

With-Profits Fund

Investment Report 2016



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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 2016 to 31 December 2016.

A different investment report is available for the Flexible Guarantee Bond, Flexible Guarantee Bond (Series 2), Flexible Guarantee Funds, All-in-1 Investment Bond, Guaranteed Capital Bond and the Flexi Guarantee Plan.

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)

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 2016 the most significant asset allocation decisions were the addition (in quarter three) of two new portfolios: a high-yield bond portfolio and a multi-asset portfolio. This was funded primarily by the sale of UK equities, gilts and UK corporate bonds (where the benchmark weights were also adjusted downwards). This contributed to the with-profits fund producing a return of 15.5% for 2016, around 1.5% behind its benchmark.

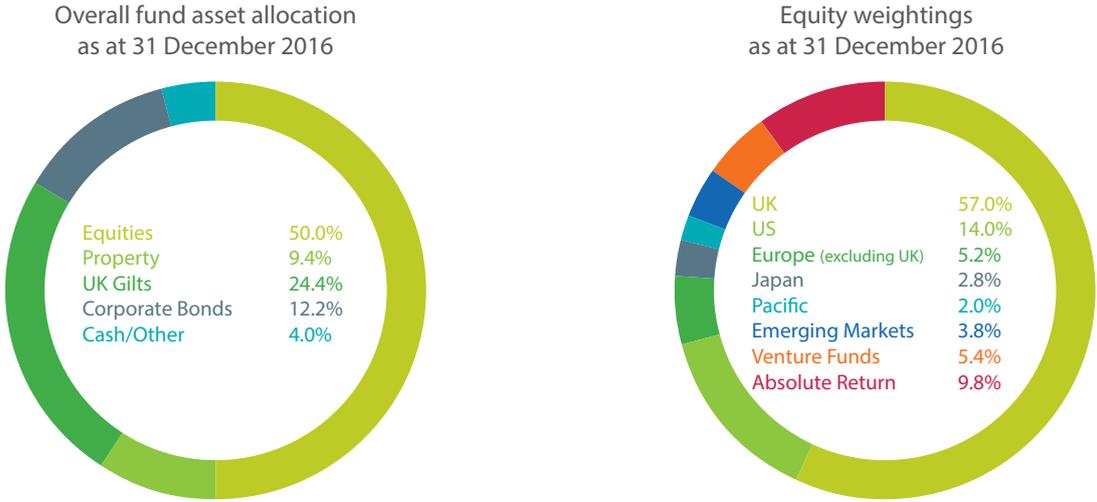
During 2016, overweight's in property and cash hampered relative returns, as did an underweight to emerging market equities. Stock selection was the main driver of relative performance. This was mostly due to underperformance by the property and Europe excluding UK equity portfolios. By contrast, the US equity portfolio stock selection added value.

Our overweight in Europe excluding UK equities was reduced through sales equalling around 0.6% of the portfolio. These sales occurred mostly in June and July, as we saw Brexit-related risks to earnings. In the third quarter, our exposure to emerging market equities was increased, as these were thought to be relatively well insulated from any Brexit fallout. The portfolio moved from an underweight here to a slight overweight. Profits were taken on US equities throughout the third and fourth quarters, though due to outperformance the allocation was little changed as a proportion of net asset value.

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 fund were valued from an offer-price to a bid-price basis. The change reflected the potential cost of selling off the 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.

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 2012	9.9%
Year to 31 December 2013	11.1%
Year to 31 December 2014	11.4%
Year to 31 December 2015	3.8%
Year to 31 December 2016	14.6%

Source: Columbia Threadneedle Investments.

Please remember that past performance doesn't necessarily reflect what will happen in the future.

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 corporate 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. Japan battled to boost inflation and weaken the yen after persistent yen strength in the first half of the year saw Japanese equities lag behind the global averages over the year as a whole. Emerging market assets made strong gains over the year.

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 work to increase public spending and reduce the levels of taxation) is gaining credibility, especially since the election of Donald Trump.

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