# LV= Smoothed Managed Funds

## Your guide to how we manage our unitised with-profits LV= ISA

# 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:**

- LV = ISA (including plans originally sold on a non-profit basis and subsequently converted to with-profits).

The purpose of this guide is to explain how this product works, the funds it invests in and how we manage your money. At the end of the guide there is a helpful glossary of some of the financial and insurance terms we've used. The terms in bold font are those that you'll find in the glossary.

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 Fun**d. You can download a copy from our website **LV.com**, or we'll be pleased to send you one.

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

- Supplementary Information Document
- Plan Conditions
- Personal Illustration showing what you might get back in the future.

For more information, you can ask your financial adviser or alternatively, visit **LV.com/investments** to download a Supplementary Information Document.

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 the product listed above.

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# Contents



# Smoothed Managed Funds

## Your guide to how we manage our unitised with-profits LV= ISA

## 1. Background on LVFS

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

All our with-profits business, such as the plan 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 13).

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

## 2. Where do we invest your money?

When you invest in this type of product, you will be purchasing a plan that invests in various types of **assets**. These **assets** are typically a mixture of shares (also called equities), property, corporate bonds and government bonds. However, we may select a new asset type from time to time if we believe that investing in it is consistent with the objectives of the fund. Customers can choose from a range of global multi-asset unitised funds as shown below:

- ISA Extra Cautious Fund
- ISA Cautious Fund
- ISA Balanced Fund
- ISA Growth Fund
- ISA Growth Plus Fund

To help show you what the funds aim to achieve, each of these funds has a specific 'Key Objective' which includes the **asset** types in which the money will be invested and the associated level of investment risk involved. These are provided below together with charts which show how the target investments within the unitised funds are distributed.

To achieve the 'Key Objectives', where we invest your money, and how we manage the associated investment risk, each fund is comprehensively reviewed at approximately annual intervals. In order to manage the balance of risk to your investment, we may in future adopt **hedging** strategies in specific funds and these may include investing in **financial instruments** such as **derivatives**. These strategies would be aimed at providing downside risk protection, but typically with some trade-off with maximum growth potential, so as to reduce the cost. If the percentages of the assets that make up the fund options change materially over time or if we implement material **hedging** strategies to provide downside risk protection, we will notify you and your adviser in advance. We are more likely to adopt such strategies in the funds at the higher end of our risk range, namely the Growth Plus and Growth fund.

To help you and your adviser match your choice of fund option to your attitude to risk, each fund is rated for their overall level of investment risk by leading independent market analysts including Defaqto and Distribution Technology. The LV= ISA Fund ratings range from 'very low risk' to 'medium risk'.

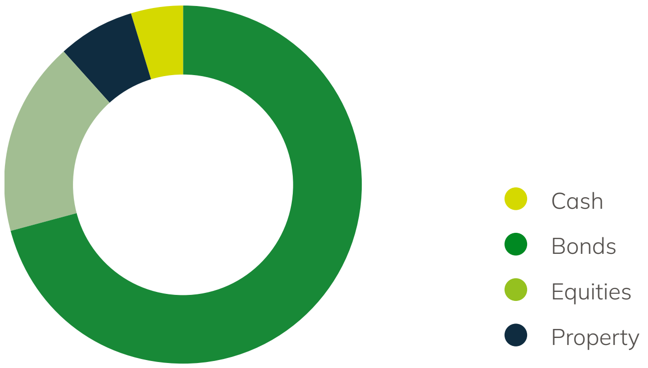
For more information regarding fund options and the mix of investments please go to LV.com/investments

**Sustainability reporting**

We're focused on building an inclusive, sustainable and forward-looking business for the benefit of our current and future generations of **members**. Our Sustainability Report and specific product reports are available on our website. These reports aim to share our approach and provide information on greenhouse gas emissions and potential climate related risk factors related to our products. They have been published in line with the Task Force on Climate-related Financial Disclosures.
Please visit LV.com/product-reporting to view the reports.

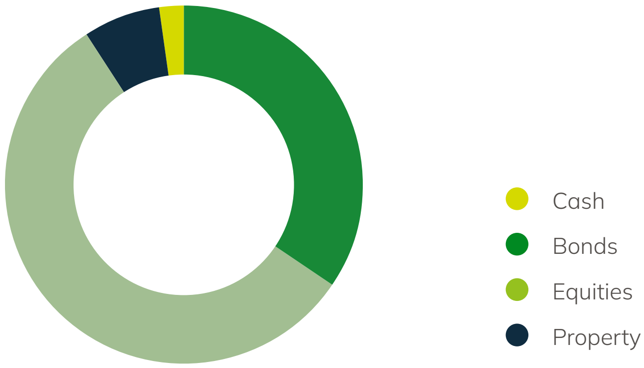
### LV= ISA Extra Cautious Fund

**Key Objective:** long term steady growth, with a very low level of investment risk. Proportion invested in equities and property is usually around 20%.



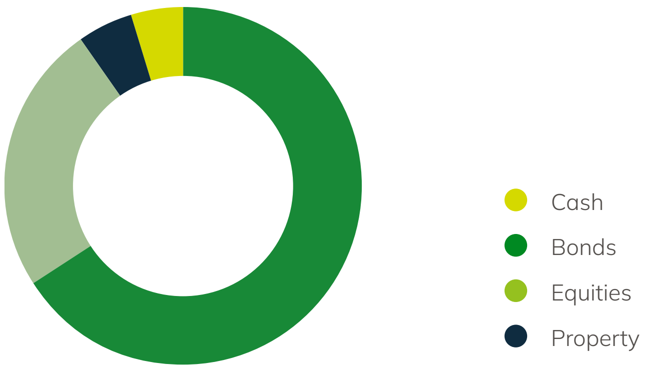

### LV= ISA Growth Fund

**Key Objective:** longer term growth, medium level of investment risk. Proportion invested in equities and property is usually around 65%.



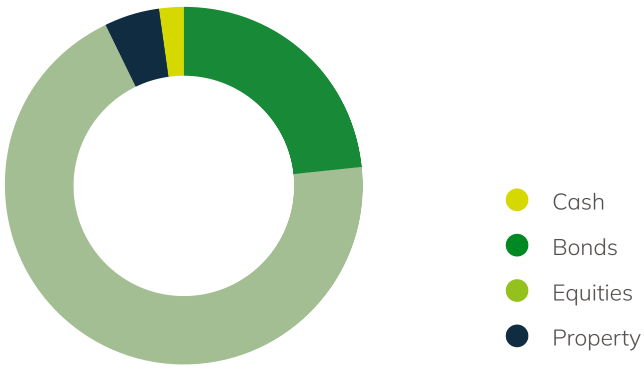

### LV= ISA Cautious Fund

**Key Objective:** long term steady growth, low level of investment risk. Proportion invested in equities and property is usually around 30%.



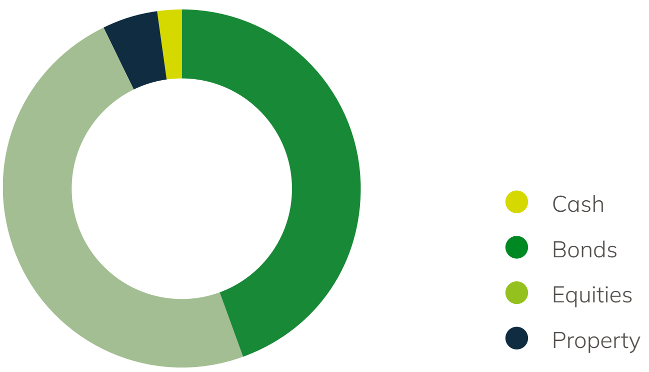

### LV= ISA Growth Plus Fund

**Key Objective:** long-term steady growth with a medium level of investment risk. Within this objective we aim to invest in more sustainable assets in this fund. Proportion invested in equities and property is usually around 70%.




### LV= ISA Balanced Fund

**Key Objective:** long term moderate growth, low to medium level of investment risk. Proportion invested in equities and property is usually around 50%.



## 3. What's the aim of our with-profits business?

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.

## 4. 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 and to pay any withdrawals. To measure your plan's value the number of units held is multiplied by the unit price.

**Example 1**

Fred invested a lump sum of £20,000 into a Smoothed Managed Fund investment.

The unit price at the time he invested was £1.25.

We divided the £20,000 by £1.25, giving Fred 16,000 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.

**Example 2**

Fred invested £20,000 into his Smoothed Managed Fund investment giving him 16,000 units.

Since Fred's investment started, ongoing charges have reduced the number of units held to 15,800 and unit price has increased from £1.25 to £1.50.

The current value of the units in Fred's investment is 15,800 x £1.50 which is £23,700 plus any **mutual bonus**..

## 5. Who manages these fund options?

We  set the overall investment strategy of each fund option, taking into account the current and projected **financial strength** of the fund, expected returns available from different types of assets and our approach to **responsible investment**. The mix of assets will depend on the fund option you've chosen.

Our **asset** manager is BlackRock who invest these funds to follow the investment strategy and objectives set by **LVFS** on behalf of those investing in the funds. BlackRock is one of the world's largest asset managers and leading providers of investment, advisory and risk management solutions and we appointed them in 2023 as our primary asset manager, following a comprehensive and strictly governed tender.

Prior to selecting BlackRock, we had a successful investment management partnership with Columbia Threadneedle Investments who successfully delivered for LV= members and customers for 12 years.

The investment performance of the funds you invest in and the outlook for different types of **asset** are regularly monitored. In addition, from time to time we review our relationship with our **asset** manager.

## 6. What is smoothing and how do we calculate the price of units?

To reduce the effect of daily changes in asset values, like those caused by movements in the stock market, we smooth the unit price we use to calculate the value of your plan. Smoothing is designed to help reduce the impact on our unit price movements caused by the peaks and troughs of the financial markets.

To allow for smoothing we calculate two unit prices:

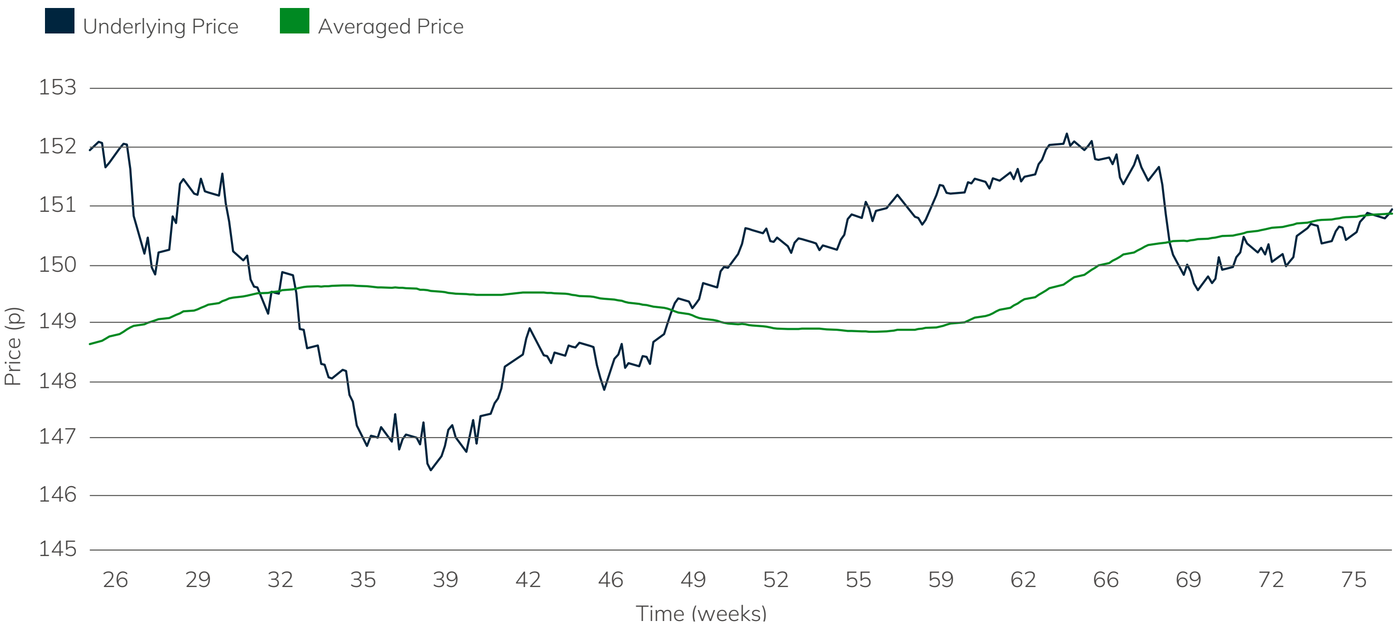
- **'underlying price'** – for each fund option this reflects the market value of the investments in the fund, divided by the number of units that own a share of these investments. We refer to it as the **'underlying price'** and this is the price you enter the fund at when you initially invest, or switch funds.
- **'averaged price'** – for each fund option this is the value based on the average of the **'underlying unit price'** for the previous 26 weeks (roughly six months). We refer to this as the **'averaged price'**.

Each time you give us money to invest this will create a new plan. During the first 26 weeks of investment, or following a fund switch, your money is invested into units in your chosen fund and valued at the **'underlying price'**. After 26 weeks your plan is then normally valued at the **'averaged price'**. Although using the **'averaged price'** doesn't remove the risk of your plan value going down, it does mean the change in value should be less than on an unsmoothed fund. This should limit the impact of sharp market variations day to day and means your investment is less likely to experience the extreme falls and rises caused by sudden stock market changes.

Please note that if you decide to switch funds, which means selling your units in one fund to purchase units in another fund, then units will always be purchased and valued on the **'underlying price'** for the first 26 weeks before eventually being valued on the **'averaged price'** (unless smoothing is suspended during that period).

### Smoothing after the first 26 weeks of investment or fund switch

The chart below illustrates the **'underlying price'** and **'averaged price'** over a period of time and highlights how the averaging mechanism results in a smoother return where the impact of short-term market fluctuations is reduced.




### When could we suspend smoothing?

Smoothing can be suspended at our discretion. This means that your funds would be valued using a different price than the 'averaged price'. However, for death claims we will always use the 'underlying price', for these claims during the first 26 weeks of investment, or the 'averaged price' for these claims, as long as you've been invested in your fund option for at least 26 weeks.

We would only consider suspending smoothing if either the 'underlying price' is 80% or less of the 'averaged price', or in exceptional conditions. These conditions would be primarily if the cost of smoothing becomes higher than the Board feels it is reasonable to bear and we believe it prudent and necessary in the best interests of our with-profits policyholders generally. We have strong internal governance processes to determine whether and when to implement these changes.

If smoothing is suspended, valuations will switch to use the 'underlying price' until smoothing is reintroduced.

Valuations will revert back to the 'averaged price' when we consider it appropriate and fair to with-profits policyholders after the 'underlying price' recovers to equal or exceeds the 'averaged price'. We also have discretion to revert back to the 'averaged price' at an earlier point.

## 7. How do we value your Plan?

We calculate the value of the **assets** within your chosen fund at the close of business each working day and then use this valuation to calculate a unit price. We take the total value of a fund and divide this by the number of units within the fund to calculate an underlying price. We will use this price to determine the value of your investment. More details of the exit price used to value your fund can be found in your Plan Conditions.

Prices are published the next working day and can be found on our website; LV.com/investments/investment-fund-price

Your return is based on the number of units and the price of the units held within your plan. In some scenarios we may need to delay buying, selling or switching units by up to 10 working days. Further information can be found in your Plan Conditions.

The number of units reflects what you invested less the deductions involved in setting up and looking after your Plan, whilst the unit price reflects the return on the fund option (less any tax deducted) you have invested in. During the first 26 weeks of investment, or following a fund switch, it will reflect the effect of us using the **'underlying price'**. After the first 26 weeks of investment, or following a fund switch, it will normally reflect the effect of us using the **'averaged price'** to smooth returns. More details can be found in your Plan Conditions.

We may also add **mutual bonus** distribution by allocating extra units to your plan, though in exceptional circumstances they may be subsequently reduced or removed. See section 13 for further details of mutual bonus.

## 8. What expenses are charged to your plan?

As with any investment, there are certain costs involved in setting up and looking after a unitised with-profits plan – including investment expenses paid to the asset manager, administration costs and other expenses. The Annual Management Charge that is paid by your plan is used to cover all of these expenses. You can find out more about this in your Supplementary Information Document and Key Facts illustration.

## 9. What business risks can affect with-profits policies in LVFS?

The profits or losses from all business risks within **LVFS** are added to or taken from the **inherited estate**. If the **LV= Board** decides to allocate these profits or losses, they'll influence the amount payable on your plan.

Distributions of profits are currently added as **mutual bonus**, noting these can be removed or reduced (see section 12).

New business will only be accepted into **LVFS** if, in the opinion of the **LV= Board**:

- it won't have an adverse effect on the interests of the existing with-profits policyholders,
- it won't threaten the ability of **LVFS** to meet our commitments to our **members**.

The other key business risks of **LVFS** come from:

- variations in factors including how long policyholders have their policies, annuity take-up numbers and the proportion of policies in-force that are not expected to claim and expenses,
- higher contributions associated with the staff defined benefit pension scheme,
- exceptional or unexpected expenses,
- compensation to policyholders, resulting from any mis-selling and maladministration,
- variations in costs of guarantees, options and smoothing,
- the value of the investments of the **inherited estate** of **LVFS**,
- the risk that the **RNPFN Fund** or the **Teachers Assurance Fund** cannot meet their **liabilities**.

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

The **inherited estate** is the money in **LVFS** not needed to pay its **liabilities**. It's money that has been building up since we began in 1843, from generations of policies where we've made more profit than we expected. The **inherited estate**:

- Provides capital for **LVFS** to meet its regulatory requirements.
- Supports **LVFS** business risks (see section 8 above).
- Supports **LVFS's** ability to invest in **assets** delivering higher returns to policyholders while maintaining guaranteed benefits, and the smoothing of benefits paid to policyholders.
- Supports the ability of **LVFS** to accept new business.

There are currently no constraints on the **LV= Board**'s freedom to deal with the **inherited estate** of **LVFS** or any obligation on the **Board** to distribute the **inherited estate** to the current generation of **members**, other than in respect of certain expected future distributions for with-profits plans not covered by this guide.

## 11. What's the mutual bonus?

Our **mutual bonus** rewards eligible **members**, like you, for their support of the development and growth of LVFS. It's not a guaranteed benefit and the amount can vary.

Our aim is to distribute our profits - via the **mutual bonus** - in a broadly stable and sustainable way, by maintaining our profitability and capital position. The **LV= Board** has full discretion and freedom when deciding to award a **mutual bonus**. The decision to award a **mutual bonus** is guided by the **Board'**s overriding responsibility to balance the need to deliver for **members** both today and in the future, against LV's investment needs and projected **financial strength**. The **Board** could make adjustments or significant changes to the rates if needed. For example, if the current performance or capital position of the business differs significantly from the business plan. Any past **mutual bonuses** could be reduced or removed, though could be reinstated at a later date.

The rate of **mutual bonus** we will award for the plans in scope of this document is at the level that we award for new with-profits plans.

Currently any such **mutual bonus** is allocated to your plan as extra units which are kept separate from any guaranteed benefits and will be added to the amount we pay out to you when you cash in your plan.

For plans such as yours, no **mutual bonus** is declared until it has been in force for 12 months.

Visit [LV.com/mutualbonus](LV.com/mutualbonus) for more information about the **mutual bonus**.

## 12. What happens should we make a mistake?

### Pricing errors

Every effort is taken to calculate prices accurately and prices are not published until they have been thoroughly checked. However, it is a complex process and a mistake may occur.

A pricing error is a material mistake in any published unit price where the mistake is a result of us not following our pricing policy or our normal pricing processes. A pricing error may also occur if incorrect information is received from external third parties. All identified pricing errors are recorded and assessed for significance and level of impact.

### Correction of pricing errors

If a material mistake does occur, everything will be done to correct the pricing error as soon as is possible and will be investigated for any potential financial impact.

A pricing error of more than 0.5% of the unit price is generally considered to be significant.

In the unlikely event that you are adversely affected by a material error, we will compensate you as soon as possible.

Our aim is to ensure that policyholders are put back in the position that they would have been in had the error not occurred, subject to a negligible limit. This may be done by allocating units to, or removing units from, a plan, or by making cash payments if the contract has terminated.

## 13. What would happen if we stopped accepting new business?

We'll let people invest in **LVFS** if we feel it's in the interests of both our existing and new with-profits policyholders and doesn't threaten the ability of **LVFS** to meet its commitments to its **members**.

If we ever stopped accepting new business in the future and closed **LVFS**, we'd share out its **inherited estate** fairly over the lifetime of the remaining with-profits policies held in **LVFS**. If this happened, we might change the way we manage the fund, including our investment strategy and how we smooth returns.

## 14. Once I have invested, if anything should happen to LVFS is my LV= ISA investment safe?

If we ever did get into financial trouble and could not honour our commitments, you may be entitled to compensation from the Financial Services Compensation Scheme. If you are eligible to claim under the scheme, the compensation you could get depends on the type of product you have. For this type of policy, the scheme covers 100% of the claim. The scheme's first responsibility is to seek continuity rather than to pay compensation. For more information, go to fscs.org.uk or call 0800 678 1100 or +44 207 741 4100 – see here fscs.org.uk/contact-us/

## 15. 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 business, please read our Principles and Practices of Financial Management (PPFM) booklet.

On our website LV.com/investments 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 regarding this document, please contact us or your financial adviser.

## 16. Glossary

| Word/Phrase | Definition |
|---|---|
| **Asset** | An investment purchased with the prospect that it will increase in value and/or generate income.<br>Examples of various types of asset are **shares** in companies, **fixed-interest investments**, **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. |
| **Averaged price** | The **underlying price** of the units in your chosen fund option, averaged over the previous 26 weeks used after the first 26 weeks of investment or fund switch. |
| **Board** | The individuals elected by **LVFS members** to oversee the management of **LVFS** on their behalf. |
| **Corporate Bonds** | Loans made to 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. |
| **Derivatives** | A set of investments that are widely used in financial products to reduce market risks and efficiently manage asset exposures. These can be used in **hedging** strategies, for example, to reduce the uncertainty in performance due to fluctuating different foreign currency rates. |
| **Financial Instrument** | An investment purchased with the prospect that it will increase in value, generate income and/ or protect against market risks. Examples include assets such as **shares**, **corporate bonds**, **government bonds**, **property** and cash as well as **derivatives**. |
| **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. |
| **Government bonds** | 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 known as gilts. US government bonds are known as US Treasuries. |
| **Hedging** | A strategy or set of strategies to limit and manage market risks by limiting exposure within an investment strategy. A cost is often incurred either directly or through lower investment performance. |
| **Impact Investing** | A type of sustainable asset that actively seeks to create a positive change or outcome from an environmental and/or social perspective. By its nature, impact investing can be more uncertain than other types of sustainable assets with values going up and down from one year to the next. |
| **Inherited Estate** | Information on the inherited estate can be found in section 11 of this guide. |
| **Insurer** | A company or mutual organisation that provides insurance products to the general public. |
| **Liabilities** | An **insurer's** debts or obligations. This includes the promises it makes to its policyholders to pay their claims. |
| **LVFS / LV=** | 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 |
| **Mutual bonus** | Information on mutual bonus can be found in section 13 of this guide. |
| **Property** | An investment in **assets** such as offices, and retail and industrial premises, which generate income and whose value can go up or down. |
| **Responsible investment** | The practice of including Environmental, Social and Governance (ESG) factors in investment decisions. For more information visit LV.com/about-us/lv-cares and click on Safeguarding our Environment and follow the link to our Responsible Investing Approach. |
| **Ring-fenced** | Ring-fencing keeps both the **RNPFN Fund** and the **Teachers Assurance Fund**, including the profits and losses each make, separate from the other funds in **LVFS** except in the most extreme financial situations. |
| **RNPFN Fund** | The RNPFN Fund is a ring-fenced fund within **LVFS** which includes the RNPFN with-profits policies. **LVFS** took over the RNPFN business in 2001. |
| **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. |

| Word/Phrase | Definition |
|---|---|
| **Sustainable Assets** | These are particularly relevant for shares where the investments that allow for the underlying environmental and social effect of the invested company. Sustainable assets will also consider the risk management and governance of the invested company. When we refer to sustainable assets, we typically narrow our definition to reflect a subset of sustainable assets called impact assets (see **impact investing**). |
| **Teachers Assurance Fund** | The Teachers Assurance Fund is a ring-fenced fund within **LVFS** which includes Teachers with-profits policies. **LVFS** took over the Teachers business in 2016. |
| **Underlying price** | The actual price of the units in your chosen fund option. |

If you'd like us to send you this document or any future correspondence in another format, such as Braille or large print, please just let us know.

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