Your guide to how we manage the RNPFN Fund for with-profits business
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Your guide

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1 Introduction
This guide explains how we look after the with-profits business within the RNPFN Fund. You’ll find important information about how the life insurance, savings, investment and pension policies invested in the RNPFN Fund 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.

The three main types of with-profits policies in the RNPFN Fund are:
■ conventional with-profits
■ unitised with-profits – the With Profits Bond and the Individual Savings Account
■ interest bearing pensions

To put this guide into context, it might help to read it with your:
■ Key Features
■ Policy Conditions
■ Personal Illustration showing what you might get back in the future.

Please keep this guide safe along with your other policy documents.

2 Background information about RNPFN
Liverpool Victoria (LV=) bought the business of the Royal National Pension Fund for Nurses (RNPFN) on 31 December 2001. This happened after a strategic review by the Council of RNPFN to see how they could continue to provide high quality and low cost life, pensions, savings and protection products to the nursing and healthcare community.

The Council decided to go with a proposal made by LV=. It felt the proposal offered the greatest benefit to existing policyholders as well as to the wider healthcare community. As part of the deal, the RNPFN Fund was closed to new business and the investments within the Fund were ring-fenced within Liverpool Victoria Life Company Limited, a company within the LV= group.

On 1 January 2009 the RNPFN Fund and policies were transferred to Liverpool Victoria Friendly Society Limited.

3 What’s the RNPFN Fund?
The RNPFN Fund is an investment fund where we combine your money with other investors’ money, and manage it on your behalf.

There aren’t any shareholders in the RNPFN Fund – which means that we use all the profits to benefit RNPFN with-profits policyholders. There are other types of policies (unit-linked policies and non-profit policies) in the RNPFN Fund that aren’t with-profits. Each type of policy has separate pools of assets backing them within the Fund, although all profits and losses affect the with-profits policies.

We set the overall investment strategy of the RNPFN Fund, taking into account the current and projected financial strength of the Fund, the expected returns available from different types of investment and the mix of different types of policy (with-profits, unit-linked and non-profits).

The asset management of the RNPFN Fund is currently undertaken on our behalf by Columbia Threadneedle Investments. They are responsible for the day-to-day management of the assets in the RNPFN Fund, operating in accordance with our investment strategy.

The investment performance of the RNPFN Fund 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.

The RNPFN with-profits fund is the pool of assets in the RNPFN Fund that is used to set the main benefits under RNPFN with-profits policies.
Typical investments made by the RNPFN with-profits fund include:

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

The proportion held in each asset type can vary over time.

You can see the current and target mix of investments in the RNPFN with-profits fund on our website at www.LV.com/rnpfn/asset_allocation. Here you can also find investment reports showing the performance of the Fund.

The ‘inherited estate’ of the RNPFN Fund is invested in a separate pool of assets, currently a mix of fixed-interest securities and cash. We are distributing the ‘inherited estate’ of the RNPFN Fund over the lifetime of eligible with-profits policies in the Fund by enhancing the main benefit under the policy when it is cashed in or ends. You can find out more about this in section 14.

LV= is providing a capital support facility to the RNPFN Fund. This means that if the assets of the RNPFN Fund were insufficient to meet its liabilities and regulatory capital requirements, LV= would add assets from its own funds into the RNPFN Fund up to a defined level. The capital support facility provides enhanced security for RNPFN policyholders and greater investment freedom for the Fund. Payouts to RNPFN policyholders are set at a level that recognises there is no intention to distribute the capital support to them. Any capital support added to the RNPFN Fund should be repaid as soon as practical. LV= receives a fee from the RNPFN Fund for providing this facility.

4 What's the aim of the RNPFN Fund?
First and foremost, we want to give you a fair return on your investment, allowing for any guaranteed benefits. We have different groups of policyholders invested in the RNPFN Fund – with different policies started at different times, and with different terms. We always try to treat policyholders fairly when there are any conflicting interests between them.

5 What's a conventional with-profits policy?
A conventional with-profits policy simply means that we give you a guaranteed minimum investment return, as long as you pay the premiums you agreed when the policy started. This will be increased by any regular bonuses we add.

For savings policies you’ll receive a guaranteed minimum lump sum at the end of the agreed savings period, for example 10 years, or earlier if you die before then. For pension policies you’ll receive a guaranteed minimum pension fund or income at your chosen retirement date, for example when you reach age 65.

However, it’s important to understand that if you stop paying into your policy, or decide to cash it in, we may reduce the guaranteed minimum lump sum or income from your policy.

The guarantees that conventional with-profits policies have can be valuable, as they’re generally more difficult to come by in other policies currently available.

We may add a final bonus when your policy ends.

6 What's a unitised with-profits policy?
A unitised with-profits policy simply means that we use units and unit prices to measure your investments and your policy’s value. Every time you pay into your policy we’ll add a number of units. The number will depend on the amount you pay and the value of the units at the time. Your return will depend on the number and value of your policy’s units. Depending on the type of policy you have, we might also cancel units to pay charges.

Example
Fred invests a one off lump sum of £10,000. The current unit price is £1.25. We divide the £10,000 by £1.25, giving Fred 8,000 units.

We aim to increase your policy’s value over time by increasing the price of the units. We may also add a final bonus when your policy ends. There’s always a chance that we might need to reduce the amount we pay out by applying a market value reduction, as explained in section 10 – please read your Policy Conditions carefully to find out when this could happen.
7 What’s an interest bearing pension policy?
An interest bearing policy simply means that your policy has an interest account which:
- goes up as contributions are paid
- goes up as we add interest over the year
The interest account is guaranteed to be paid whenever your policy ends. We may also add a final bonus when your policy ends.
These types of policies are also known as accumulating with-profits policies.

8 How do we cushion you from the ups and downs of the stock market?
As explained earlier, the RNPFN with-profits fund invests in a number of different types of assets, including in the shares of UK and overseas companies and fixed-interest investments. Shares are often called equities and are bought and sold on stock markets throughout the world.
Usually, we’d expect a relatively high proportion of the RNPFN with-profits fund to be invested in fixed-interest securities. However, we believe it’s important for us also to invest in shares, as over the long term they tend to give a higher return than other safer investments, like government bonds and cash.
The downside to shares is that they can be more volatile than other investments. Their values can rise and drop sharply, sometimes quickly and in line with world events.
We aim to smooth out the effects of some of the rises and drops in two ways:
- we invest in many different types of investment and limit the amount in any one type, and
- instead of just awarding large bonuses in good years and none at all in bad years, we may hold back some of the good years’ profit to award policyholders when times are tough. We do this by limiting the change in the payout that can occur at each declaration of final bonus rates.
As an example, if your policy ends on a day when the market fell drastically, the smoothing would help protect you from the sudden drop in value. If the opposite happens and the market rises sharply, the smoothing effect would mean that you wouldn’t get the full amount of the rise. So investors in a fund that doesn’t use smoothing might see their investments rise and fall more quickly than that of a fund that does use smoothing.
Because we use smoothing, it’s possible that when you cash in your policy or your policy ends, the amount paid out is higher or lower than the underlying value of the investments.

9 How do we decide the return on your policy?
We want to make sure that every investor receives a fair return. To increase the value of your policy, we may add regular bonuses (or interest for interest bearing policies) from time to time. In addition, we may add a final bonus when you cash your policy in or your policy ends. You can find out more about these bonuses in the next section.
To calculate your overall return we’ll take into account:
- the payments you’ve made
- our expenses
- tax (if applicable) and
- the investment returns from the RNPFN with-profits fund.
We may also add an enhancement to reflect the distribution of the ‘inherited estate’ (you can find out more about this in section 14).
As we’ve said in section 8 we try to smooth out the ups and downs of the stock market, and this also affects your return.
Once your policy reaches the end of its term, we aim to pay out between 80% and 120% of the underlying value of the investments. Our long term aim is to pay out on average 100% of the underlying value of the investment.
10 What bonuses do we pay?

We might add regular bonuses to your policy at any time during your policy's life (this is known as interest for interest bearing policies), and a final bonus at the end.

Regular bonuses

When setting regular bonus rates for **conventional with-profits policies** we take into account expected future investment returns, the relationship between the guaranteed benefits and the underlying value of the investments, the current and projected financial strength of the RNPFN Fund and past policyholder communications. Once we’ve added a regular bonus we won’t take it away, provided you continue to pay the premiums under your policy.

When setting regular bonus rates for **unitised with-profits policies** we take into account expected future investment returns, the relationship between the value of your units and the underlying value of the investments, the current and projected financial strength of the RNPFN Fund and past policyholder communications. We add regular bonuses by increasing the price of units at least monthly. Once the regular bonus has increased the price of units, there are only two ways that the units allocated to your policy can fall below the value given by this price:

- if you take money out of your policy when a market value reduction applies - this is covered later in this section
- if the charges on your policy are more than the value of the bonuses being added.

When setting interest rates for **interest bearing policies**, we take into account expected future investment returns, the relationship between the interest account and the value of the investments underlying them, the current and projected financial strength of the RNPFN Fund and past policyholder communications. Once we have added interest to your policy we will not take it away.

In recent years we’ve added no or low levels of regular bonuses to with-profits policies. This allows us to be more flexible with the investments. For example, we can invest more in stocks and shares. This should improve the overall payout prospects for RNPFN with-profits policies in the future, with any benefit likely to be seen in final bonuses rather than regular bonuses (see below for more details about final bonuses).

We review the size of the bonuses we add once a year. However, with the RNPFN Fund being run so as to distribute all its assets to policies over time, regular bonus rates are not currently expected to vary significantly from their current levels.

Final bonuses

We want to make sure that you receive a fair return on your policy. If the regular bonuses you’ve had during your policy are less than a fair return, we’ll add a final bonus to increase your payout. We currently review final bonuses four times each year, at approximately quarterly intervals.

Rather than work out the value of each individual policy we look at a sample of policies to decide the level of final bonuses to pay. We decide what level of bonus to pay by:

- comparing the guaranteed benefits for each sample policy with the value of the investments underlying it (for unitised with-profits policies and interest bearing policies we use the value of your units or the interest account respectively rather than the guaranteed benefits).
- considering the current and projected financial strength of the RNPFN Fund, including any commitments to policyholders.

The final bonus may also include an enhancement to distribute the ‘inherited estate’ of the RNPFN Fund (you can find out more about this in section 14).

Sometimes the final bonus can be a high proportion of the final value of your policy. This is because paying lower regular bonuses gives our fund managers more freedom to invest in areas that are likely to offer better returns in the long term.

What is a market value reduction?

In the same way that we might add a final bonus if our investments are doing well, if they’re not doing so well we might need to apply what’s called a market value reduction (or MVR). This means that we will reduce the amount we pay to you.
We’ll only apply an MVR to make sure that:

- when you cash in your policy, your payout isn’t unfairly higher than the underlying value of the investments within the RNPFN Fund
- the remaining RNPFN Fund members will also get a fair share.

On some policies, we’ve guaranteed not to reduce the value on certain dates or events such as on death or when your policy reaches its end date. You can check your policy documents to find out more about this.

11 How do we decide how much you get if you leave your policy early?

If you leave your policy early, this is called ‘surrendering’ your policy. We’ll work out how much to pay you, being fair to both you and the policyholders staying in the RNPFN Fund. That means we may add a final bonus, or apply a market value reduction as explained in section 10.

However, for conventional with-profits policies we’re also likely to reduce your guaranteed benefits.

We aim to pay out between 80% and 120% of the underlying value of the investments.

12 What expenses are charged to the RNPFN Fund?

As with any investment, there are certain costs involved in setting up and looking after a with-profits policy – including commission payments (where relevant), administration costs and other expenses. The charges taken from your policy cover these expenses.

For unitised with-profit policies you can find out more about them in your Key Features document and Policy Conditions. For interest bearing policies, we let you know the current charge in annual statements.

13 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. However, as part of the deal when LV= bought the RNPFN Fund, we won’t take on any new business risks.

14 What’s the ‘inherited estate’ and how do we use it?

The inherited estate is the amount of money built up from profits from the RNPFN Fund that are in excess of the Fund’s liabilities. This money has been building up since the RNPFN Fund started. It’s used to support the Fund and its day-to-day operations.

We use the estate to benefit RNPFN with-profits policyholders in a number of ways, including:

- to help us smooth with-profits policy payouts
- to give us more freedom to invest in ways we believe will offer better returns

If the inherited estate became relatively small then we might change the way we invest the Fund and apply smoothing.

In addition, as part of the deal when Liverpool Victoria bought the RNPFN Fund, we’re distributing its inherited estate over the remaining lifetime of the eligible with-profits policies in the Fund, where appropriate, by increasing the final bonus paid when policies are cashed in or they end. Only RNPFN with-profits policies taken out on or before 10 July 2001 (or where an application for a policy was made on or before 10 July which was received by 19 July 2001) are eligible to share in this distribution.
15 How to find out more

We hope you’ve found this guide useful. To find out more about the technical details of the RNPFN Fund, please read our RNPFN Principles and Practices of Financial Management (PPFM) booklet.

On our website www.LV.com/RNPFN/ppfm 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.

16 Glossary

<table>
<thead>
<tr>
<th>Word/Phrase</th>
<th>Definition</th>
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<tbody>
<tr>
<td>Asset</td>
<td>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 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.</td>
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<tr>
<td>Board of Directors</td>
<td>The individuals elected by LV=’s members to oversee the management of LV= on their behalf.</td>
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<tr>
<td>Financial Strength</td>
<td>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.</td>
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<tr>
<td>Fixed-interest investments</td>
<td>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.</td>
</tr>
<tr>
<td>Government Bonds</td>
<td>Loans made to governments for a set period, usually 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. UK Government Bonds are also known as gilts.</td>
</tr>
<tr>
<td>Inherited Estate</td>
<td>This is the money that has been built up from profits from the RNPFN Fund that are in excess of the Fund’s liabilities.</td>
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<tr>
<td>Insurer</td>
<td>A company or mutual organisation that provides life and/or general insurance products to the general public.</td>
</tr>
<tr>
<td>Liabilities</td>
<td>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.</td>
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<tr>
<td>Members</td>
<td>As a with-profits policyholder, you are also a member of LV=. LV= is owned by its members, who can have their say in the running of LV= through its Annual General Meeting. Members can also receive other benefits. For full details, please see our website at <a href="http://www.LV.com/members">www.LV.com/members</a></td>
</tr>
<tr>
<td>Shares</td>
<td>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.</td>
</tr>
<tr>
<td>Underlying Value of Investments</td>
<td>This is the actual value of the investments in our Fund which we use to determine the value of your policy. However, when we actually pay out your policy, we also take into account how we smooth payouts and any guaranteed benefits that your policy has.</td>
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You can get this and other documents from us in Braille, large print or on audio by contacting us.