Flexible Guarantee Bond (all series)
Flexible Guarantee Funds (all series)
All-In-1 Investment Bond
Guaranteed Capital Bond & Flexi Guarantee Plan

Your guide to how we manage our with-profits business

Contents

1 Introduction

This guide explains how we look after our with-profits business.

If you have one of the following products this guide applies to you:

- Flexible Guarantee Bond Series 1
- Flexible Guarantee Bond Series 2
- Flexible Guarantee Bond Series 3
- Flexible Guarantee Funds Series 1
- Flexible Guarantee Funds Series 2
- All-In-1 Investment Bond
- Guaranteed Capital Bond
- Flexi Guarantee Plan

You'll find important information about how these products work and how we manage them. At the end of the guide there is a helpful glossary of some of the financial and insurance terms we've used.

There are separate guides available for our other with-profits policies and plans, and also for the with-profits business in the RNPFN Fund and Teachers Assurance Fund.

To put this guide into context, it might help to read it with your:

- Key Features document (for bonds started before 1 January 2018 and all Flexible Guarantee Funds)
- Key Information Document and Supplementary Information Document (for bonds started from 1 January 2018)
- Bond or Plan Conditions
- Personal Illustration showing what you might get back in the future.

Please keep this guide safe along with your other documents.

To make this guide easier to read we've used the word plan when referring to any of the products listed above.

2 Background on LVFS

We've been looking after our customers' money since 1843.

All our with-profits business, such as the plans you invest with us, is held within Liverpool Victoria Financial Services Limited (LVFS). We combine your money with other investors' money and manage it on your behalf. There are other types of policies in LVFS, together with its inherited estate (explained in section 10).

LVFS is a mutual company limited by guarantee which means we have no external shareholders but are owned by our members, such as yourself.

3 What fund am I invested in?

Different with-profits policies and plans invest in different mixes of assets within LVFS.

You will have chosen a fund with a specific mix of assets at the start of your plan, with most plans allowing you to switch into a different fund. The fund options available depend on the plan you own and will be detailed in your annual statement and in the information about your plan given to you when it started.

We set the overall investment strategy of your chosen fund option you invest in, taking into account the current and projected financial strength of LVFS and the expected returns available from different types of investment.

The asset management of the fund is undertaken on our behalf by Columbia Threadneedle Investments. They are responsible for the day-to-day management of the assets in the fund, operating consistently with the risk profile of your chosen fund option.

The investment performance of your chosen fund option and the outlook for different types of asset are regularly monitored. We also review our investment strategy in detail at least every three years, with less detailed reviews typically being performed annually. Any changes would be consistent with the risk profile of your chosen fund.

Typical investments made by the fund include:

- the shares (also known as equities) of UK and overseas companies
- fixed-interest investments such as government bonds and corporate bonds
- commercial property
- cash

You can see the current and target mix of investments in your chosen fund option on our website at **LV.com/asset-allocation**. Here you can also see investment information including the performance of the fund. Alternatively you can also get this information by contacting our Head Office at: LV=, County Gates, Bournemouth BH1 2NF.

4 What's the aim of our with-profits business?

First and foremost, we want to give you a fair return on your investment. We'll also tell you about the risks before we invest your money. We have different groups of with-profits policyholders, with different plans started at different times, and with different terms. We always try to treat our policyholders fairly when there are any conflicting interests between them.

5 What's a unitised with-profits plan?

The products this guide applies to are unitised with-profits plans. A unitised plan invests in a fund, containing a mix of assets, that is split into units. When you invest in your plan we'll allocate a number of units, the amount will depend on the value of the units at the time. We also cancel units to pay charges. To measure your plan's value the number of units held is multiplied by the unit price.

Example

Fred is age 60 and invests a lump sum of £10,000 in a Flexible Guarantee Bond.

If the current unit price is £1.25, we'll divide the £10,000 by £1.25, giving Fred 8,000 units.

Your return will depend on the number and value of your plan's units. The value will change over time in line with the movement in the unit price. There's also a chance that we might use a lower price to calculate the value of your plan than the price we normally use. You can find out more about this in section 6.

6 How do we cushion you from the ups and downs of the stock market?

Investments such as stocks and shares can rise and fall in value sharply. Large market movements over short periods of time could potentially mean a significant change to the value of your plan in a matter of days or weeks.

In order to protect you from some of the day-to-day stock market changes, we smooth the unit price we normally use to calculate the value of your plan. This means you receive some protection if you happened to cash in some or all of your investment at a time when stock market performance has been weak. On the other hand, if you cash in your investment when stock market performance has been strong, the smoothing effect would mean that you wouldn't benefit in full from the strong performance.

To allow for smoothing, we give your plan two unit prices. One is the 'pure' unit price, which reflects the market value of the investments. We call this the 'underlying price'. The other unit price is the average unit price over the last 26 weeks, which we call the 'averaged price'. It's possible for the averaged price to be lower than the underlying price, if for example the stock market rises rapidly over a short period of time.

When you first invest, we allocate units to your plan at the underlying price. However, as long as you invest in your fund option for at least 26 weeks, we'll normally use the averaged price to calculate the value of your investment when you cash it in.

In exceptional market conditions (when the underlying price is 80% or less of the averaged price) if you cash-in (or take any money out) we'll calculate your payout using the underlying price, rather than the averaged price. We'll revert back to the averaged price when the underlying price has returned to the same level as the averaged price. We do this to be fair to all our with-profits policyholders and this is not a means of producing business profits.

The likelihood of this happening depends on your chosen fund option. Historically, funds that invest more in shares than other safer asset classes, for example cash, have produced larger rises and falls over short periods of time. It's these rises and falls that can result in a large difference between the two prices.

For Flexible Guarantee Bond Series 3 and Flexible Guarantee Funds Series 2 the following also applies:

In other exceptional circumstances if you cash-in (or take any money out) we'll calculate your payout using the underlying price, rather than the averaged price. For example, if required to protect the fund you are invested in for its remaining investors or if it is in the best interests of our with-profits policyholders generally. We'll revert back to using the averaged price when we consider it appropriate and fair.

We will always use the averaged price for death and terminal illness claims, as long as you've been invested in your fund option for at least 26 weeks.

7 How do we decide the return on your plan?

We want to make sure that every investor receives a fair return. The return that you receive is based on the amount you invest, the charges we take to cover our expenses, tax and the cost of providing benefits, and the return we earn on the investments supporting your plan. The investment return will depend on the fund option you've chosen. For details of the investment mix for the fund option you're invested in please refer to your:

- Key Features document (for bonds started before 1 January 2018 and all Flexible Guarantee Funds)
- Supplementary Information Document and Key Information Document (for bonds started from 1 January 2018)

The current mix is also shown on our website at: **LV.com/asset-allocation**.

As we've said in section 6, we try to smooth out some of the ups and downs of the stock market, and this also affects your return. We may also add a mutual bonus (see section 11). For All-In-1 Investment Bonds and Guaranteed Capital Bonds we may also add an exit bonus (see section 11).

You may also have a guarantee for your plan, which is explained in your Key Features document, or Key Information Document and Supplementary Information Document.

For Flexible Guarantee Bond Series 3 and Flexible Guarantee Funds Series 2 the following also applies:

We can delay buying or selling units (including when changing fund options) in certain circumstances. Further details of this are in your Bond or Plan Conditions.

8 What expenses are charged to your plan?

As with any investment, there are certain costs involved in setting up and looking after a with-profits plan – including commission payments (where relevant), administration costs and other expenses. The charges taken from your plan cover these expenses. You can find out more about them in your Key Features document, or Key Information Document and Supplementary Information Document.

9 How do we decide what business risks to take?

In offering a with-profits business, we face potential risks such as whether we have the right product design, the right selling and marketing practices, and fluctuating interest rates and investment returns.

We'll sometimes take other business risks and consider business opportunities that can provide a source of profit.

We're always careful about our investments, and our Board of Directors has to approve and monitor anything that poses a significant business risk. They'll only approve these if the expected benefits are at least as good as we could get from other opportunities.

Given its importance our Board of Directors review, typically annually, the benefits and risks to our policyholders of our investment in any material strategic investments.

LVFS is providing a capital support facility to the RNPFN Fund (a ring-fenced fund within LVFS for policies transferred from Royal National Pension Fund for Nurses). This means that if the assets of the RNPFN Fund were insufficient to meet its liabilities and regulatory capital requirements, LVFS would add assets from its own funds into the RNPFN Fund up to a defined level. If this were to happen, it would reduce LVFS's inherited estate.

In certain circumstances LVFS will provide a refund of a portion of the investment management fees charged to the Teachers Assurance Fund (a ring fenced fund within LVFS for with-profits policies transferred from Teachers Assurance).

10 What's the 'inherited estate' and how do we use it?

The inherited estate is the amount of money we've built up from profits in LVFS that are in excess of its liabilities. This money has been building up since we began in 1843, from generations of plans where we've made more profit than we anticipated. For example, if protection planholders lived longer than we'd expected and priced the plan for, we'd make more profit. The money is used to support the fund and its day-to-day operations.

We don't currently try to increase the size of the inherited estate on purpose. However, we aren't obliged to distribute the inherited estate to the current generation of members. We use the estate to benefit our policyholders in a number of ways, including:

- to help us give you smoothed returns
- to give us more freedom to invest in ways we believe will offer better returns
- to help fund new business opportunities or risks which we believe will be profitable.

Keeping a reasonable level of inherited estate gives us the financial strength we need to invest more in shares, and so to give our with-profits policyholders the potential for better returns in the long run. However, if the inherited estate became relatively small then we might change the way we invest the fund and (where allowable) smooth the returns, and we might reduce the volume of new business.

11 What's mutual bonus and exit bonus?

For All-In-1 Investment Bonds and Guaranteed Capital Bonds

Since it was set up, our **mutual bonus** scheme has rewarded members with eligible policies (like you) for their support of the development and growth of our trading business. Following the sale of our general insurance business, completed at the end of 2019, we have decided to use part of the sale proceeds to continue to pay you a mutual bonus. We aim to award you future mutual bonuses annually at a similar level to those in the past, though this is not guaranteed.

In addition, we decided to use some of the proceeds to pay holders of All-In-1 Investment Bonds and Guaranteed Capital Bonds an **exit bonus**. We'll add this to your plan when it ends or use it to reduce the number of units we cancel when you make a withdrawal.

Each year the LVFS Board of Directors will decide what mutual bonus rate to award, considering what funds are still available, how investment markets perform, the number of active members who are eligible to receive it and our current and projected financial strength. Mutual bonus is added to the amount we pay out when your plan ends.

Our goal is to protect mutual bonus and exit bonus from most business risks but in extreme situations, such as if the financial strength of the company is reduced to an unacceptable level, the future bonus rates could drop below the levels we are aiming for or be stopped, and any past mutual bonuses awarded might be reduced or removed. In these circumstances, we currently expect to reduce the exit bonus first and then we would look at potentially reducing the mutual bonus.

We add mutual bonus and exit bonus to your plan when it ends. When you take money out of your plan, mutual bonus is not included but exit bonus will be applied to reduce the number of units we cancel. Mutual bonus and exit bonus do not increase guaranteed benefits. **Currently we are working on adding exit bonus to our payment processes in the near future, however if we haven't at the time you make a claim or a withdrawal, and you are eligible for an exit bonus, we'll make sure you receive it as a separate amount**.

Further information about mutual bonus and exit bonus can be found at **LV.com/mutualbonus** and **LV.com/LVdifference**.

For Flexi Guarantee Plan, Flexible Guarantee Bond Series 1, Flexible Guarantee Bond Series 2 and Flexible Guarantee Funds Series 1

Since it was set up, our **mutual bonus** scheme has rewarded members with eligible policies (like you) for their support of the development and growth of our trading business. Following the sale of our general insurance business, completed at the end of 2019, we have decided to use part of the sale proceeds to continue to pay you a mutual bonus. We aim to award you future mutual bonuses annually at a similar level to those in the past, though this is not guaranteed.

Each year the LVFS Board of Directors will decide what mutual bonus rate to award, considering what funds are still available, how investment markets perform, the number of active members who are eligible to receive it and our current and projected financial strength. Mutual bonus is added to the amount we pay out when your plan ends.

Our goal is to protect mutual bonus from most business risks but in extreme situations, such as if the financial strength of the company is reduced to an unacceptable level, the future bonus rates could drop below the levels we are aiming for or be stopped, and any past mutual bonuses awarded might be reduced or removed.

We add mutual bonus to your plan when it ends. When you take money out of your plan, mutual bonus is not included. Mutual bonus does not increase guaranteed benefits.

Flexi Guarantee Plan, Flexible Guarantee Bond Series 1, Flexible Guarantee Bond Series 2 and Flexible Guarantee Funds Series 1 are not entitled to exit bonus.

Further information about mutual bonus can be found at **LV.com/mutualbonus**.

For Flexible Guarantee Bond Series 3 and Flexible Guarantee Funds Series 2

Since it was set up, our **mutual bonus** scheme has rewarded members with eligible policies (like you) for their support of the development and growth of our trading business.

Each year the Board of Directors will consider the financial performance of our trading businesses and profits and losses on smoothing from LVFS with-profits policies, along with LVFS's current and projected financial strength to determine whether, at what level, and in what form, we should declare any mutual bonus, and which members are eligible to receive it. They will also take into account the contribution made to LVFS by each group of products within it (for example the risks taken in development and growth of our trading business). Currently any such mutual bonus allocated to your plan will be added to the amount we pay out to you when you cash in your plan, and do not increase guaranteed benefits.

Unpaid mutual bonus allocations do not form part of guaranteed benefits, so might be taken away in the future. However, we would do so only in exceptional circumstances, for example if it were required to protect our financial solvency. Past allocations may subsequently be reinstated if the Board of Directors consider it appropriate.

No mutual bonus is declared until a policy has been in force for 12 months.

Flexible Guarantee Bond Series 3 and Flexible Guarantee Funds Series 2 are not entitled to exit bonus.

Further information about mutual bonus can be found at **LV.com/mutualbonus** .

12 Could we ever close LVFS to new business?

Yes we could but we'll let people invest in LVFS as long as we feel it's in the interests of both our existing and new with-profits policyholders.

13 What would happen if we stopped accepting new business?

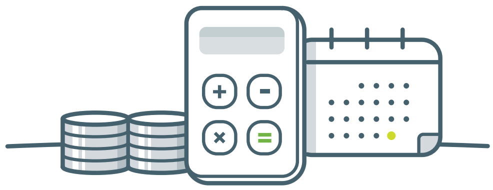
If we did ever stop accepting new business and closed LVFS, we'd share out the inherited estate over the lifetime of the remaining with-profits plans held in LVFS. Our main concern would be to make sure this was fair to all remaining policyholders – to do this, we might change the way we invest the fund and smooth the returns.

14 How to find out more

We hope you've found this guide useful. To find out more about the technical details of our with-profits fund, please read our Principles and Practices of Financial Management (PPFM) booklet covering the Flexible Guarantee Bond (all series), Flexible Guarantee Funds (all series), All-In-1 Investment Bond, Guaranteed Capital Bond and Flexi Guarantee Plan.

On our website **LV.com/manage** you'll find the latest version of this guide, the more technical PPFM and annual reports on how we've managed the fund compared to our PPFM. If you would like us to send you a copy of any of these documents please let us know.

If you have any questions about what we've said in this document, please contact us or your financial adviser.



15 Glossary

Word/Phrase	Definition
Asset	An investment purchased with the prospect that it will increase in value and/or generate income. Examples of various types of asset are shares in companies, fixed-interest investments, commercial property and cash. Depending on the type of asset, the value can go up and down and any income produced by it may change from one year to the next.
Board of Directors	The individuals elected by LVFS members to oversee the management of LVFS on their behalf.
Commercial Property	An investment in assets such as offices, and retail and industrial premises, which generate income and whose value can go up or down.
Financial Solvency	The ability of an insurer to set aside capital to meet its future liabilities as they fall due.
Financial Strength	Financial strength is measured by how much the value of an insurer's assets exceed the value of its liabilities. It is an indicator of the insurer's ability to withstand adverse economic conditions.
Fixed-interest investments	Loans made to governments or companies for a set period, in return for a fixed rate of interest. The interest is paid regularly, with the face value of the loan being returned at the end of the period.
Inherited Estate	This is the money that has been built up from profits from the fund that are in excess of the fund's liabilities, over the period that LVFS has been in business.
Insurer	A company or mutual organisation that provides insurance products to the general public.
Liabilities	An insurer's debts or obligations that arise during the course of its operations. This includes the promises it makes to its policyholders to pay their claims.
LVFS	Liverpool Victoria Financial Services Limited.
Members	As a with-profits policyholder, you are also a member of LVFS. LVFS is owned by its members, who can have their say in the running of LVFS through its Annual General Meeting. Members can also receive other benefits. For full details, please see our website at **LV.com/members**
Shares	A share represents a part ownership of a company and carries with it the entitlement to a proportion of the company's profits, paid as dividends. The value of shares can go up or down quickly, as they are influenced by national and world events. Shares are also known as equities.
Smoothed Return	We aim to pay customers a smoothed return in order to cushion the effects of volatile movements in the investments in the fund underlying their policies through the use of 'averaged prices'. We do this by holding back some of the profits we earn in good years and use them to supplement the returns we earn when times are tough.
Trading Business	In order to secure extra returns, LVFS invests in its life insurance business selling products such as life insurance, critical illness insurance, income protection and pensions, as well as investment products.
Underlying Return	This is the actual return on the investments in the fund underlying your plan.

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

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