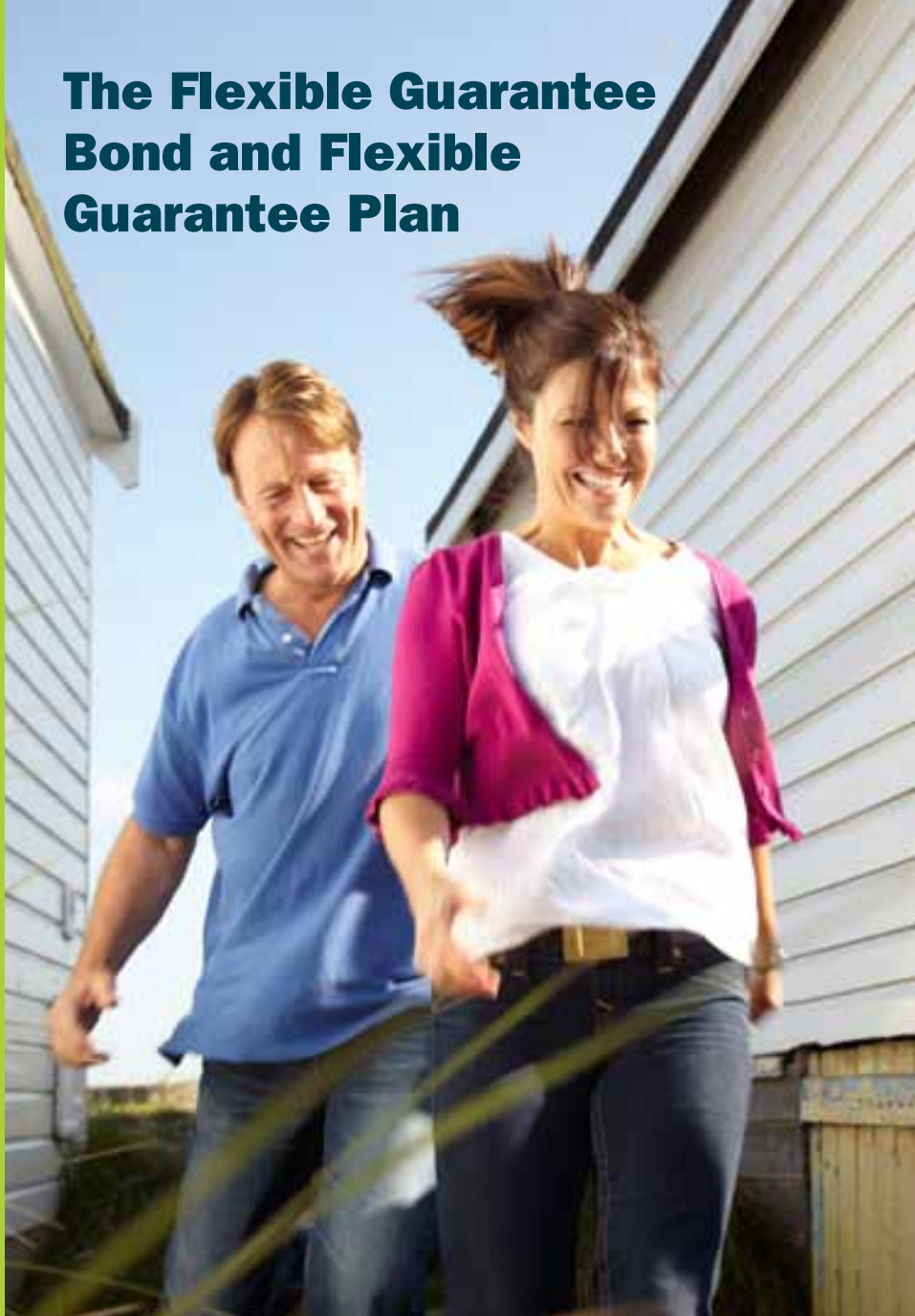


## The Flexible Guarantee Bond and Flexible Guarantee Plan



# The Flexible Guarantee Bond and Flexible Guarantee Plan 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.

**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.

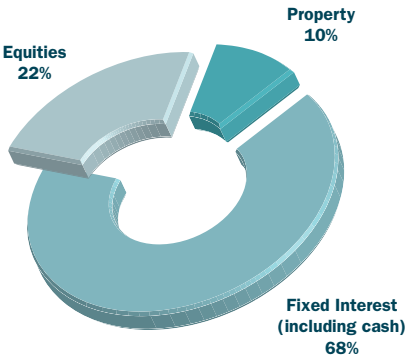
Please see your individual statement for the current price of the units you hold, the value of your bond and the fund option in which you are invested. You can find the current unit price of your bond at [www.LV.com/fgbprices](http://www.LV.com/fgbprices). This information should be read alongside your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

## Cautious Series 2

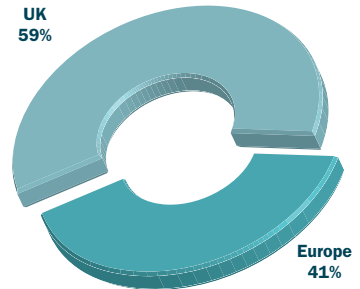
This fund is designed to provide the potential for steady growth. The fund is mainly invested in fixed interest securities with the balance in equities and property.

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

### Asset allocation as at 31 December 2010



### Equity Weightings as at 31 December 2010



Fund Price Date	31 December 2010* *	31 December 2009*	18 August 2009*
Fund Price	112.9p	104.0p	100.0p
Growth (%)	8.6%	4.0%	
<b>Total Percentage Growth of Fund Price from 18 August 2009 (Launch date) to 31 December 2010</b>			<b>12.9%</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.

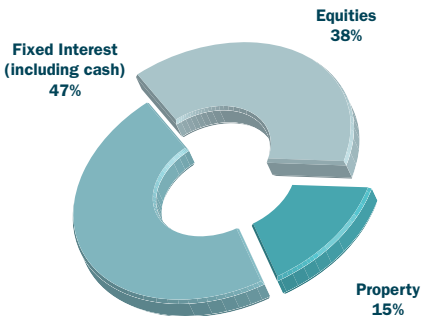
**Please note:** Product charges are by way of unit cancellation rather than reflected in the unit price. Past performance is not a reliable guide to future performance.

## Balanced Series 2

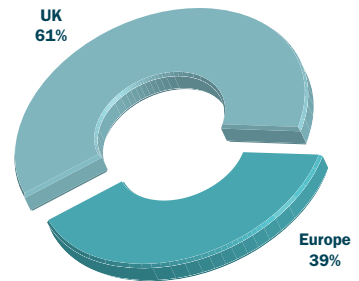
This fund is designed to provide the potential for moderate growth. Around half of this fund is invested in fixed interest securities with the balance in equities and property.

We believe this fund is higher risk than the Cautious Series 2 fund, but lower risk than the Managed Growth fund.

### Asset allocation as at 31 December 2010



### Equity Weightings as at 31 December 2010



Fund Price Date	31 December 2010* *	31 December 2009*	18 August 2009*
Fund Price	114.5p	105.4p	100.0p
Growth (%)	8.6%	5.4%	
<b>Total Percentage Growth of Fund Price from 18 August 2009 (Launch date) to 31 December 2010</b>			<b>14.5%</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.

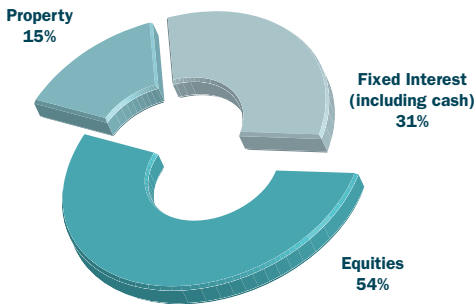
**Please note:** Product charges are by way of unit cancellation rather than reflected in the unit price. Past performance is not a reliable guide to future performance.

## Managed Growth

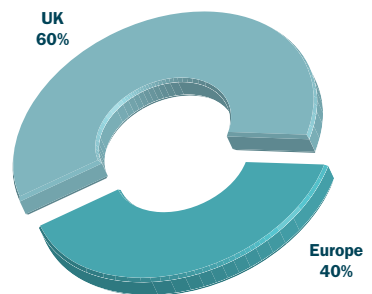
This fund is designed to provide the potential for higher growth than the other two fund options. But of course, this means that it's also the most risky.

Around two thirds of the fund is invested in equity and property with the balance in fixed interest securities.

### Asset allocation as at 31 December 2010



### Equity Weightings as at 31 December 2010



Fund Price Date	31 December 2010**	31 December 2009*	18 August 2009*
Fund Price	115.8p	106.1p	100.0p
Growth (%)	9.1%	6.1%	
<b>Total Percentage Growth of Fund Price from 18 August 2009 (Launch date) to 31 December 2010</b>			<b>15.8%</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.

# Flexible Guarantee Bond Performance Review

## Equities

In general it was a good year for equities. The Funds' continental European equities did well principally as a result of choosing the better performing companies in the various industry groups. This was particularly the case in the financial sector where performances across the various sectors were very mixed, and in general we held the right companies. In the second half of the year our UK equity holdings performed less well. We had exposure to defensive and "safe" sectors, such as Pharmaceuticals and Food Retailer sectors, which rose less far than other areas of the market more exposed to economic recovery. Our holdings in the UK Banks sector were poor performers due to concerns surrounding their exposure to some countries in Europe and the risk that shareholders might be asked to contribute more money to the companies. However, our holdings in the Mining, Construction and Automobile sectors performed well.

## Fixed Interest

Our returns in UK Gilts – IOUs issued by the UK Government – were broadly in line with the market average. The Funds took advantage of opportunities to invest in specific sectors of the market that our managers believed to be relatively cheap. In corporate bonds – IOUs issued by companies – performance was mixed. Our holdings in bonds close to repayment rose less than those with a longer life, and our holdings of "securitised" bonds, bonds with identified assets backing the promise of repayment, were also relatively weak performers. However, these areas were offset by gains from some of the funds' other holdings in the Banks, Retail, Industrial Goods and Oil & Gas sectors.

## Property

The property portfolio suffered from two tenants going into administration, which impacted valuations, but still showed a positive return over the year. New cash in the fund has been invested into quality properties in keeping with the Funds' philosophy.

## 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. However, 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.

During the second 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.

The UK property market also performed strongly over the year as it experienced a recovery after a sustained period of decline.

## 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. We still favour equities over sovereign fixed interest assets. Within fixed interest assets, we continue to favour UK Corporate Bonds relative to UK Gilts. In relation to Gilts, we favour longer dated over shorter dated Gilts. In addition, we still favour UK 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.

We continue to believe that the UK equity market offers good value and will produce attractive long-term returns for investors. Many 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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