Investment Report 2013

With-Profits Fund

LIVERPOOL VICTORIA

With-Profits Fund 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 the assets held in the Liverpool Victoria Friendly Society with-profits fund, 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)

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**, 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.

With-Profits Performance Review

The with-profits fund in which you are invested produced a return of 11.1% in 2013, 2.5% ahead of the benchmark. Over three years and five years on an annualised basis the Fund was ahead of the benchmark by 1.1% and 1.6% 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.

Equities

The overweight position within the fund in UK equities was the most significant factor in relative returns. Strong stock selection, including the fund's holdings in Legal & General, ITV, BT, auto and aero components maker GKN, and house builder, Persimmon, was key. Over the year UK, US, European, Japanese and Pacific equities produced positive returns, with UK, US, Japanese and Pacific equities outperforming the benchmark return.

Fixed Interest

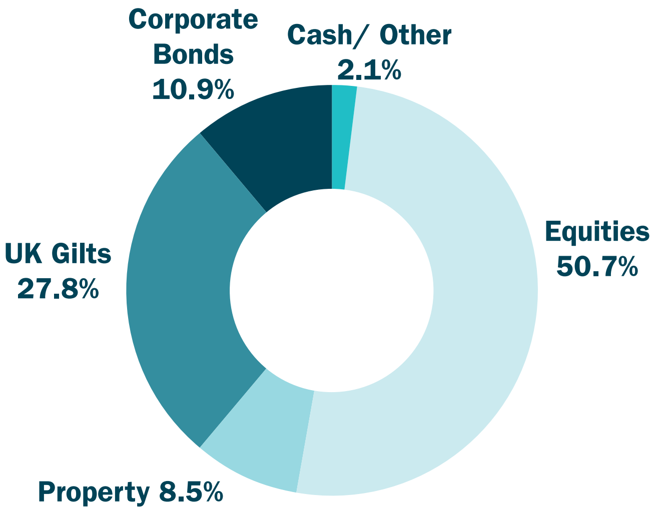
In fixed interest, the underweight stance in UK government bonds (also known as UK gilts) throughout the year added value, based on the belief that yields did not offer value at current levels and would rise during the year. This proved correct as yields increased. Corporate bonds outperformed government 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

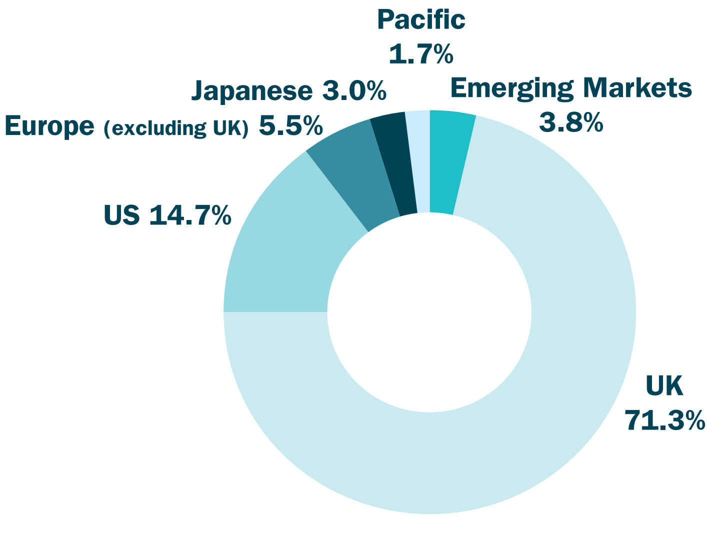
Commercial property continued in the positive tone witnessed in 2012, with rental income remaining robust and capital values rising. Lack of supply and new development, following the financial crisis, helped support valuations across the majority of sectors. Over the year returns from property were above benchmark.

Asset Allocation

Overall fund asset allocation as at 31 December 2013



Equity country weightings as at 31 December 2013



Standardised Performance for the With-Profits Fund

These figures show the investment return (before tax and charges) on the with-profits fund each calendar year for the last five years.

Year to 31 December 2009	15.4%*
Year to 31 December 2010	15.5%*
Year to 31 December 2011	5.7%**
Year to 31 December 2012	9.9%**
Year to 31 December 2013	**11.1%****

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

** Returns from 1 November 2011 to 31 December 2013 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

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%.

In the US the S&P 500 hit an all-time high during the latter part of the year, culminating in the best calendar year for US stocks since 1997, while Japan's TOPIX index saw a return of over 50%.

Emerging markets underperformed developed market peers. The prospect of a reduction in global liquidity led to worries over the ability of a number of emerging market countries to finance their current account deficits.

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 and emerging markets are a 'wildcard' and likely to remain volatile.

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.

In the US, company earnings have been robust, having recovered and surpassed their previous peak but in contrast, only half of European companies have beaten earnings expectations so far this year. The European region remains beset by relatively poor growth dynamics compared with the rest of the developed world and a banking system short of capital. Stock pickers will need to concentrate 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.

Emerging markets are likely to remain volatile. The announcement of quantitative easing reduction has caused significant headwinds in fixed interest assets and concerns over currency volatility and current account deficits remain. Emerging market equity valuations are attractive, but history shows that rising US government bond yields and a stronger US dollar can provide significant headwinds to progress.

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.

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