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

Investment Report 2016

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## Investment Report 2016

**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 2016 to 31 December 2016.

### 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 £369bn of assets (as at 31 December 2016), 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 15th 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)

Your Flexible Guarantee product 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 investment, 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

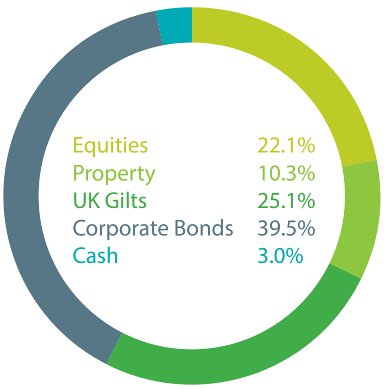
Within the following pages you'll find the performance of each available fund option.

Your individual statement will show you the number of units, the unit price, the value of your Flexible Guarantee product and the fund option in which you are invested at your product's last anniversary. You can find the current unit price of your investment at **www.LV.com/fgbprices**. This information should be read alongside your Key Features document and Bond Conditions. If your investment is in the Flexible Guarantee Funds within our pension wrapper it should be read alongside our Flexible Transitions Account Key Features document and Terms and Conditions. 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 (also known as stocks and shares), the more frequently this will happen and the more significant the changes in value are likely to be.

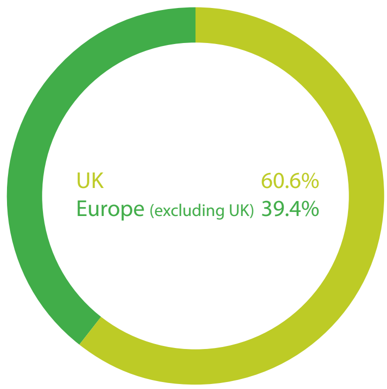
## Cautious Series 2

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 Flexible Guarantee products and therefore offers the lowest growth potential.

Asset allocation as at 31 December 2016




Equity weightings as at 31 December 2016




Asset allocations are published quarterly on **www.LV.com/wp-info** where you can also find the target asset allocation.

The first table below shows the unit prices for the Flexible Guarantee Bond, Flexible Guarantee Bond Series 2 and Flexi Guarantee Plan. The second table shows the unit prices for the Flexible Guarantee Funds. Separate unit prices are needed for Flexible Guarantee Funds because of the different tax treatment for pension investments.

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

| Unit Price Date | **31 December 2016** | 31 December 2015 | 31 December 2014 | 31 December 2013 | 30 December 2012 | 31 December 2011 |
|---|---|---|---|---|---|---|
| Unit Price* | **154.6p** | 146.4p | 138.2p | 130.3p | 123.0p | 115.3p |
| Growth (%) for the 12 months to date shown | **5.6%** | 5.9% | 6.1% | 5.9% | 6.7% | 2.1% |
| Total percentage growth of Unit Price from 1 January 2012 to 31 December 2016 (5 years) | | | | | | **34.1%** |
| Total percentage growth of Unit Price from 18 August 2009 (launch date) to 31 December 2016 | | | | | | **54.6%** |

*The unit price quoted is the Averaged Price.

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

**Flexible Guarantee Fund**

| Unit Price Date | **31 December 2016** | 31 December 2015 | 31 December 2014 | 3 July 2014 (Launch Date) |
|---|---|---|---|---|
| Unit Price** | **116.7p** | 109.5p | 106.0p | 100.0p |
| Growth (%) for the 12 months to date shown | **6.6%** | 3.3% | 6.1% | N/A |
| Total percentage growth of Unit Price from 3 July 2014 (launch date) to 31 December 2016 | | | | **16.7%** |

** There was no Averaged price available until 2nd January 2015 so unit prices quoted prior to this date are the Underlying Prices.

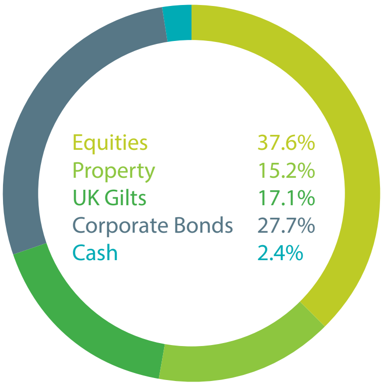
Please see your annual statement and Flexible Transition Account documentation for an explanation of Averaged and Underlying Prices.

**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.

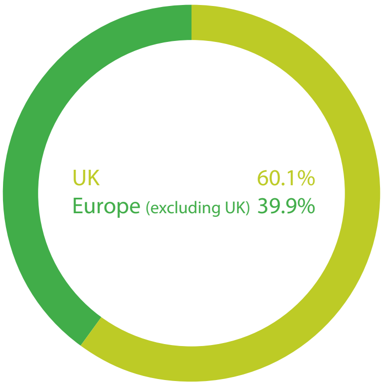
## Balanced Series 2

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 2016




Equity weightings as at
31 December 2016

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The first table below shows the unit prices for the Flexible Guarantee Bond, Flexible Guarantee Bond Series 2 and Flexi Guarantee Plan. The second table shows the unit prices for the Flexible Guarantee Funds. Separate unit prices are needed for Flexible Guarantee Funds because of the different tax treatment for pension investments.

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

| Unit Price Date | **31 December 2016** | 31 December 2015 | 31 December 2014 | 31 December 2013 | 31 December 2012 | 30 December 2011 |
|---|---|---|---|---|---|---|
| Unit Price* | **162.6p** | 155.2p | 144.1p | 134.6p | 123.6p | 115.4p |
| Growth (%) for the 12 months to date shown | **4.8%** | 7.7% | 7.1% | 8.9% | 7.1% | 0.8% |
| Total percentage growth of Unit Price from 1 January 2012 to 31 December 2016 (5 years) | | | | | | **40.9%** |
| Total percentage growth of Unit Price from 18 August 2009 (launch date) to 31 December 2016 | | | | | | **62.6%** |

*The unit price quoted is the Averaged Price.

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

**Flexible Guarantee Fund**

| Unit Price Date | **31 December 2016** | 31 December 2015 | 31 December 2014 | 3 July 2014 (Launch Date) |
|---|---|---|---|---|
| Unit Price** | **116.9p** | 111.1p | 105.6p | 100.0p |
| Growth (%) for the 12 months to date shown | **5.2%** | 5.2% | 5.6% | N/A |
| Total percentage growth of Unit Price from 3 July 2014 (launch date) to 31 December 2016 | | | | **16.9%** |

**There was no Averaged price available until 2nd January 2015 so unit prices quoted prior to this date are the Underlying Prices.

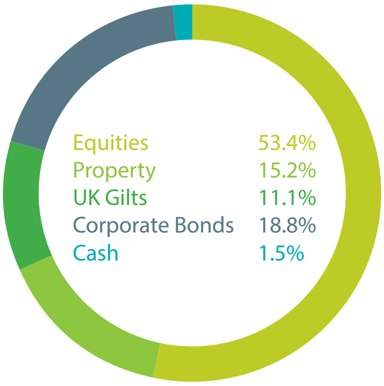
Please see your annual statement and Flexible Transition Account documentation for an explanation of Averaged and Underlying Prices.

**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.

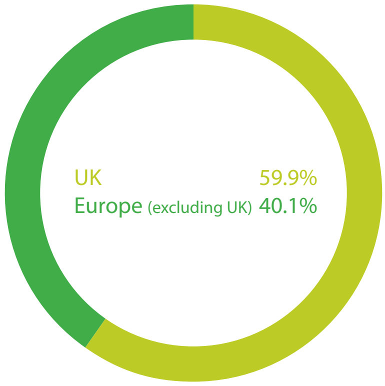
## Managed Growth

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 2016




Equity weightings as at
31 December 2016




Asset allocations are published quarterly on **www.LV.com/wp-info** where you can also find the target asset allocation.

The first table below shows the unit prices for the Flexible Guarantee Bond, Flexible Guarantee Bond Series 2 and Flexi Guarantee Plan. The second table shows the unit prices for the Flexible Guarantee Funds. Separate unit prices are needed for Flexible Guarantee Funds because of the different tax treatment for pension investments.

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

| Unit Price Date | **31 December 2016** | 31 December 2015 | 31 December 2014 | 31 December 2013 | 31 December 2012 | 30 December 2011 |
|---|---|---|---|---|---|---|
| Unit Price* | **169.7p** | 163.3p | 149.2p | 138.8p | 124.5p | 115.6p |
| Growth (%) for the 12 months to date shown | **3.9%** | 9.5% | 7.5% | 11.5% | 7.7% | -0.2% |
| Total percentage growth of Unit Price from 1 January 2012 to 31 December 2016 (5 years) | | | | | | **46.8%** |
| Total percentage growth of Unit Price from 18 August 2009 (launch date) to 31 December 2016 | | | | | | **69.7%** |

*The unit price quoted is the Averaged Price.

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

**Flexible Guarantee Fund**

| Unit Price Date | **31 December 2016** | 31 December 2015 | 31 December 2014 | 3 July 2014 (Launch Date) |
|---|---|---|---|---|
| Unit Price** | **116.9p** | 112.4p | 105.0p | 100.0p |
| Growth (%) for the 12 months to date shown | **4.0%** | 7.0% | 5.0% | N/A |
| Total percentage growth of Unit Price from 3 July 2014 (launch date) to 31 December 2016 | | | | **16.9%** |

** There was no Averaged price available until 2nd January 2015 so unit prices quoted prior to this date are the Underlying Prices.

Please see your annual statement and Flexible Transitions Account 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.
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## Performance Review

In 2016 all funds produced gross returns which were behind their comparative benchmarks. Stock selection was the main driver of relative performance, mostly due to the underperformance of the equity and property investments. The weakness of pound sterling also impacted returns. Despite this, the benefits from being overweight in equities and underweight in corporate bonds (which were mostly short-dated) more than offset the negative impact from the underweight in gilts and overweight's in both property and cash.

During 2016 there was little change to the asset allocations. Across the funds the underweight in corporate bonds was broadly unchanged over the year. By contrast outperformance by the gilt investments saw a modest rise as a proportion of the net asset value. In late September an increase in exposure to property was funded mostly from cash and the sale of UK equities. Despite this, the property overweight in the Cautious and Growth funds reduced as it underperformed other assets over the year. Europe excluding UK equities also saw a reduction in our overweight through sales, occurring mostly in June and July, when Brexit-related risks to earnings were foreseen. Across all funds the UK equities investment moved further overweight due to the allocation outperforming most others.

Returns on fixed income assets were strong in 2016 with performance boosted by the portfolios overweight to corporate bonds over gilts. The strongest returns were seen in quarters two and three when gilt yields fell sharply following the Brexit vote. The final quarter of the year then saw a sell off of corporate bonds.

Property returns in 2016 were negative for the year. Most of the negative performance occurred in May, and was due to changes in the way shares in the underlying funds were valued from an offer-price to a bid-price basis. The change reflected the potential cost of selling off underlying assets, should net redemptions have made this necessary. In January 2017 increased investment in property boosted the available cash flow and minimised the need to sell off underlying assets, allowing pricing to revert to an offer basis. As expected, this resulted in a corresponding positive impact on performance.

## Market and Economic Review

2016 was marked by several spells of intense volatility, global equities rose strongly, while global bonds provided smaller returns. At the start of the year a stock-market correction in China and plunging oil prices drove equities and bond yields down, and in late June, the UK's shock "Brexit" vote had a similar effect. After relative calm in quarter three, the final quarter of the year saw investment grade bonds sell off and equity values increase. This was largely driven by Donald Trump's election victory and a growing expectation that his policies would result in higher US growth and inflation, and, as a consequence, faster interest rate hikes.

Despite initial predictions of four US interest rate rises in 2016, the release of some underwhelming employment data combined with the uncertainty surrounding China and Brexit meant it was not until mid-December that the Federal Reserve made its first and only hike of the year. With domestic data improving, the 0.25% interest rate rise was fully anticipated, however, the Fed surprised markets by predicting three more increases in 2017, not two as expected.

By contrast, the Bank of Japan, European Central Bank, and Bank of England all cut their interest rates in the year. The European Central Bank and Bank of England also ramped up their bond buying programmes in both scale and scope, with each now including corporate bonds – a move used to increase quantitative easing.

UK equities trailed far behind overseas equities, largely because sterling returns from overseas were boosted by the post-referendum collapse in the pound. US equities outperformed global indices in sterling, although this was largely helped by the strength of the dollar.

The FTSE All-Share gained 16.8%, led upwards by the FTSE 100, as sterling's weakness improved the outlook for overseas earners. Energy and materials were the strongest sectors in the UK, lifted by higher oil and industrial-metals prices. The FTSE Europe excluding UK index returned just 3.4% in local terms but was up 19.7% in sterling terms. As in the UK, energy and materials fared best. By country, Hungary, Austria and Norway were strongest, with Greece and Ireland the only fallers in sterling terms.

In fixed income, the gilt and UK corporate bond markets both enjoyed double-digit returns: the FTSE Actuaries All-Stock UK Gilts index gained 10.1% while corporate bonds gained 10.7%. Conversely UK commercial property had a subdued year as stamp-duty changes and Brexit-related uncertainty weighed on the market. The Investment Property Databank UK Monthly index gained just 2.6% in 2016, compared with 13.8% in 2015.

## Market and Economic Outlook

With elections across Europe in the next 12 months, further geopolitical threats are anticipated. The UK is expected to experience a period of lower growth in 2017 due to Brexit-related uncertainty, with inflation rising, driven by a weaker currency. US politics, the price of oil and China's economic outlook will continue to be monitored following the affects seen to equity markets in recent months. As ever, any volatility is likely to produce investment opportunities.

In the UK property development outside London may remain subdued due to the uncertainty still surrounding Brexit, but this may provide support to rents and property prices. The outlook for Asia and emerging markets is challenging, particularly for those including China and Mexico, the countries most exposed to Donald Trump's protectionist policies. The likelihood of a stronger dollar amid higher US interest rates is another headwind.

With regard to bond markets, the outlook appears to be one of low, long term interest rates. Demographic trends, weak productivity growth and low levels of investment relative to savings are all likely to keep yields depressed, pushing investors to look for riskier investments.

Recently, there has been an increasing focus on the limits that central-banks intervention can have. Simultaneously, the benefit of fiscal stimulus (where governments works to increasing public spending and reducing the levels of taxation) is gaining credibility, especially since the election of Donald Trump.

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