With-Profits Fund

Investment Report 2017

With-Profits Fund Investment Report 2017

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 fund that backs most of its with-profits policies, for the period 1 January 2017 to 31 December 2017.

A different investment report is available for the Flexible Guarantee Bond, Flexible Guarantee Bond (Series 2), Flexible Guarantee Bond (Series 3), Flexible Guarantee Funds, Flexible Guarantee Funds (Series 2), 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 £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)

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 **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 2017 the total fund provided a return which was below benchmark. Although asset allocation had a positive impact on performance, largely due to the high proportion of the fund invested in equities (especially Asian and Japanese).

Investment in both UK and US equities reduced during the year, allowing for increased investment in Europe, Japan, and Asia. Stock selection in Asia Pacific equities drove the outperformance and was strongest in China, Hong Kong and India. Japan, the most favoured overseas equity market within the fund, also performed well, benefitting from the synchronised global economic recovery and a more stable political environment. However, the overseas equity exposure in US and Europe excluding UK were marginally below their respective benchmarks. For emerging markets, the investments in China, Russia and Mexico produced returns below benchmark.

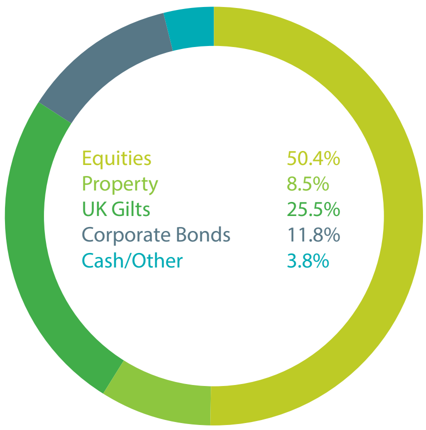
Within UK equities, positive selection effects in consumer staples (such as food and household goods), healthcare, IT, and real estate were more than overshadowed by negative selection elsewhere, most notably in materials, energy, telecoms and utilities. Being underweight in both mining and oil companies, in a year when both benefitted from rising commodity and oil prices, was a particular drag on returns.

In fixed income, the year continued to be a strong one for UK corporate bonds. The two underlying credit funds both outperformed their respective benchmarks. However, the investments in gilts did not perform as well as they did in 2016.

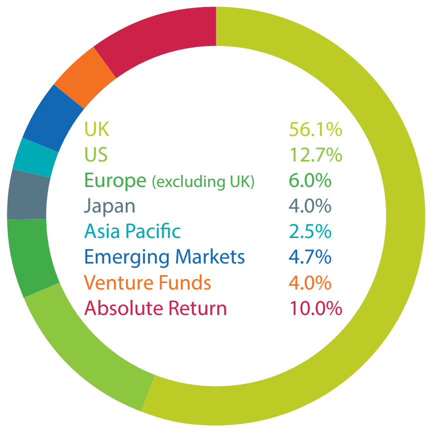
The proportion of the property portfolio invested in Columbia Threadneedle's UK Property Trust generated a double digit return, outperforming its benchmark. In 2016, the portfolio had underperformed, mainly due to changes in the way shares in the underlying property funds were valued from an offer-price 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. The remainder of the property exposure (that not invested in the Columbia Threadneedle UK Property Trust) is invested in properties which fell slightly in value over the year. This performance reflects the conditions in the retail space.

Asset Allocation

Overall fund asset allocation
as at 31 December 2017



Equity weightings
as at 31 December 2017



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 2013	11.1%
Year to 31 December 2014	11.4%
Year to 31 December 2015	3.9%
Year to 31 December 2016	14.6%
Year to 31 December 2017	**7.9%**

Source: Columbia Threadneedle Investments.

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

Market and Economic Review

During 2017 global equities enjoyed a 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.

Liverpool Victoria Friendly Society Limited: County Gates, Bournemouth BH1 2NF.

21365-2018 03/18