

# LOVE

## Investment Report 2012

**Flexible Guarantee Bond, Flexible Guarantee Bond Series 2 and Flexi Guarantee Plan**



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## Investment Report 2012

**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.**

This report provides information on the performance of your bond, for the period 1 January 2012 to 31 December 2012.

## Threadneedle Investments

Since 1 November 2011 the asset management of our funds has been undertaken on our behalf by Threadneedle Investments. Threadneedle is responsible for the day to day management of the assets within investment guidelines set by LV=.

Threadneedle is a leading international investment manager with a strong track record of outperformance across asset classes. It actively invests £78bn of assets (as at 31 December 2012), investing on behalf of individuals, pension funds, insurers and corporations. Threadneedle is the international investment management arm of Ameriprise Financial, a leading US diversified financial services company and one of the 40 largest asset management firms globally. Threadneedle's website address is [www.threadneedle.com](http://www.threadneedle.com).

## Principles and Practices of Financial Management (PPFM)

Your bond is a with-profits investment. Every company that offers with-profits investments has to document the principles and practices (the beliefs and behaviours) they use to manage them in a technical document called 'Principles and Practices of Financial Management' so that investors can understand what to expect from the provider they invest with, or are considering investing with.

The current version of the PPFM that relates to your bond, together with a customer friendly version called "Your guide to how we manage our with-profits fund", is available on our website at [www.LV.com/wp-info](http://www.LV.com/wp-info), where you can also view the reports of our annual review on how we have managed our fund compared to our PPFM. Hard copies are available upon request.

## Unit price and performance of each fund option available

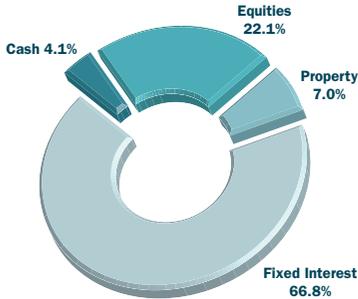
Within the following pages you'll find the performance of each available fund option.

Your individual statement will show you the number of units, the unit price, the value of your bond and the fund option in which you are invested at your bond's last anniversary. 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 Bond Conditions and Key Features 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 equities, the more frequently this will happen and the more significant the changes in value are likely to be.

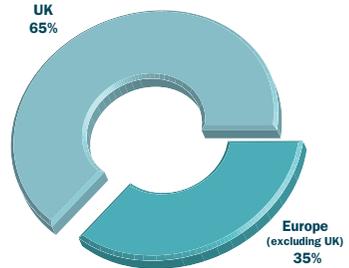
## Cautious Series 2

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 and therefore offers the lowest growth potential.

### Asset allocation as at 31 December 2012



### Equity weightings as at 31 December 2012



Fund Price Date	<b>31 December 2012*</b>	30 December 2011*	31 December 2010*	31 December 2009**	18 August 2009**
Fund Price	<b>123.0p</b>	115.3p	112.9p	104.0p	100.0p
Growth (%) for the 12 months to date shown	<b>6.7%</b>	2.1%	8.6%	4.0%	
Total Percentage Growth of Fund Price from 18 August 2009 (launch date) to 31 December 2012					<b>23.0%</b>

\* The fund price quoted is the Averaged price.

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

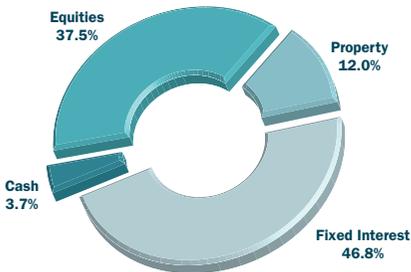
Please see your annual statement and policy documentation for an explanation of Averaged and Underlying prices.

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

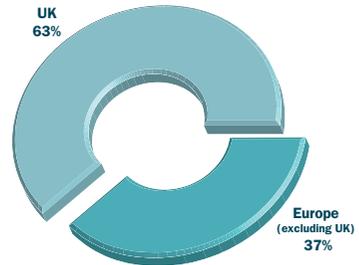
## Balanced Series 2

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 option is higher risk than the Cautious Series 2 fund, but lower risk than the Managed Growth fund.

### Asset allocation as at 31 December 2012



### Equity weightings as at 31 December 2012



Fund Price Date	31 December 2012*	30 December 2011*	31 December 2010*	31 December 2009**	18 August 2009**
Fund Price	<b>123.6p</b>	115.4p	114.5p	105.4p	100.0p
Growth (%) for the 12 months to date shown	<b>7.1%</b>	0.8%	8.6%	5.4%	
Total Percentage Growth of Fund Price from 18 August 2009 (launch date) to 31 December 2012					<b>23.6%</b>

\* The fund price quoted is the Averaged price.

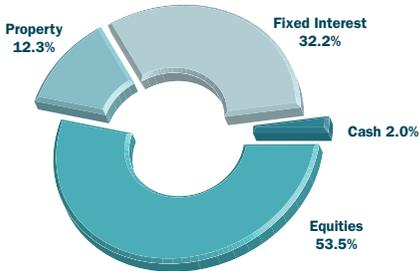
\*\* The fund price quoted is the Underlying price as the Averaged price did not exist. Please see your annual statement and policy documentation for an explanation of Averaged and Underlying prices.

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

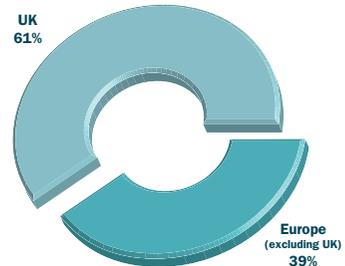
# Managed Growth

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 2012



## Equity weightings as at 31 December 2012



Fund Price Date	31 December 2012*	30 December 2011*	31 December 2010*	31 December 2009**	18 August 2009**
Fund Price	<b>124.5p</b>	115.6p	115.8p	106.1p	100.0p
Growth (%) for the 12 months to date shown	<b>7.7%</b>	-0.2%	9.1%	6.1%	
Total Percentage Growth of Fund Price from 18 August 2009 (launch date) to 31 December 2012					<b>24.5%</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 Averaged and Underlying prices.

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

# Performance Review

## Equities

Although no comprehensive solution to the Eurozone debt crisis was found, European equities performed strongly, boosted by the European Central Bank's (ECB) lending programme and its efforts to cap struggling countries' debt costs. In the UK, despite the sluggish economic backdrop, equities also performed strongly as optimism returned to the outlook for global earnings. Over the year both UK and European equities produced positive returns, with European equities out-performing the benchmark return.

## Fixed Interest

In the bond markets, lower-rated, higher-risk bonds and bonds issued by financial institutions performed very strongly as investors were encouraged by the support from central banks. The return from gilts was hampered by the historically low yielding environment; however, over 2012 fixed interest returns were positive and above benchmark.

## Property

The property portfolio achieved a positive absolute return and outperformed the benchmark return for 2012.

## Market and Economic Review

Europe dominated the markets in 2012. The significant events that returned confidence to the markets throughout the year were; the ECB Long Term Refinancing Operation, the ECB President Mario Draghi's pledge to do 'whatever it takes' to save the euro, and the Outright Monetary Transaction Programme supporting struggling countries.

In the UK, growth was marginal with GDP increasing at 0.2% for the year. The Funding for Lending Scheme was launched as a way of increasing liquidity to the end consumer – this essentially saw the Bank of England, through domestic banks, lending to consumers and small businesses. 2012 also saw two additional rounds of quantitative easing, in February and July, each for £50bn, resulting in total asset purchases of £375bn. The FTSE ended the year over 300 points higher at 5,897, peaking at 5,965 in December and having been as low as 5,260 on 1 June. Corporate bonds produced strong income returns and good capital gains over the year as a desire for income and stable fundamentals resulted in lower market yields.

In the US, the Federal Reserve unveiled a third round of quantitative easing in September and stated it would maintain the programme until there were signs of improvement in labour markets. It also indicated that the Federal Funds Rate (the target interest rate for the US) would remain low until at least mid-2015. An 'eleventh hour' deal was reached to avoid the fiscal cliff (of spending cuts and tax rises) albeit with decisions on spending postponed. Both the fiscal cliff and the election in November contributed to short term volatility.

Within equities, most markets gave comfortable double digit returns. Within bond markets, credit and emerging markets performed well, with returns positively correlated with the level of risk of the investment. Only core government bond markets gave a disappointing return as higher risk assets increased in popularity.

There were two key drivers for the increase in popularity of risk assets. The first was that in a low interest rate environment, income-starved investors were forced to seek out higher yielding assets and became increasingly more adventurous in the types of investments they might consider. The second driver was the very robust performance of corporate balance sheets; as a result, the risk of default or bankruptcy, despite the challenging economic backdrop, was considered low.

## Market and Economic Outlook

The defining feature of 2013 is expected to be the zero, or close to zero, interest rate environment. Growth in the developed world is still low by historic standards, western economies are over indebted and the financial system is undercapitalised. Interest rates aren't expected to go up in the near future.

Investors will continue to be forced to seek out higher yielding assets and will provide markets with the support they provided them last year. However, it is expected that things are getting a little better. In China the leadership transition and the end of the accompanying uncertainty has been a boost for both growth and the Chinese stock market. In the US, although not yet resolved, it remains our asset manager's view that a compromise will be reached on the fiscal cliff, and this should also provide a boost to growth. In any event, the US housing market continues to recover from very low levels, which is supportive of the US banking sector and consumer sentiment.

Although both the UK and continental Europe are likely to be in mild recession this year, the situation does not appear to be getting any worse, and it is likely that the worst of the problems of the banking system are behind us.

Against this backdrop, it is no surprise that markets have had such a positive start to the year, and it may well be that some profit taking is in order. Nevertheless, our asset manager expects equities in particular to make further positive progress in 2013. On a number of metrics, valuations are still supportive, and at some stage the merger and acquisition cycle will pick up as companies put their cash to work constructively.

Our asset manager expects government bond markets to remain volatile in 2013, with the low level of yields leaving investors exposed to the risk of capital losses over the medium term. However, our asset manager believes that corporate bonds should perform relatively well as investors continue to search for higher yields.

### **Liverpool Victoria Friendly Society Limited, County Gates, Bournemouth, BH1 2NF**

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