

With-Profits Fund

Investment Report 2015



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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 2015 to 31 December 2015.

Columbia Threadneedle Investments

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

Columbia Threadneedle is a leading international investment manager that manages £320bn of assets (as at 31 December 2015), investing on behalf of individuals, pension funds, insurers and corporations. Columbia Threadneedle is the global asset management group of Ameriprise Financial, a leading US-based financial services provider. Columbia Threadneedle is the 13th largest manager of long term mutual fund assets in the US and the 4th largest manager of retail funds in the UK. Columbia Threadneedle's website address is www.columbiathreadneedle.co.uk.

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

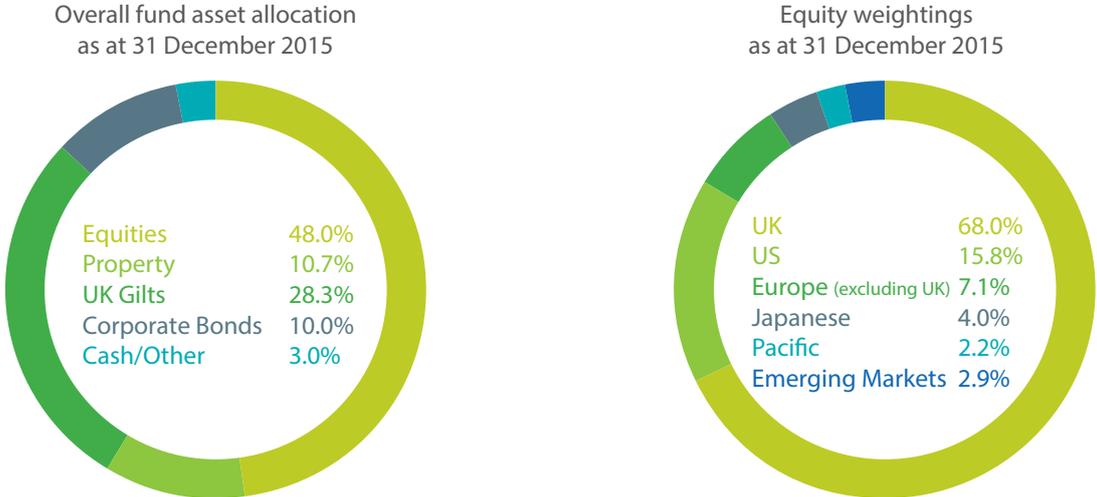
In line with the investment strategy in place throughout much of 2014, the asset allocation within the with-profits fund during 2015 continued to maintain an underweight position in UK Gilts and a corresponding overweight versus benchmark in UK, European, and Japanese equities. This contributed to the with-profits fund producing a return of 3.8% for 2015, 1.1% ahead of the benchmark. The main driver of this was the performance of the underlying equity funds, particularly UK and European equities.

The biggest change in asset allocation was a reduction in UK equities towards the end of May 2015. Despite a post-election rally, UK equities underperformed Europe during 2015. The Fund Managers also continued to reduce exposure to US equities where their concerns included a tightening US Federal Reserve policy, a strong dollar likely to persist, and weaker economic data.

The return on fixed income investments in the with-profits fund was broadly flat over 2015, although conditions were at times quite volatile. The year started with lower food and energy costs pushing down inflationary expectations and the European Central Bank (ECB) announcing further easing, which pushed UK Gilt yields lower. This positive move reversed through the second quarter, as international events such as Greek debt, emerging market turmoil, and the Chinese currency devaluation hit both government debt and credit markets. Given the challenges ahead, such as the uncertainty over the UK's membership of the EU, the need for further austerity measures, and the timing of any interest rate rise, both UK Gilt and credit funds have been defensively positioned in anticipation of further volatility.

The with-profits fund continued to maintain an exposure to commercial property which was one of the strongest and least volatile asset classes of 2015. The property fund that underpins our exposure underperformed. The fund manager remains of the view that the London market, and the office sector in particular, is significantly overvalued in comparison with areas outside the Capital within the London periphery and M4 corridor. As a consequence the current property investment has a significant underweight to London across all sectors, with a corresponding overweight to the South East (ex-London), particularly industrial and retail space.

Asset Allocation



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 2011	5.7%
Year to 31 December 2012	9.9%
Year to 31 December 2013	11.1%
Year to 31 December 2014	11.4%
Year to 31 December 2015	3.8%

Source: LV= up to 31 October 2011
 Columbia 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

2015 signalled the beginning of the transition from a long period, post the financial crisis of 2008, where financial stimulus and liquidity provision supported by central banks moves towards one where the fundamentals of economic growth, corporate earnings, and asset valuation drive investment returns. Investment returns overall were volatile, particularly in the second half of the year, and well below the double digit levels witnessed in 2014. For UK investors, 2015 was disappointing with both domestic equity and fixed interest markets barely breaking even.

The year started positively, with monetary easing by central banks, signs of recovery in Europe, and a steady of the oil price all supporting markets. The European Central Bank (ECB) cheered investors by announcing a bigger-than-expected Quantitative Easing (QE) programme, further weakening the euro and boosting Eurozone asset prices. Ongoing QE from the Bank of Japan helped Japanese equities to rise, while interest-rate cuts in a number of countries including China, Australia, India, Korea and Thailand supported Asian markets, which rose strongly. Despite the expanding UK economy, 10-year UK Gilt yields fell and lower fuel and food costs helped to push down inflation. The ECB easing saw Eurozone yields fall to all-time lows, making UK Gilt yields increasingly attractive. On the downside, although the US economy continued to improve, an increasing proportion of data readings failed to match elevated expectations.

Japan proved to be one of the strongest equity markets during the early part of the year. Relaxed visa restrictions and favourable exchange rates have encouraged huge growth in the number of foreign visitors to Japan, which has benefited parts of the domestic economy. The market started to appreciate that corporate profits would be strong and so upward earnings revisions were a key factor driving Japanese equities.

Asian markets also rose in the first quarter of 2015, with all of the region's major markets producing positive returns. Chinese markets were among the strongest performers over this period, with the domestic A-share market producing a double-digit return. This came as signs of slowing economic growth prompted action by the People's Bank of China to further cut interest rates at the end of February 2015, following the surprise interest-rate cut in November 2014.

The UK commercial property market's stronger capital appreciation and encouraging rental-value growth continued at a broadly constant level. It should be noted however that rental-value growth continued to be a phenomenon only seen in the office and industrial sectors as rental values in the retail sector remained stubbornly flat.

Later in the first half of 2015, the more optimistic tone set by continued accommodative central bank policy and better-than-expected US corporate earnings, shifted to a more volatile and negative picture, led principally by concerns over the intensification of the Greek debt crisis. Currency weakness in Emerging Market economies impacted equity markets across the developing world. In the UK, equities enjoyed a bounce following the Conservative's surprise outright victory in the General Election in May.

The third quarter was a tough period for global equities. The spotlight moved from Greece to China, where a combination of overstretched equity valuations and economic disappointment triggered a global sale of Chinese equities, despite interventions by the Chinese authorities.

US economic data was mixed, with falling unemployment and upward Gross Domestic Product revisions set against below-target inflation, but on balance pointed towards ongoing economic recovery. In Europe, modestly encouraging news on the domestic economy was overshadowed by external concerns, prompting the ECB to lower growth and inflation forecasts and suggest a possible extension of its QE programme. The Volkswagen emissions scandal also impacted the European equity market. Japan, which had been one of the better-performing major equity markets was hit hard by investors taking profits, while the yen's safe-haven status saw the currency strengthen, (which is typically perceived as negative for the Japanese stock market). Overall, the rest of developed Asia was weaker as was the emerging-market index, with losses exacerbated by currency depreciation. China was unsurprisingly among the biggest fallers, but Brazil was hit even harder, with poor economic performance, political stalemate and a credit downgrade compounding global concerns. The FTSE All-Share underperformed the rest of Europe as the pound weakened. The index was led downwards by oil and mining-related stocks as the oil price fell and worries over China cast further doubt on the outlook for metal prices.

The latter part of the year was a much better period for global equities. Terrorist atrocities dominated the headlines but anticipation of changes to central-bank policy was a bigger driver of sentiment. For most of the period, investors looked towards further stimulus from the ECB and the first US interest rate rise in almost a decade – both of which arrived in December. Weak Chinese trade data and a renewed slump in commodity prices further hampered sentiment. European stocks continued to rise, bolstered by more hints that the ECB was poised to

ramp up its stimulus programme in December. The Euro weakened in anticipation, but while the ECB did cut its interest rate to minus 0.3% and extend the QE programme by six months, it disappointed investors by failing to increase its monthly asset purchases. This led to European equities and fixed interest investments falling, while the Euro strengthened. In the US, meanwhile, by the time the US Federal Reserve voted to raise interest rates on 16 December, another solid jobs report had rendered the decision a virtual certainty. Investors in most equity markets reacted to the news with relief, and assurances from the US Federal Reserve that subsequent hikes would “proceed gradually” also buoyed sentiment.

Against this backdrop, all the major equity markets posted quarterly gains. The US outperformed global averages, helped by ongoing evidence of its solid economic recovery. Japan was stronger still, having been hit especially hard in the third-quarter sell-off. The FTSE All-Share underperformed the FTSE Europe ex UK, held back by a comparatively large weighting to the oil and gas sector, which fell heavily as the oil price plunged on oversupply concerns. The 10-year UK Gilt yield rose from 1.76% to 1.96%, despite disappointing inflation and dovish commentary from the Bank of England suggesting that the base rate might remain on hold until 2017.

Market and Economic Outlook

2016 began with significant volatility across equity and fixed income markets. During late January the FTSE100 index had fallen to 5,673, over 20% below its peak of the previous April at over 7,120. Widespread fears over ongoing stock market and currency weakness in China, the tensions in the Middle East, overvalued assets and an end to fiscal stimuli have all contributed to the plunge in global investment markets as has the fall in oil prices, with Brent crude slumping to a little over US\$27.50 per barrel on 20th January 2016, down 75% from its June 2014 high of US\$112 per barrel.

The increase in volatility should not come as too much of a surprise for investors. Central bank policy of Quantitative Easing (QE) has had the effect of keeping volatility artificially low in recent years while boosting asset prices. The US Federal Reserve raised interest rates in December 2015, removing one of the most significant tailwinds for financial markets, and it is becoming clear that the era of asset price reflation post the 2008 crisis is easing.

This is not to say that investment markets cannot make ground this year but it is likely to be a low growth, low return world generally. Much will depend, firstly on the Chinese economy, secondly, on where (or indeed if) the oil price settles at a level that still makes it economic for oil companies to operate, and lastly, the pattern and timing of interest rate moves in the US. At the time of writing the US Federal Reserve has a clearly stated aim of four rate rises in 2016. This looks increasingly unlikely barring a sudden, and unexpected, upturn in growth. Add in the timing of US Presidential Elections in November, and two rate increases look more likely. How the US Federal Reserve manage this change will be key to how markets react.

Political developments are likely to play an important role in markets in 2016. Aside from the US presidential election, the UK will hold its ‘Brexit’ referendum this year. Market volatility has certainly picked up from the artificially low levels that prevailed in the QE era, and earnings growth globally is likely to be quite modest, given low rates of economic growth. In this environment, the value generated by skilled active investment managers is likely to be an important component of total portfolio returns.

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