities portfolio each calendar year in the fund for the last five years.

Yr to 29 Dec 2006	13.4%
Yr to 31 Dec 2007	7.3%
Yr to 31 Dec 2008	-28.2%
Yr to 31 Dec 2009	27.9%
<b>Yr to 31 Dec 2010</b>	<b>18.7%</b>

12 months total gross return % (mid price to mid price basis) gross income reinvested, Source: LVAM.

Please remember that past performance doesn't reflect what will happen in the future.

## Equity Country Weightings as at 31 December 2010



## Fixed Interest

The Fund's holdings of Gilts - bonds issued by the UK Government - didn't perform quite as well as the benchmark index we measure ourselves against. During the year we bought index-linked bonds which rose in value as inflation expectations rose.

### Total Fixed Interest Performance from 31 December 2009 to 31 December 2010 (LV= against Benchmark)

	LV=	Benchmark
12 months	6.7%	7.2%

This measures our fixed interest gross performance against the FTSE UK Actuaries Gilts Total Return All Stocks Index

### Standardised Performance

These figures show the percentage growth of the fixed interest portfolio each calendar year in the fund for the last five years.

Yr to 29 Dec 2006	0.2%
Yr to 31 Dec 2007	3.7%
Yr to 31 Dec 2008	11.7%
Yr to 31 Dec 2009	-0.8%
<b>Yr to 31 Dec 2010</b>	<b>6.7%</b>

12 months total gross return % (mid price to mid price basis) gross income reinvested, Source: LVAM.

Please remember that past performance doesn't reflect what will happen in the future.

## Property

In 2010 the return from UK commercial property was the strongest it has been in four years. The Fund's UK property portfolio was consistently ahead of its benchmark during this period. Direct investments in the best properties held up well, particularly in London, despite the uncertain economic environment.

### Total Property Performance from 31 December 2009 to 31 December 2010 (LV= against Benchmark)

	LV=	Benchmark
12 months	16.0%	15.1%

This measures our gross property performance against the IPD UK Annual Property Index.

### Standardised Performance

These figures show the percentage growth of the property portfolio each calendar year in the fund for the last five years.

Yr to 29 Dec 2006	22.5%
Yr to 31 Dec 2007	-1.7%
Yr to 31 Dec 2008	-21.8%
Yr to 31 Dec 2009	3.7%
<b>Yr to 31 Dec 2010</b>	<b>16.0%</b>

12 months total gross return % (mid price to mid price basis) gross income reinvested, Source: LVAM.

Please remember that past performance doesn't reflect what will happen in the future.

## Market and Economic Review

During the year consistent themes affected markets. Worries about subjects such as the outlook for government debt in Greece, the impact of austerity measures in the UK and Europe, and some well documented company specific problems, such as those that affected BP, affected the price of assets like shares and bonds.

There was a tentative start to the first quarter of 2010, with share prices showing modest gains. But stock markets went on to lose all of these gains, and more, during the second quarter of the year which proved to be an extremely volatile period for investors. In that quarter, markets reacted to concerns about Greece after its credit rating was downgraded to sub-investment grade status. After that, fears spread that Ireland, Spain and Portugal might not be able to make interest payments or repay their debts. Politicians and the International Monetary Fund (IMF) reacted aggressively by announcing a 750 billion Euro rescue package which sparked a rally in the markets.

Fears of political stagnation in the UK were realised as the general election returned a hung parliament for the first time in 40 years. A coalition was installed following a week of talks with both the Conservatives and Liberals agreeing that cutting public debt should be top of both parties' agendas.

After the high level of volatility experienced in the first half of the year, markets were calmed in the second half by stronger economic data and clear policy responses from most of the central banks in developed markets. These policy responses such as quantitative easing - where central banks intervene in some markets to buy assets - and comments that suggested that interest rates would stay low for longer gave investors confidence, and equity markets delivered double digit returns in many countries. However, concerns around European government debt remained, with Spain losing the top AAA credit rating and the Irish Government being forced to bail out its banking system.

Key to the final outcome for the year were developments in the US. In November the US Federal Reserve signalled its intention to support the US economy for an extended period, pledging a further \$600bn of bond purchases. This stimulated a wide range of markets and equity markets ended the year strongly.

## Market and Economic Outlook

2010 finished positively for equities, supported by better than expected economic data and the further quantitative easing promised in the US. This optimism has continued into the early part of 2011 and has increased as investors' concerns about the debt problems in Europe have eased.

We expect interest rates in the developed world to begin to rise this year, particularly in the UK. In general we still prefer shares to government bonds. In the UK we favour longer dated over shorter dated Gilts and still favour index-linked over conventional Gilts.

In our opinion UK commercial property will continue to offer an attractive source of income, with rental income being about 6% of the value of properties. This has appeal relative to fixed interest investments such as bonds or bank deposits. We believe that property returns during 2011 will consist mainly of this rental income and that the capital values of the best properties will be resilient. Property should act as a good hedge against inflation.

For equities, we feel that the UK and Japanese markets offer the best value. We've therefore increased our exposure to Japan and reduced it to the rest of Asia.

We continue to believe that the UK equity market will produce attractive long-term returns for investors. Many of the companies are trading at attractive valuations and have strong balance sheets with plenty of cash and not too much debt. The cash is available to finance future expansion or to return to shareholders through dividends.

Our main concern for 2011 is inflation as key commodity prices continue to rise. As the global economy continues to recover, the attention of central banks may switch to reducing inflationary pressures by raising interest rates, which could stifle recovery.



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