

LOVE

**YOUR GUIDE TO HOW WE
MANAGE THE RNPFN FUND
FOR WITH-PROFITS BUSINESS**



How we manage the RNPFN fund for with-profits business

Your guide

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1 Introduction

This guide explains how we look after the with-profits business within the RNPFN fund. You'll find important information about how the life insurance, savings, investment and pension policies invested in the fund work – and how we manage them.

The two main types of with-profits policies in the RNPFN fund are:

- conventional with-profits
- unitised with-profits – the With Profits Bond and the Individual Savings Account

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

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

Please keep this guide safe along with your other policy documents.

2 Background information about RNPFN

Liverpool Victoria (LV=) bought the business of the Royal National Pension Fund for Nurses (RNPFN) on 31 December 2001. This happened after a strategic review by the Council of RNPFN to see how they could continue to provide high quality and low cost life, pensions, savings and protection products to the nursing and healthcare community.

The Council decided to go with a proposal made by LV=. It felt the proposal offered the greatest benefit to existing policyholders as well as to the wider healthcare community. As part of the deal, the RNPFN Fund was closed to new business and the investments within the fund were ring-fenced within Liverpool Victoria Life Company Limited, a company within the LV= group.

On 1 January 2009 the RNPFN fund and policies were transferred to Liverpool Victoria Friendly Society Limited.

3 What's the RNPFN fund?

The RNPFN Fund 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 RNPFN Fund, taking into account the current and projected financial strength of the fund and the expected returns available from different types of investment.

The asset management of the RNPFN Fund is currently undertaken on our behalf by Threadneedle Asset Management ("Threadneedle"). Threadneedle is responsible for the day-to-day management of the assets in the RNPFN Fund, operating within the limits set as part of our investment strategy.

The investment performance of the RNPFN 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 fund include:

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

You can see the mix of investments in the RNPFN with-profits fund on our website at www.LV.com/rnPFN/asset_allocation.

There aren't any shareholders in the RNPFN fund – which means that we use all the profits to benefit RNPFN with-profits policyholders. There are other types of policies (unit-linked policies, and non-profit policies) in the RNPFN fund that aren't with-profits. Each type of policy has separate assets backing them within the fund, although all profits and losses affect the with-profits policies.

4 What's the aim of the RNPFN fund?

First and foremost, we want to give you a fair return on your investment, allowing for any guaranteed benefits. We have different groups of policyholders invested in the fund – with different policies started at different times, and with different terms. We always try to treat policyholders fairly when there are any conflicting interests.

5 What's a conventional with-profits policy?

A conventional with-profits policy simply means that we give you a guaranteed minimum investment return, as long as you pay the premiums you agreed when the policy started.

For savings policies you'll receive a guaranteed minimum lump sum at the end of the agreed savings period, for example 10 years, or earlier if you die before then. For pension policies you'll receive a guaranteed minimum pension fund or income at your chosen retirement date, for example when you reach age 65.

However, it's important to understand that if you stop paying into your policy, or decide to cash it in, we may reduce the guaranteed minimum lump sum or income from your policy.

The guarantees that conventional with-profits policies have can be valuable, as they're generally more difficult to come by in other policies currently available.

6 What's a unitised with-profits policy?

A unitised with-profits policy simply means that we use units and unit prices to measure your investments and your policy's value. Every time you pay into your policy we'll add a number of units. The amount will depend on the value of the units at the time. Your return will depend on the number and value of your policy's units. Depending on the type of policy you have, we might also cancel units to pay charges.



Example

Fred invests a one off lump sum of £10,000. The current unit price is £1.25. We divide the £10,000 by £1.25, giving Fred 8,000 units.

We aim to increase your policy's value over time by increasing the price of the units. There's always a chance that we might need to reduce the amount we pay out though – please read your policy conditions carefully to find out when this could happen.

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

As explained earlier, the RNPFN fund invests in a number of different ways, including in the shares of UK and overseas companies, commercial property and fixed-interest investments. Shares are often called equities and are bought and sold on stock markets throughout the world.

Usually, we'd expect a relatively high proportion of the RNPFN fund to be invested in fixed-interest securities. However, we believe it's important for us also to invest in shares, as over the long term they tend to give a higher return than other safer investments, like government bonds and cash.

The downside to shares is that they can be more volatile than other investments. Their values can rise and drop sharply, sometimes quickly and in line with world events.

We aim to smooth out the effects of some of the rises and drops in two ways:

- we invest in many different types of investment and limit the amount in any one type, and
- instead of just awarding large bonuses in good years and none at all in bad years, we hold back some of the good years' profit to award policyholders when times are tough. This is what we mean by a 'smoothed' return.

As an example, if your policy ends on a day when the market fell drastically, the smoothing would help protect you from the sudden drop in value. If the opposite happens and the market rises sharply, the smoothing effect would mean that you wouldn't get the full amount of the rise. So investors in a fund that doesn't smooth returns might see their investments rise and fall more quickly than that of a fund with smoothed returns.

For all RNPFN with-profits policies we smooth investment returns over a two year period. Because we smooth investment returns, it's possible that when you cash in your policy or your policy ends, the amount paid out is higher or lower than the underlying value of the investments.

8 How do we decide the return on your policy?

We want to make sure that every investor receives a fair return. To increase the value of your policy, we may add regular bonuses from time to time. In addition, we may add a final bonus when you cash your policy in. You can find out more about these bonuses in the next section.

To calculate your overall return we'll take into account:

- the payments you've made
- our expenses and
- the investment returns from the fund.

We may also add an enhancement to reflect the distribution of the 'inherited estate' (you can find out more about this in section 13).

As we've said in section 7 we try to smooth out the ups and downs of the stock market, and this also affects your return.

Once your policy reaches the end of its term, we aim to pay out between 80% and 130% of the underlying value of the investments, before smoothing.

After smoothing, we aim to pay out between 95% and 105% of the underlying value of the investments.

9 What bonuses do we pay?

We might add regular bonuses to your policy at any time during your policy's life, and a final bonus at the end.

Regular bonuses

In recent years, after careful assessment of the financial strength of the RNPFN fund, we've added no or low levels of regular bonuses to conventional with-profits policies. Once we've added a regular bonus we won't take it away, provided you continue to pay the premiums under your policy.

By not adding regular bonuses, and so not increasing the level of guarantees these policies have, we can be more flexible with the investments. For example, we can invest more in stocks and shares and property. This should improve the overall payout prospects for RNPFN with-profits policies in the future, with any benefit likely to be seen in final bonuses rather than regular bonuses (see below for more details about final bonuses). This situation is likely to continue for the future.

For unitised with-profits policies we aim to set the annual bonus rate at roughly 50% of expected future investment returns, before tax and any charges.

However, there are other considerations that may result in a lower rate being set. This means that our investment managers have more flexibility to invest in areas that offer the best potential returns – shares, for example. We add regular bonuses by increasing the price of units at least monthly. Once they've gone up in value, there are only two ways that they can lose value:

- if you take money out of your policy when a market value reduction applies – this is covered later in this section
- if the charges on your policy are more than the value of the bonuses being added

We review the size of the bonuses we add at least once a year.

Final bonuses

We want to make sure that you receive a fair return on your policy. If the annual bonuses you've had during your policy are less than a fair return, we'll add a final bonus to increase your payout. We review final bonuses at least once a year and may do so up to four times a year.

Rather than work out the value of each individual policy we look at a sample of policies to decide the level of final bonuses to pay. We decide what level of bonus to pay by:

- comparing the guaranteed benefits of a sample of policies with the value of the underlying investments of these policies
- considering the current and projected financial strength of the fund, including any commitments to policyholders.

The final bonus may also include an enhancement to share out any surplus amounts in the RNPFN fund (you can find out more about this in section 13).

Sometimes the final bonus can be a high proportion of the final value of your policy. This is because paying lower regular bonuses gives our fund managers more freedom to invest in areas that are likely to offer better returns in the long term.

10 How do we decide how much you get if you leave your policy early?

If you leave your policy early, this is called ‘surrendering’ your policy. We’ll work out how much to pay you, being fair to both you and the policyholders staying in the fund. That means we may add a final bonus, as explained in section 9.

However, for conventional with-profits policies we’re also likely to reduce your guaranteed benefits.

We aim to pay out between 70% and 130% of the underlying value of the investments, before smoothing. After smoothing we aim to pay out between 95% and 105% of the value.

What is a market value reduction?

In the same way that we might add a final bonus if our investments are doing well, if they’re not doing so well we might need to apply what’s called a market value reduction (or MVR). This means that we will reduce the amount we pay to you.

We’ll only apply an MVR to make sure that:

- when you cash in your policy, your payout isn’t unfairly higher than the underlying value of the investments within the fund
- the remaining fund members will also get a fair share; in other words, if we didn’t do this we wouldn’t have enough money to ensure the remaining policies get their fair share

On some policies, we’ve guaranteed not to reduce the value on certain dates or events such as on death or when your policy reaches its end date. You can check your policy documents to find out more about this.

11 What expenses are charged to the RNPFN fund?

As with any investment, there are certain costs involved in setting up and looking after a with-profits policy – including commission payments, administration costs and other expenses. The charges taken from your policy cover these expenses. You can find out more about them in your key features document and policy conditions.

12 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 changing interest rates and investment returns. However, as part of the deal when LV= bought the RNPFN fund, we won't take on any new business risks.

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

The inherited estate is the amount of money built up from profits from the fund that are in excess of the fund's liabilities. This money has been building up since the fund started. It's used to support the fund and its day-to-day operations.

We use the estate to benefit with-profits policyholders 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

In addition, as part of the deal when Liverpool Victoria bought the RNPFN fund, we're distributing the inherited estate over the remaining lifetime of the eligible with-profits policies in the fund, where appropriate, by increasing the final bonus paid when policies are cashed in. In most cases, only with-profits policies taken out on or before 10 July 2001 are eligible to share in this distribution.

14 How to find out more

We hope you've found this guide useful. To find out more about the technical details of this fund, please read our RNPFN Principles and Practices of Financial Management booklet. You can get a copy from our website www.LV.com/rnpfn/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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