

LOVE

# Investment Report 2012

**With-Profits Fund**



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**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 the assets held in the Liverpool Victoria Friendly Society with-profits fund, 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 policy 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 policy, 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.

## Performance Review

The with-profits fund in which you are invested produced a return of 9.9% in 2012, compared to the benchmark return of 8.4%. Over three years and five years on an annualised basis the fund is ahead of the benchmark by 1.2% and 0.7% respectively.

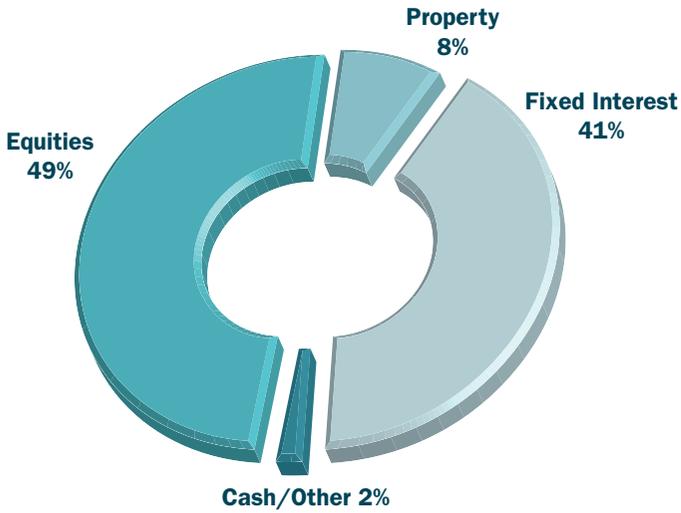
The benchmark for the fund as a whole, and the individual benchmark for any of the types of holdings we talk about below, is a measure of how the fund or asset type might have been expected to perform. For instance, the benchmark for UK equities is the FTSE All Share Total Return Index.

In 2012 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 over the outlook for global earnings. Concern over the fiscal cliff hampered US equities, while Japan also underperformed. Over the year all regions produced positive returns. The fund outperformed the benchmark in UK and European Equities with the remaining investments in the other regions providing positive returns but underperforming their respective benchmarks.

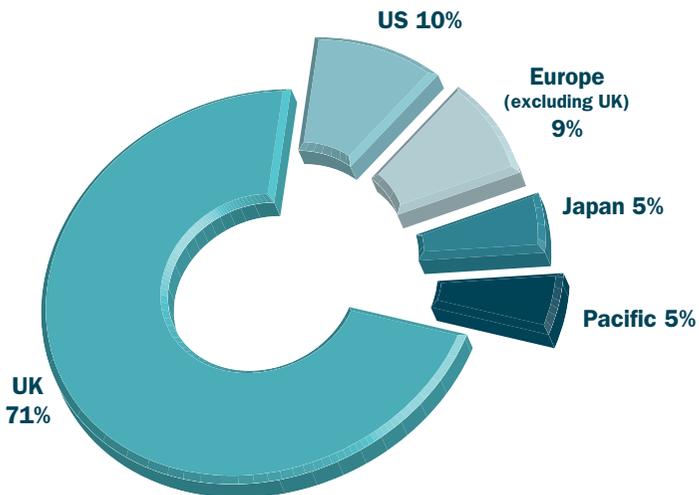
In the bond markets, lower-rated, higher-risk bonds and bonds issued by financial institutions performed very strongly as investors were encouraged by the support from central banks. The return from gilts was hampered by the historically low yielding environment; however, over 2012 fixed interest returns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

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

## Overall fund asset allocation as at 31 December 2012



## Equity country weightings as at 31 December 2012



## Standardised Performance for the With-Profits Fund

These figures show the investment return on the with-profits fund each calendar year for the last five years.

Yr to 31 Dec 2008	-17.8%*
Yr to 31 Dec 2009	15.4%**
Yr to 31 Dec 2010	15.5% **
Yr to 31 Dec 2011	5.7% ***
<b>Yr to 31 Dec 2012</b>	<b>9.9% ***</b>

\* 12 months total return % (mid price to mid price) gross income reinvested.

\*\* 12 months total return % (bid price to bid price) gross income reinvested.

\*\*\* Returns from 1 November 2011 to 31 December 2012 were calculated on a mid to mid basis, the returns for the other months in 2011 were calculated on a bid to bid basis, gross income reinvested.

Source: LV= up to 31 October 2011

Threadneedle Investments from 1 November 2011.

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

## 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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