With-Profits Fund

Investment Report 2014

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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 2014 to 31 December 2014.

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 £95bn of assets (as at 31 December 2014), 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 30 largest asset management firms globally. Threadneedle's website address is **www.threadneedle.com**.

From 1 April 2015 Threadneedle Investments will be known as Columbia Threadneedle Investments.

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 portfolio marginally outperformed its benchmark during 2014, with contributions from UK and overseas equities offsetting negative impacts of asset allocation policy and slight underperformance from gilts and corporate bonds.

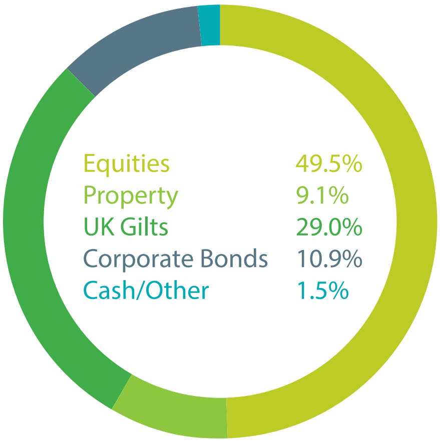
Asset allocation strategy has been consistent through the year, with an underweight position in UK Gilts and a corresponding overweight versus benchmark in UK equities. Given the respective performance of both asset classes, (UK Gilts produced a significantly greater absolute return than UK equity markets), this stance proved to be a drag on returns. The extent of the fall in gilt yields has been the major surprise of 2014. It is the belief of our investment managers at Threadneedle that current sovereign debt yields do not represent good value, although given current growth and inflation dynamics, as well as the political uncertainty surrounding May's General Election, yields could remain low for some time yet.

UK, European, Asia Pacific and Emerging Markets equity investment performance were all above benchmark with US and Asia Pacific equities having the strongest performance in absolute terms. This performance has come towards the end of 2014 with a general underweight exposure to the energy and commodity sectors and a focus on quality growth stocks amongst the consumer discretionary (businesses that sell non-essential goods and services) and industrials sectors.

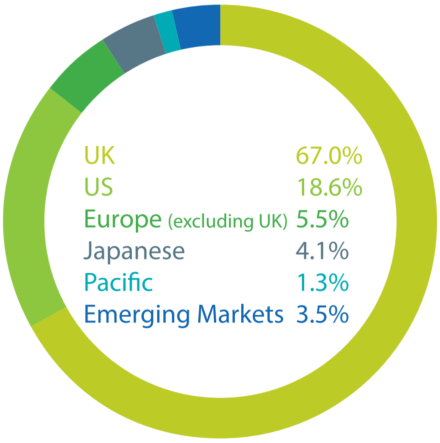
The fund has maintained an exposure to commercial property where absolute performance has benefited from overweight industrials within the London peripheral and South East areas. The asset has been a strong performer in 2014 boosted by increased investor appetite and the search for income, particularly within the office and industrial sectors. The fund has however underperformed on a relative basis against the Investment Property Databank (IPD) index given its lack of exposure to the London market which the manager firmly believes is overvalued.

Asset Allocation

Overall fund asset allocation
as at 31 December 2014



Equity weightings
as at 31 December 2014



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 2010	15.5%
Year to 31 December 2011	5.7%
Year to 31 December 2012	9.9%
Year to 31 December 2013	11.1%
Year to 31 December 2014	**11.4%**

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

2014 was a more interesting year for investors, than others in recent memory. The performance of global government bond markets, increasing geopolitical tensions, a rise in equity market volatility, and a divergence in the economic performance of the US versus the rest of the world, led to difficult conditions for investors. In the UK, the FTSE Allshare Index finished the year just over 1% higher. In contrast, the benchmark return for UK Gilts was 19.3% whilst for corporate bonds it was close to 15%. US equities produced the best equity market performance amongst the developed markets, reaching all-time highs during the latter part of the year, and ending 2014 with a 20.7% return in sterling terms.

One of the most surprising aspects of the year was the strength and resilience of core government bond markets which saw falls in yields to levels not witnessed for 20 years. The driver for this was the indifferent growth signals across developed economies and the safe haven status afforded by this asset class.

Politics has been a major influence during the year with events in the Ukraine and the Middle East dominating sentiment at times. In the UK, equity markets and the pound were impacted by the narrowing of opinion polls ahead of the Scottish referendum for independence. Although the 'No' result produced a brief rally, the question of Scottish devolution continues to be a factor. More latterly, a snap election in Japan raised hopes of further stimuli and Bank of Japan support. In Europe, the Greek election victory of the anti-austerity Syriza party increased worries over possible debt default. Finally in India, the election victory of the pro-business Bharatiya Party, has resulted in Indian equity markets being amongst the best of the emerging markets in what has been a very difficult year for the sector.

Whilst both the UK and US are coming towards the end of their respective Quantitative Easing (QE) policies, Europe and Japan announced significant programmes of support. In Europe, the European Central Bank has announced a sovereign debt purchase programme that it hopes will stave off deflation on the continent. Both UK and US central banks reiterated that although they expect interest rates to rise, the pace of the rise is predicted to be very gradual and ultimately peak well below historical levels.

The latter part of 2014 was dominated by falls in commodity prices, and in particular, a collapse in the oil price. The decision of OPEC not to cut production at a time of global over supply has resulted in crude oil prices falling to below US$50 per barrel for the first time since 2008. This has had severe impacts on oil producing countries, with oil company share prices falling. Industrial metal prices such as copper and iron ore have also been under pressure leading to significant volatility in the Mining and Commodity sector.

Market and Economic Outlook

Inflationary pressure is more or less absent in almost all the major developed economies and this should ensure policy settings are positive for risk assets. It is vital that outright deflation is avoided, given the very high debt-to-GDP ratios that persist throughout much of the developed world.

Investors will also have to get to grips with policy divergence in 2015. Japan has recently ramped up its Quantitative Easing (QE) programme and delayed a tax increase, the European Central Bank has announced its own QE actions and the US Federal Reserve has brought support to an end with US interest rates likely to rise in the coming year. In the UK, markets now expect rates to rise in Q4 2015 at the earliest, with many commentators now predicting the first rise delayed until early in 2016. If economic growth remains weak, the problem for policymakers now is that there is relatively little that they can do to stimulate growth: conventional monetary policy is exhausted and most governments cannot implement looser fiscal policy to support growth due to the state of their finances. It is therefore important that the upturn that has been seen in the US continues and broadens out to other economies.

For equities overall, there is a question over whether earnings expectations for 2015 are reasonable. Regionally, Japanese equities should remain attractive as a weaker yen is helping to boost Japanese corporate earnings, particularly for exporters. Our investment manager continues to like UK equities, and believes that the FTSE's 3.3% dividend yield should remain an attractive characteristic in a world where 10-year German government bonds yield just 0.4%.

The outlook for fixed income markets for 2015 is much more difficult to judge. On paper, government bond yields are very low by historic standards and our investment manager does not expect to see this change much. In part, this is because inflation expectations are very subdued (some parts of Europe are in outright deflation) and it is extremely unlikely that any of the major developed world central banks will tighten policy aggressively in 2015. There is a further, more fundamental constraint for government bond yields in that many governments now have so much debt that they simply would not be able to tolerate a big increase in their cost of borrowing.

In corporate bond markets, investment grade bonds are expected to do reasonably well, as it's an asset class that is suited to a low-growth, low-return environment. Moreover, corporate balance sheets remain healthy, and the lack of any meaningful economic recovery (outside of the US) has meant that many companies have remained cautious with regard to their spending and investment behaviour, which is credit friendly. Having said that, the good returns witnessed over the past few years is probably at an end.

One thing that is clear is that the 'search for income theme' will continue unabated in 2015. In this environment, assets with high real yields will remain in demand and for that reason we remain positive on the outlook for direct commercial property in 2015.

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FS21547349 03/15