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 fund

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1 Introduction

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

If you've invested in one of the following products this guide applies to you:

- 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
- Flexi Guarantee Plan

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

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 What's our with-profits fund?

This is an investment fund where we combine your money with other investors' money, and manage it on your behalf.

We set the overall investment strategy of Liverpool Victoria Friendly Society Limited (LVFS), taking into account the current and projected financial strength of the fund and the expected returns available from different types of investment. However the mix of investments will depend on the fund option you've chosen.

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 reports showing the performance of the fund. Alternatively you can also get this information by contacting our Head Office at: LV=, County Gates, Bournemouth BH1 2NF.

When you take out one of our plans that invests in our with-profits fund, you become a 'member' of LVFS. As a mutual organisation, we don't have external shareholders – which means that we can use all our profits to benefit our members.

3 What's the aim of our with-profits fund?

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. As we offer many different ways of investing, 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.

4 What's a unitised with-profits plan?

The products this guide applies to are unitised with-profits plans. This simply means that we use units and unit prices to measure your investments and your plan's value. 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.

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 5.

5 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 with a higher shares content have produced larger rises and falls over short periods of time compared to funds invested in other asset classes. 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.

6 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 deductions we make 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 5, 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 10).

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.

Please note, for some plans taken out before 2014 we may apply an exit charge if you cash in all or part of your plan in the first five years (please see your Key Features document for more details).

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.

7 What expenses are charged to our with-profits fund?

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.

8 How do we decide what business risks to take?

In offering a with-profits fund, 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. For example, LVFS has a strategic holding in a general insurance company, which forms part of the inherited estate.

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 our general insurance business and any other 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.

9 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 from the fund, that's in excess of the fund's 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.

10 What's mutual bonus?

The mutual bonus scheme is designed to reward eligible members for their ownership of LV=.

The Board of Directors will consider the financial performance of our trading businesses and profits and losses on smoothing from LVFS with-profits policies each year 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 supporting the establishment and growth of LVFS's trading businesses in life and general insurance). 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.

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.

For Flexible Guarantee Bond Series 3 and Flexible Guarantee Funds Series 2 the following also applies:
For Flexible Guarantee Bond Series 3 and Flexible Guarantee Funds Series 2 the mutual bonus is expected to be zero at shorter policy durations, after which consideration will be given to paying a mutual bonus.

Further information about the mutual bonus scheme can be found on our website at LV.com/members/mutual_bonus.

11 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.

12 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.

13 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.

14 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 life and/or general 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.
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. It also has a strategic holding in a general insurance business selling products which protect the policyholder from losses due to accident, damage and theft on items such as cars, homes and pets.
Underlying Return	This is the actual return on the investments in the fund underlying your policy.

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.

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