Fund options for Flexible Guarantee products

Investment Report 2017

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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 your bond, for the period 1 January 2017 to 31 December 2017.

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 £366bn of assets (as at 31 December 2017), 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's website address is **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 bond, together with a customer friendly version called 'Your guide to how we manage our with-profits fund', is available on our website at **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.

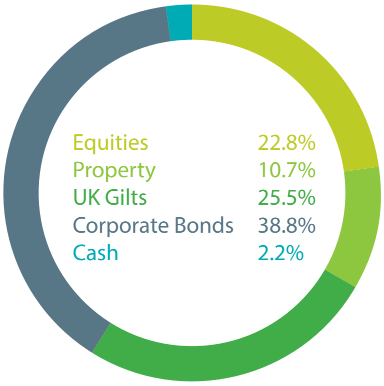
Your individual statement will show you the number of units, the unit price, the value of your investment and your chosen fund option at your investment's last anniversary. You can find the current unit price of your investment on our website at **LV.com/fgbprices**. This information should be read alongside your Bond Conditions and Key Features document (for bonds started before 1 January 2018), or Key Information Document and Supplementary Information Document (for bonds started after 1 January 2018). 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.

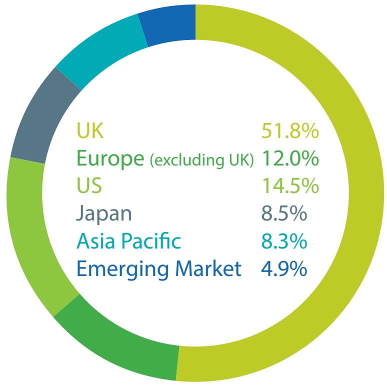
Cautious Series 2

This fund is designed to provide long term steady growth together with a low level of investment risk. The fund invests, either directly or indirectly, in a diversified portfolio of fixed interest securities, equities, property, cash and other related instruments.

Asset allocation as at
31 December 2017



Equity weightings as at
31 December 2017



Asset allocations are published quarterly on our webiste at **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, Flexible Guarantee Bond Series 3 and Flexi Guarantee Plan. The second table shows the unit prices for the Flexible Guarantee Funds and Flexible Guarantee Funds Series 2. Separate unit prices are needed for Flexible Guarantee Funds because of the different tax treatment for pension investments.

Flexible Guarantee Bond (all series) and Flexi Guarantee Plan

Unit price date	**31 December 2017**	31 December 2016	31 December 2015	31 December 2014	31 December 2013	31 December 2012
Unit price*	**161.7p**	154.6p	146.4p	138.2p	130.3p	123.0p
Growth (%) for the 12 months to date shown	**4.6%**	5.6%	5.9%	6.1%	5.9%	6.7%
Total percentage growth of unit price from 1 January 2013 to 31 December 2017 (5 years)						**31.5%**
Total percentage growth of unit price from 18 August 2009 (launch date) to 31 December 2017						**61.7%**

*The unit price quoted is the Averaged Price.

The percentage growth from launch is based on the Underlying Price at launch and the Averaged Price at 31 December 2017.

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

Flexible Guarantee Funds and Flexible Guarantee Funds Series 2

Unit price date	**31 December 2017**	31 December 2016	31 December 2015	31 December 2014	3 July 2014 (Launch Date)
Unit price**	**122.9p**	116.7p	109.5p	106.0p	100.0p
Growth (%) for the 12 months to date shown	**5.3%**	6.6%	3.3%	6.1%	N/A
Total percentage growth of unit price from 3 July 2014 (launch date) to 31 December 2017					**22.9%**

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

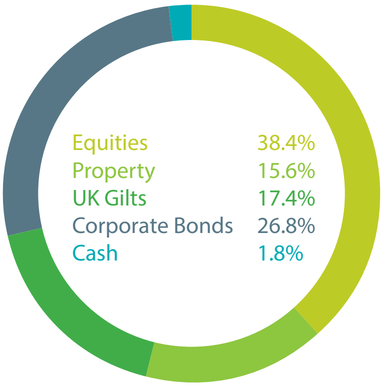
Please see your annual statement and Flexible Transitions Account documentation for an explanation of Averaged and Underlying Prices.

Please note: Product charges are paid by the cancellation of units rather than reflected in the unit price.
Past performance is not a reliable guide to future performance.

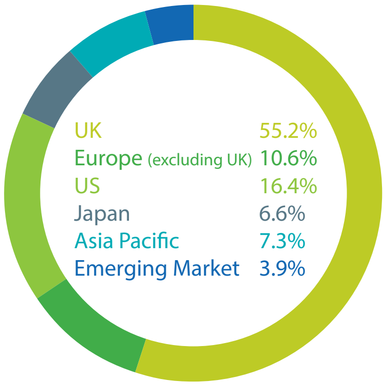
Balanced Series 2

This fund is designed to provide long term moderate growth together with a low to medium level of investment risk. The fund invests, either directly or indirectly, in a diversified portfolio of fixed interest securities, equities, property, cash and other related instruments.

Asset allocation as at
31 December 2017



Equity weightings as at
31 December 2017



Asset allocations are published quarterly on our website at **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, Flexible Guarantee Bond Series 3 and Flexi Guarantee Plan. The second table shows the unit prices for the Flexible Guarantee Funds and Flexible Guarantee Funds Series 2. The differences in pricing between these products are due to the variation in taxation between funds invested with and without a pension wrapper.

Flexible Guarantee Bond (all series) and Flexi Guarantee Plan

Unit price date	**31 December 2017**	31 December 2016	31 December 2015	31 December 2014	31 December 2013	31 December 2012
Unit price*	**173.7p**	162.6p	155.2p	144.1p	134.6p	123.6p
Growth (%) for the 12 months to date shown	**6.8%**	4.8%	7.7%	7.1%	8.9%	7.1%
Total percentage growth of unit price from 1 January 2013 to 31 December 2017 (5 years)						**31.6%**
Total percentage growth of unit price from 18 August 2009 (launch date) to 31 December 2017						**73.7%**

*The unit price quoted is the Averaged Price.

The percentage growth from launch is based on the Underlying Price at launch and the Averaged Price at 31 December 2017.

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

Flexible Guarantee Funds and Flexible Guarantee Funds Series 2

Unit price date	**31 December 2017**	31 December 2016	31 December 2015	31 December 2014	3 July 2014 (Launch Date)
Unit price**	**126.9p**	116.9p	111.1p	105.6p	100.0p
Growth (%) for the 12 months to date shown	**8.6%**	5.2%	5.2%	5.6%	N/A
Total percentage growth of unit price from 3 July 2014 (launch date) to 31 December 2017					**26.9%**

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

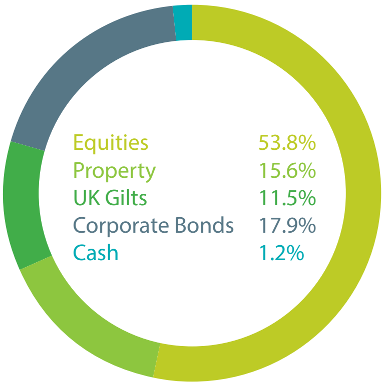
Please see your annual statement and Flexible Transitions Account documentation for an explanation of Averaged and Underlying Prices.

Please note: Product charges are paid by the cancellation of units rather than reflected in the unit price.
Past performance is not a reliable guide to future performance.

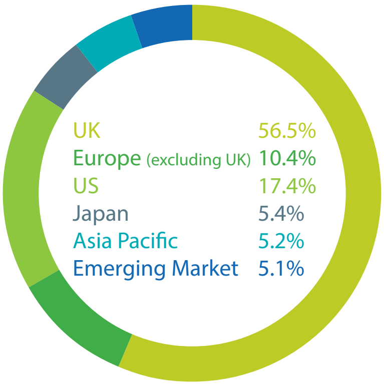
Managed Growth

This fund is designed to provide long term growth together with a medium level of investment risk. The fund invests, either directly or indirectly, in a diversified portfolio of fixed interest securities, equities, property, cash and other related instruments.

Asset allocation as at
31 December 2017



Equity weightings as at
31 December 2017



Asset allocations are published quarterly on our website at **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, Flexible Guarantee Bond Series 3 and Flexi Guarantee Plan. The second table shows the unit prices for the Flexible Guarantee Funds and Flexible Guarantee Funds Series 2. The differences in pricing between these products are due to the variation in taxation between funds invested with and without a pension wrapper.

Flexible Guarantee Bond (all Series) and Flexi Guarantee Plan

Unit price date	**31 December 2017**	31 December 2016	31 December 2015	31 December 2014	31 December 2013	31 December 2012
Unit price*	**184.0p**	169.7p	163.3p	149.2p	138.8p	124.5p
Growth (%) for the 12 months to date shown	**8.4%**	3.9%	9.5%	7.5%	11.5%	7.7%
Total percentage growth of unit price from 1 January 2013 to 31 December 2017 (5 years)						**47.8%**
Total percentage growth of unit price from 18 August 2009 (launch date) to 31 December 2017						**84.0%**

*The unit price quoted is the Averaged Price.

The percentage growth from launch is based on the Underlying Price at launch and the Averaged Price at 31 December 2017.

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

Flexible Guarantee Funds and Flexible Guarantee Funds Series 2

Unit price date	**31 December 2017**	31 December 2016	31 December 2015	31 December 2014	3 July 2014 (Launch Date)
Unit price**	**129.7p**	116.9p	112.4p	105.0p	100.0p
Growth (%) for the 12 months to date shown	**10.4%**	4.0%	7.0%	5.0%	N/A
Total percentage growth of unit price from 3 July 2014 (launch date) to 31 December 2017					**29.7%**

** There was no Averaged Price available until 2 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 2017 all the Flexible Guarantee fund options produced gross returns which beat their respective benchmarks. Asset allocation was the main driver of this outperformance, with increased investment in equities and less within UK corporate bonds.

During the year there were considerable changes to the investment portfolio. The most notable change occurred during the third quarter with a change to the fund options' strategic asset allocation. At the start of August a proportion of European equities were sold in order to reinvest in US, Japan, Asia Pacific, and Emerging Markets equities. This significantly broadened the equity investment portfolio, which had previously only included UK and European equities.

The second half of 2017 saw the UK equity investments struggle. This was largely due to reduced investment in basic materials, energy, and financials, and increased investment in healthcare and utilities. However, since starting to invest in overseas equity investments in the US, Asia, and Japan, these have all outperformed their respective benchmarks. The view on Japanese equities is favourable due to the positive outlook for these.

Within fixed income, the investment in UK Corporate Bonds has again been the main contributor to the performance, although the overall investment in this type of asset has now slightly reduced. The two underlying credit funds both outperformed their respective benchmarks, but the investments in gilts did not perform as well as they did in 2016.

The property portfolio generated a double digit return, outperforming its benchmark. In 2016, the portfolio had underperformed, mainly due to changes in the way shares in the underlying property funds were valued from an offer-price to a bid-price basis. The change reflected the potential cost of disposing of underlying assets, should that have been necessary. In January 2017 increased investments allowed pricing to revert to an offer basis. As expected, this resulted in a corresponding positive impact on performance.

Market and Economic Review

During 2017 global equities enjoyed a very strong year, while global bonds made smaller gains. Synchronised global growth, strong corporate results and, towards the end of the year, expectation of US tax reform buoyed equities and helped corporate bonds outperform their government counterparts.

Key central banks made steps towards normalising their monetary policy, following the use of more unconventional methods in recent years to keep their economies stable. Faced with a strengthening Eurozone economy, the European Central Bank announced it would halve its bond buying programme from January 2018. The Bank of England also took action, raising interest rates in November for the first time in a decade, in a bid to control inflation. Meanwhile the US Federal Reserve made three 0.25% interest rate increases over the year. None of these moves fazed the market, a good sign of the increasing health of global economies.

In the US the dollar weakened, in part due to fading optimism about President Trump's ability to deliver his reform agenda. However, the president scored a notable win at the end of the year when Congress passed his tax-cutting bill and anticipation of this helped boost US equities to fresh highs in December. The S&P 500 returned 21.8% in dollar terms (11.3% in sterling) helped to record highs by better-than-expected company earnings against a solid domestic economic backdrop.

In Europe, European excluding UK equities trailed behind global averages, despite strong economic performance in the region. A stronger euro impacted the outlook for exporters, whilst investors were also unsettled by bouts of political uncertainty. The FTSE Europe excluding UK returned 15.2% (17.5% in sterling terms). UK equities also lagged, as Brexit-related concerns weighed on the market although the pound recovered some of its post-referendum losses. The FTSE All-Share gained 13.1% for the year in sterling terms.

Japanese equities rallied in response to strong earnings and anticipation that Prime Minister Abe's election victory would ensure further economic stimulus including increased public spending. Asia Pacific, and emerging-market equities enjoyed a strong year, boosted by the weak dollar and improvement in the global economy.
Korea and China were especially strong, while Mexico and Russia lagged. The MSCI AC Asia Pacific excluding Japan returned 30.5% in local terms (25.4% in sterling) and the MSCI Emerging Markets returned 31.0% (25.8% in sterling).

The UK commercial property market recovered strongly after struggling in 2016 due to Brexit worries and stamp-duty changes; the Investment Property Databank Monthly index gained 11.0% over 2017, compared with just 2.6% the previous year.

Market and Economic Outlook

With reasonable economic growth and only gentle rises in inflation in most regions, a 'Goldilocks economy' best describes the current global economic environment. In other words the global economy is not sufficiently hot to need aggressive monetary tightening, nor so cold as to create fears of another economic recession.

For now we anticipate that these conditions will persist. Equity valuations are reasonably high, but are supported by expected future growth and earnings.

In Europe and the UK, companies are taking part in increasingly unfriendly bond activity, such as Mergers & Acquisitions, which can lead to the price of bonds falling. Because of this the outlook is perhaps less positive than it was.

There are a range of events which could upset the apple cart. From a monetary perspective, the global issues include quantitative tightening in the US, higher Eurozone interest rates and the reduction of the European Central Banks bond buying programme. From a political perspective risks include a China trade war, the threat from North Korea and renegotiation of the North American Free Trade Agreement (NAFTA).

The outlook for Japanese equities appears positive, with factors supporting this including: increased strength in corporate earnings, better shareholder returns being driven by corporate reforms (allowing companies to function in a similar way to US corporations), firm economic expectations, and reduced political risk following Prime Minister Abe's re-election.

You can get this and other documents from us in Braille or large print by contacting us.

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