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## **YOUR GUIDE TO HOW WE MANAGE OUR WITH-PROFITS FUND**

**All-In-1 Investment Bond  
Flexible Guarantee Bond  
Guaranteed Capital Bond  
& Flexi Guarantee Plan**



# Your guide to how we manage our with-profits fund

## Your guide

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# 1 Introduction

This guide explains how we look after our with-profits fund. You'll find important information about how the All-In-1 Investment Bond, Flexible Guarantee Bond, Guaranteed Capital Bond and Flexi Guarantee Plan work – and how we manage them.

To put this guide into context, it might help to read it with your:

- Key Features
- Bond or Plan Conditions
- Personal Illustration showing what you might get back in the future.

Please keep this guide safe along with your other documents.

## 2 What's our with-profits fund?

The All-In-1 Investment Bond, Flexible Guarantee Bond, Guaranteed Capital Bond and Flexi Guarantee Plan are all invested in our with-profits fund.

This is an investment fund where we combine your money with other investors' money, and manage it on your behalf.

We set the overall investment strategy of the with-profits fund, taking into account the current and projected financial strength of the fund and the expected returns available from different types of investment. However the mix of investments will depend on the fund option you've chosen.

The asset management of the with-profits fund is undertaken on our behalf by Threadneedle Asset Management ("Threadneedle"). Threadneedle is responsible for the day-to-day management of the assets in the with-profits fund, operating consistently with the risk profile of your chosen fund option.

The investment performance of the with-profits fund and the outlook for different types of asset are regularly monitored. We also review our investment strategy carefully each year.

Typical investments made by the with-profits fund include:

- the shares of UK and overseas companies
- fixed-interest securities such as government stocks and corporate bonds
- property
- cash

However, the mix of investments will depend on the fund option you've chosen. We'll review this mix periodically and may change it if we think it might improve the performance of your plan, though we'll only do so in a way that's consistent with the risk profile of your chosen fund option.

You can see the mix of investments for your chosen fund option on our website at [www.LV.com/savingsandinvestments/with\\_profits/wp\\_info/spread](http://www.LV.com/savingsandinvestments/with_profits/wp_info/spread) or by contacting our Head Office at:

LV=  
County Gates  
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When you take out one of our policies that invests in our with-profits fund, you become a 'member' of LV=. As a mutual organisation, we don't have external shareholders – which means that we can use all our profits to benefit our members.

### 3 What's the aim of our with-profits fund?

First and foremost, we want to give you a fair return on your investment. We'll tell you about the risks before we invest your money, and keep our commitment to you throughout. As we offer many different ways of investing, we have different groups of members – with different plans started at different times, and with different terms. We always try to treat our members fairly when there are any conflicting interests.

### 4 What's a unitised with-profits bond?

The All-In-1 Investment Bond, Flexible Guarantee Bond, Guaranteed Capital Bond and Flexi Guarantee Plan are all unitised with-profits bonds. This simply means that we use units and unit prices to measure your investments and your bond's value. When you invest in your bond we'll allocate a number of units, the amount will depend on the value of the units at the time. We also cancel units to pay charges.



#### Example

Fred is age 60 and invests a lump sum of £10,000 in a Flexible Guarantee Bond. If the current unit price is £1.25, we'll divide the £10,000 by £1.25, giving Fred 8,000 units.

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Your return will depend on the number and value of your bond's units. The value will change over time in line with the movement in the unit price. There's also a chance that we might use a lower price to calculate the value of your bond than the price we normally use. You can find out more about this in section 5.

## 5 How do we cushion you from the ups and downs of the stock market?

Investments such as stocks and shares can rise and fall in value sharply. Large market movements over short periods of time could potentially mean a significant change to the value of your bond in a matter of days or weeks.

In order to protect you from some of the day-to-day stockmarket changes, we smooth the unit price we normally use to calculate the value of your bond. This means you receive some protection if you happened to cash in some or all of your investment at a time when stockmarket performance has been weak. On the other hand, if you cash in your investment when stockmarket performance has been strong, the smoothing effect would mean that you wouldn't benefit in full from the strong performance.

To allow for smoothing, we give your bond two unit prices. One is the 'pure' unit price, which reflects the market value of the investments. We call this the 'underlying price'. The other unit price is the average unit price over the last 26 weeks, which we call the 'averaged price'. It's possible for the averaged price to be lower than the underlying price, if for example the stockmarket rises rapidly over a short period of time.

When you first invest in a bond, we allocate units to your bond at the underlying price. However, as long as you invest in your fund option for at least 26 weeks, we'll normally use the averaged price to calculate the value of your investment when you cash it in. In exceptional market conditions though, we'll calculate your payout using the underlying price, rather than the averaged price. This will happen:

- only if you wanted to cash in part or all of your bond at that time, and
- only if the underlying price is 80% or less of the averaged price.

We'll revert back to the averaged price when the underlying price has returned to the same level as the averaged price.

The reason why we adopt this approach is to protect the policyholders remaining in the with-profits fund, and to make sure that we can continue to invest in assets that offer our members the potential for the best returns over the long term. We call this fund protection.

The likelihood of this happening depends on your chosen fund option. Historically funds with a higher shares content have produced larger rises and falls over short periods of time compared to funds invested in other asset classes. It's these rises and falls that can result in a large difference between the two prices.

We always use the averaged price for death and terminal illness claims, as long as you've been invested in your fund option for at least 26 weeks. We also guarantee that we'll never use fund protection as a means of producing business profits.

## **6 How do we decide the return on your bond?**

We want to make sure that every investor receives a fair return. The return that you receive is based on the amount you invest, the deductions we make to cover our expenses, tax and the cost of providing benefits, and the return we earn on the investments supporting your bond. The investment return will depend on the fund option you've chosen. Please refer to your Key Features document for details of the investment mix for the fund option you're invested in.

The current mix is also shown on our website at:

[www.LV.com/savingsandinvestments/with\\_profits/wp\\_info/spread](http://www.LV.com/savingsandinvestments/with_profits/wp_info/spread)

As we've said in section 5, we try to smooth out some of the ups and downs of the stockmarket, and this also affects your return.

You may also have a guarantee for your bond, which is explained in your Key Features document.

Please note, we may apply an exit charge if you cash in all or part of your bond in the first five years (please see your Key Features document for more details).

## **7 What expenses are charged to the with-profits fund?**

As with any investment, there are certain costs involved in setting up and looking after a with-profits bond – including commission payments, administration costs and other expenses. The charges taken from your bond cover these expenses. You can find out more about them in your Key Features document and in your Bond or Plan Conditions.

## 8 How do we decide what business risks to take?

In offering a with-profits fund, we face potential risks such as whether we have the right product design, the right selling and marketing practices, and ever-changing interest rates and investment returns.

We'll sometimes take other business risks to help increase the returns on your bond, and consider business opportunities that can provide a source of profit. For example, our with-profits fund owns our general insurance company. From time to time, we also consider taking other business risks.

We're always careful about our investments, and our board of directors has to approve anything that poses a significant business risk. They'll only approve these if the expected benefits are at least as good as we could get from other opportunities.

By making good business decisions, we can increase the returns for our members. But there's always a chance that a decision might turn out to make a loss, in which case this could reduce the future returns our members receive.

## 9 What's the 'inherited estate' and how do we use it?

The inherited estate is the amount of money we've built up from profits from the fund, that's in excess of the fund's liabilities. This money has been building up since we began in 1843, from generations of plans where we've made more profit than we anticipated. For example, if a protection planholder lived longer than we'd expected and priced the plan for, we'd make more profit. The money is used to support the fund and its day-to-day operations.

We don't currently try to increase the size of the inherited estate on purpose. However, we aren't obliged to distribute the inherited estate to the current generation of members. We use the estate to benefit our members in a number of ways, including:

- to help us give you smoothed returns
- to give us more freedom to invest in ways we believe will offer better returns
- to help fund new business opportunities or risks

Keeping a reasonable level of inherited estate gives us the financial strength we need to invest more in shares, and so to give our members the potential for better returns in the long run.

## 10 What's mutual bonus?

The mutual bonus scheme is designed to reward qualifying members for their ownership of the Society and the risks taken in supporting the establishment and growth of the group's trading businesses in life and general insurance.

The Board of Directors will consider the financial performance of the Group's trading businesses each year to determine whether, at what level, and in what form, we should declare any mutual bonus, and which members are eligible to receive it. In the case of with-profits members, any such mutual bonus will be paid by making an addition to the value of your policy. You will therefore receive it when your policy matures or is cashed in.

Unpaid mutual bonus allocations do not form part of the guaranteed policy benefits, so might be taken away in the future. However, we would do so only in exceptional circumstances, for example if it were required to protect our financial solvency.

## 11 Could we ever close the with-profits fund to new business?

Yes we could but we'll let people invest in our with-profits fund as long as we feel it's in the interests of both our existing and new members.

## 12 What would happen if we stopped accepting new business?

If we did ever stop accepting new business and closed the with-profits fund, we'd share out the inherited estate over the lifetime of the remaining with-profits bonds held in the fund. Our main concern would be to make sure this was fair to all remaining members – to do this, we might change the way we invest the fund and smooth the return.

## 13 How to find out more

We hope you've found this guide useful. To find out more about the technical details of the with-profits fund, please read our Principles and Practices of Financial Management booklet covering The All-In-1 Investment Bond, Flexible Guarantee Bond, Guaranteed Capital Bond and Flexi Guarantee Plan. You can get a copy from our website: [www.LV.com/savingsandinvestments/With\\_Profits/wp\\_info/ppfm](http://www.LV.com/savingsandinvestments/With_Profits/wp_info/ppfm) or from our Head Office. If the booklet changes after you've requested a copy, we'll let you know.

And if you have any questions about what we've said in this document, please contact us or your financial adviser.



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**You can get this and other documents from us in Braille, large print or on audiotape by contacting us.**

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