



Investment Report 2013

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

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Investment Report 2013

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 2013 to 31 December 2013.

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 £89bn of assets (as at 31 December 2013), 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**.

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**, 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

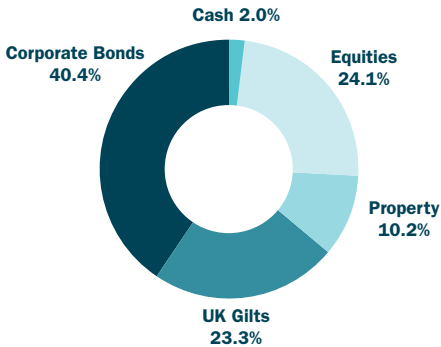
Within the following pages you'll find the performance of each available fund option.

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**. 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.

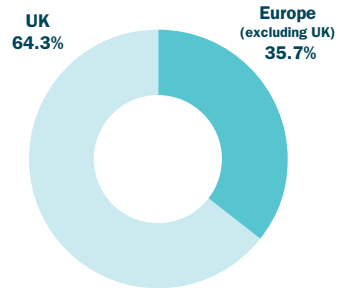
Cautious Series 2

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 under our Bond and therefore offers the lowest growth potential.

Asset allocation as at 31 December 2013



Equity weightings as at 31 December 2013



Unit Price Date	31 December 2013*	31 December 2012*	30 December 2011*	31 December 2010*	31 December 2009**	18 August 2009**
Unit Price	130.3p	123.0p	115.3p	112.9p	104.0p	100.0p
Growth (%) for the 12 months to date shown	5.9%	6.7%	2.1%	8.6%	4.0%***	
Total percentage growth of Unit Price from 18 August 2009 (launch date) to 31 December 2013						30.3%

*The unit price quoted is the Averaged price.

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

***This is the growth % for the period 18 August 2009 to 31 December 2009.

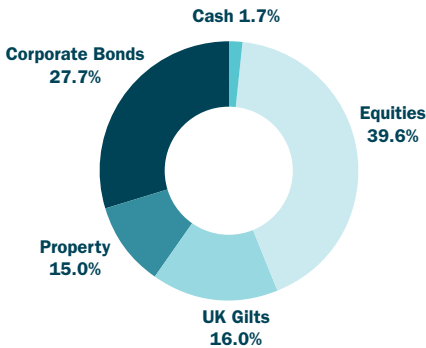
Please see your annual statement and bond documentation for an explanation of Averaged and Underlying prices.

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.

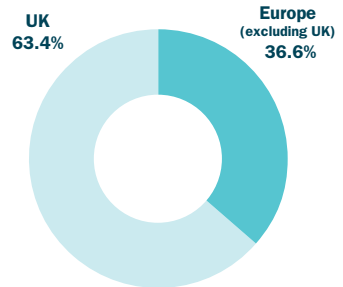
Balanced Series 2

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

Asset allocation as at 31 December 2013



Equity weightings as at 31 December 2013



Unit Price Date	31 December 2013*	31 December 2012*	30 December 2011*	31 December 2010*	31 December 2009**	18 August 2009**
Unit Price	134.6p	123.6p	115.4p	114.5p	105.4p	100.0p
Growth (%) for the 12 months to date shown	8.9%	7.1%	0.8%	8.6%	5.4%***	
Total percentage growth of Unit Price from 18 August 2009 (launch date) to 31 December 2013						34.6%

*The unit price quoted is the Averaged price.

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

***This is the growth % for the period 18 August 2009 to 31 December 2009.

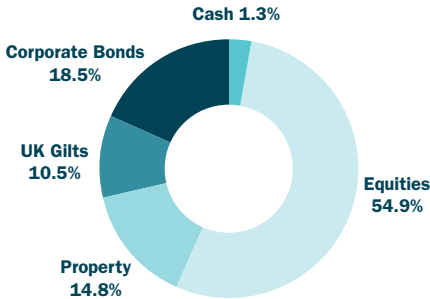
Please see your annual statement and bond documentation for an explanation of Averaged and Underlying prices.

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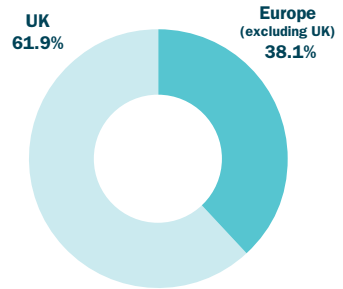
Managed Growth

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 2013



Equity weightings as at 31 December 2013



Unit Price Date	31 December 2013*	31 December 2012*	30 December 2011*	31 December 2010*	31 December 2009**	18 August 2009**
Unit Price	138.8p	124.5p	115.6p	115.8p	106.1p	100.0p
Growth (%) for the 12 months to date shown	11.5%	7.7%	-0.2%	9.1%	6.1%***	
Total percentage growth of Unit Price from 18 August 2009 (launch date) to 31 December 2013						38.8%

*The unit price quoted is the Averaged price.

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

***This is the growth % for the period 18 August 2009 to 31 December 2009.

Please see your annual statement and bond 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

All three fund options outperformed their respective benchmarks.

Equities

The overweight position in UK equities was the most significant factor in relative returns. Strong stock selection, including holdings in Legal & General, ITV and BT was key. In addition country allocation within European equities was positive, although here stock selection was less effective. Over the year both UK and European equities produced positive returns, with UK equities outperforming the benchmark return.

Fixed Interest

In fixed interest, the underweight stance in UK government bonds (also known as UK gilts) throughout the year added value, based on the belief that yields did not offer value at current levels and would rise during the year. This proved correct as yields increased. Corporate bonds outperformed government bonds, with stock selection in banking and media adding to returns. Over the year returns from UK government bonds were below benchmark whilst returns from corporate bonds were above benchmark.

Property

Commercial property continued in the positive tone witnessed in 2012, with rental income remaining robust and capital values rising. Lack of supply and new development, following the financial crisis, helped support valuations across the majority of sectors. During 2013 we changed the benchmark for property.

Market and Economic Review

2013 saw global equities in developed markets make significant gains, with stronger economic growth and earnings recovery pushing equity prices higher. Although there have been periods of uncertainty, caused by the US government shutdown in October and nervousness surrounding the timing of the US Federal Reserve reducing its Quantitative Easing (QE) programme, equities were driven higher as monetary authorities throughout the developed world emphasised that interest rates would be kept close to zero well past the point that clear signs of recovery were witnessed. Corporate bonds have continued to outperform core government bonds over the period, with positive overall returns.

The UK economy showed further signs of improvement, with Gross Domestic Product (GDP) numbers growing at the fastest rate for three years. Telecommunications, healthcare, and consumer discretionary sectors delivered some of the largest positive contributions to index returns. At the other end of the scale, the basic materials and energy sectors have struggled. The FTSE All-Share index rose 20.8% – its largest annual gain since 2009. The performance of medium and smaller sized companies was also strong with the FTSE Mid 250 and small cap indices both returning over 30%. This compares to returns of only 2% for UK corporate bonds, while UK government bonds ended the year down 4%.

The Eurozone emerged from recession at the half year point with economic data pointing to the economic recovery continuing. Political uncertainty returned in the autumn with concerns over the stability of the Italian government, while the German elections left Angela Merkel needing to seek a grand coalition. These issues have since been resolved. Overall, Eurozone equities performed strongly, helped by the European Central Bank cutting interest rates to 0.25% from 0.5%. The MSCI Europe ex UK index produced a return of over 20%.

Property performed well. Whilst rental income remained the primary component of return, the year saw a rise in capital values with increased demand & renewed interest from investors searching for income.

Market and Economic Outlook

2014 will be characterised by the move towards financial markets standing on their own feet, as the global policy support that has provided abundant liquidity to markets starts to be withdrawn. This will mark an important change in the drivers of investment returns which will see the global economic recovery put to the test. Instead of liquidity, corporate earnings will move into the spotlight and drive equity performance. Corporate bonds are likely to outperform government bonds.

Whilst there remains a positive view on equities overall, regional and sector performance is likely to vary. It's unlikely that 2013's equity market returns will be repeated in 2014. However, with the banking sector well capitalised and lending again, and a combination of low energy and labour costs, this should support company profitability into 2014.

Compared to the UK the European region currently has relatively poor growth dynamics and a banking system short of capital. Our asset manager will be concentrating on companies with strong business models, robust finances, experienced managements and, ideally, dominant market positions.

While the UK economy is still smaller than it was pre-crisis, we have seen some very encouraging data in 2013 and GDP growth for 2014 could be in the region of 2%. Unemployment has been falling and there is a likelihood that the Bank of England's 7% threshold (the point at which raising interest rates will be considered) could be reached in late 2014. The problem is that the positive data has not necessarily translated into domestic profits thus far.

2014 is also likely to be a year of transition for government and corporate bonds. The expectation of quantitative easing reduction has already led to the end of the bond market rally. We expect government bond yields to continue to move gradually higher with corporate bonds being preferred.

Our expectation is the UK commercial property market will make further headway in 2014 as the economic recovery continues to have a positive impact on occupational demand. The main beneficiaries should be the South East, as well as logistics and warehousing markets across the country. Top provincial office markets are also showing some signs of recovery. We believe investors will continue to be attracted to commercial property in 2014 and competition for stock should place upward pressure on capital values.

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

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