

LV= Unit-Linked Smoothed Managed Funds

Your guide to how we manage our unit-linked Smoothed Managed Funds business



Introduction

The purpose of this guide is to explain how the unit-linked funds that your plan invests in work and our approach to managing them.

The guide compliments the details in your Plan Conditions. In the event of any inconsistencies between this document and the Plan Conditions, the Plan Conditions will prevail.

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

- LV = Smoothed Managed Funds Pension Series 1
- LV = Smoothed Managed Funds Trustee Investment Plan Series 1

This is an important document that will help you understand how the funds work, what factors are considered when deciding how much you will get back and how we manage your money. To put this guide into context, it might help to read it with your:

- Key Features 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](https://www.lv.com/investments) to download a Key Features 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 any of the products listed above.

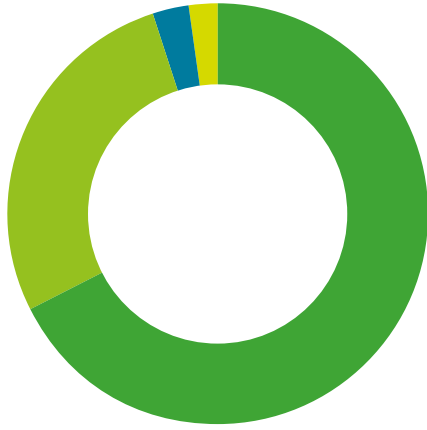
Where do we invest your money?

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 stocks and 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 there is an opportunity to improve returns on the funds without materially increasing risk. Customers can choose between three global multi-asset unit-linked funds with different investment strategies – Smoothed Managed Cautious, Smoothed Managed Balanced and Smoothed Managed Growth.

Each of the three funds are rated for their level of risk by leading market analysts Defaqto and Distribution Technology. These ratings range from 'low risk' to 'medium risk' – helping you and your adviser match your choice of fund option to your attitude to risk.

The investment objectives below show you what the funds aim to achieve, the level of risk involved and a current overview of where they will be invested. The charts below show the target investments within the three unit-linked funds. The percentages of the assets that make up the fund options may change over time if we believe that is the best way to meet the fund objectives.

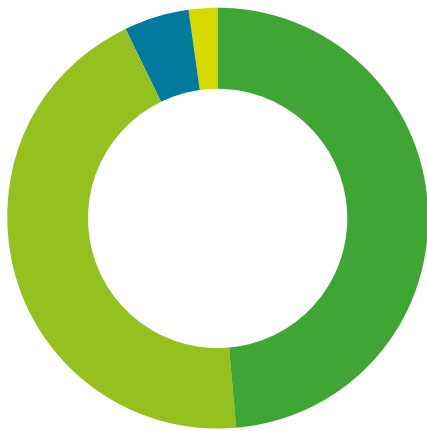
For more information regarding fund options and the mix of investments please go to [LV.com/investments](https://www.lv.com/investments)



LV= Smoothed Managed Cautious Fund

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

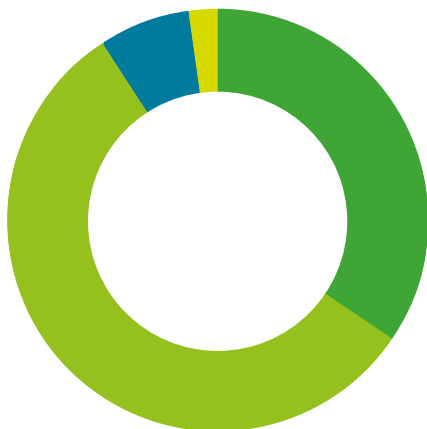
- Cash
- Bonds
- Equities
- Property



LV= Smoothed Managed 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%.

- Cash
- Bonds
- Equities
- Property



LV= Smoothed Managed Growth Fund

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

- Cash
- Bonds
- Equities
- Property

What's a unitised non-profit plan?

The products this guide applies to are unitised non-profit plans. This simply means that we use units and unit prices to measure your investments and your plan's value. The fund is divided into units of equal value and the price of these units determines the number of units you receive when you invest.

When you invest in your plan we will allocate a number of units, with the number depending on the value of the units at that time. We will cancel units to pay charges. Your return will depend on the number and value of your plan's units. The value will change over time to reflect changes in the unit price resulting from the investment performance of the underlying assets (after allowing for associated transaction and hedging costs where they apply). 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 the 'What is smoothing and how do we calculate the price of units?' section.

Example

Fred invests a lump sum of £20,000. If the current unit price is £1.25, we'll divide the £20,000 by £1.25, giving Fred 16,000 units.

We combine your money with other investors' money, and manage it on your behalf. We set the overall investment strategy of each fund option, taking into account the current and projected financial strength of the fund and expected returns available from different types of assets. The mix of assets will depend on the fund option you've chosen.

Who manages these fund options?

Our asset manager is Columbia Threadneedle Investments who invest these funds to follow the investment strategy and objectives set by LV= on behalf of those investing in the funds. The strategy and objectives are set in relation to risk, diversification, expected returns and the cost of investing.

We monitor our asset manager daily and from time to time will review our relationship.

Columbia Threadneedle Investments is an international investment company who currently manage over £400 billion assets on behalf of their clients (source: www.columbiathreadneedle.co.uk as at 31/12/2020). They are a well-known global investment management business with a strong reputation and a proven record of out performance.

We conduct a comprehensive review of this investment strategy every year. Any changes would be consistent with the fund objective and the risk profile of your chosen fund. The current target mix of assets can be viewed in the 'Where do we invest your money' section, and you can also view the current and target mix of assets in our Smoothed Managed Funds at LV.com/investments

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 level out the impact on our unit prices, caused by the peaks and troughs of the financial markets.

It's a simple process. To allow for smoothing we calculate three unit prices:

- **'underlying unit price'** – for each fund option this reflects the market value of the investments, 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.
- **'gradual averaged unit price'** – for each fund option this is the value based on an increasing average of the daily 'underlying unit price' during the first 26 weeks following initial investment, or fund switch, normally applied from day 2 after your investment. We refer to this as the **'gradual averaged price'**.

Example of the gradual averaging method used during the first 26 weeks of investment, or fund switch:

On day 1 we purchase units at the 'underlying unit price' and then we apply smoothing to the 'underlying unit price' from day 2 onwards to produce the 'gradual averaged price'. On day 2 we add together the 'underlying unit prices' for day 1 and day 2 and divide them by 2. On day 3 we add up the 'underlying unit prices' for all 3 days and divide by 3 and so on up to the end of the 26 week period after which the 'averaged price' normally applies.

- **'averaged unit price'** – for each fund option this is the value based on the average of the 'underlying unit price' for the previous 26 weeks. We refer to this as the **'averaged price'**.

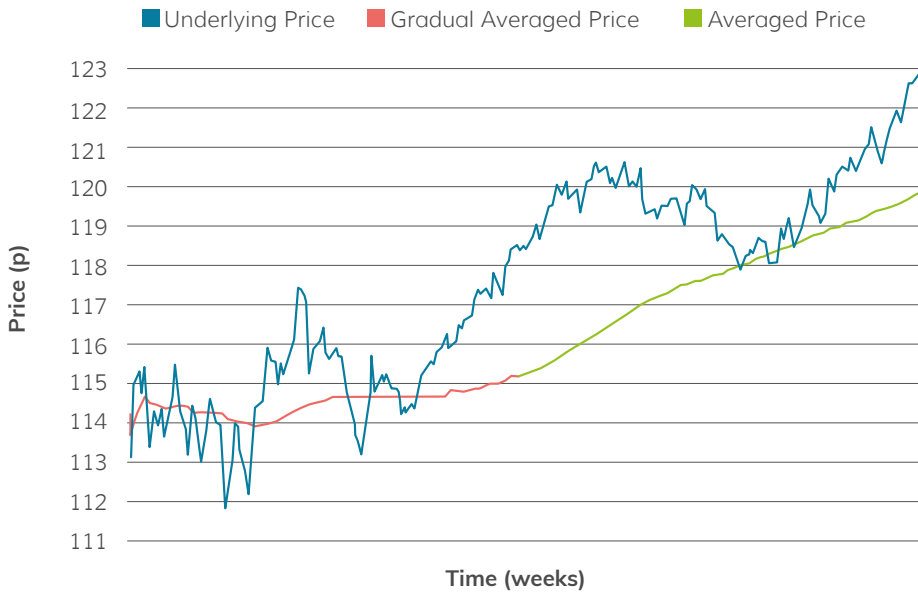
Each time you give us money to invest this will create a new plan. During the first 26 weeks of investment, or fund switch, your money is invested into units in your chosen fund and valued at the 'underlying price' on day 1. From day 2 units in your chosen fund option will normally be valued at the daily 'gradual averaged price'. After 26 weeks your plan is then normally valued at the 'averaged price'. Although using the 'gradual averaged price' or 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.

LV= is the only company to offer this unique process for smoothing away the day to day turbulence of investing money for unit-linked funds.

The charts below illustrate how the averaging effect of smoothing is designed to work in practice during the first year of investment and over the longer term.

Smoothing during the first year of investment or fund switch.

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



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 would we not apply smoothing?

In some exceptional market conditions your funds may need to be valued using a different price than the 'averaged price'. This could either be when the 'underlying price' is 80% or less of the 'averaged price', or at our discretion if the cost of smoothing becomes higher than the Board feels it is reasonable to bear and we believe it prudent and necessary to protect existing policyholders. We have strong internal governance processes to determine whether and when to implement these changes.

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

We also have discretion to revert to using a daily 'gradual averaged price' with an appropriate smoothing period of up to 26 weeks, instead of reverting to the 'underlying price'. For example if we believed that it would be fairer to policyholders in general we could use the 'gradual averaged price' pricing methodology using an averaging period of say 13 weeks.

Typically, valuations will switch to use the 'gradual averaged price' pricing methodology using an increasing averaging period until smoothing is reintroduced. In this scenario, we have discretion to revert to using 'underlying price' in exceptional market conditions.

How would we reintroduce smoothing?

Valuations will eventually revert back to the 'averaged price' once the price being used to value units (either the 'underlying price' or 'gradual averaged price') recovers to equal or exceed the 'averaged price'.

We also have discretion to revert back to the 'averaged price' at an earlier point.

We will take account of:

- The difference between the 'averaged price' and 'underlying price'.
- The volume of investments, and the requests for withdrawals of units in the fund option.
- External events and market movements that we believe could have a significant impact on the future value of units in the fund option.
- Regulatory, legislative changes and Court judgements that we feel could have a significant impact on the future value of units in the fund option. We will always use the 'gradual averaged price', from day 2, for death claims during the first 26 weeks of investment or the 'averaged price' for death claims, as long as you've been invested in your fund option for at least 26 weeks.

Please note that if you decide to switch funds, which means selling your units in one fund (which could be valued on the 'gradual averaged price' or 'averaged price') to purchase units in another fund, then units will always be purchased on the 'underlying price' on day 1 and then typically valued on the 'gradual averaged price' from day 2 for a further 26 weeks before eventually being valued on the 'averaged price' (unless smoothing is suspended during that period).

Unit prices

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 section A4 of your Plan Conditions.

Prices are published the next working day and can be found on our website; [LV.com/investments/investment-fund-price](https://www.lv.com/investments/investment-fund-price)

How do we decide the return on your Plan?

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 you have invested in. After the first 26 weeks it will normally also reflect the effect of us using the 'averaged price' to smooth returns. More details can be found in your Key Features Document and Plan Conditions.

The products this guide refers to are non-profit plans that invest in our unit-linked Smoothed Managed Funds. As the plan is non-profit you will not be eligible to participate in any of our distributions to with-profits policyholders. For example, you will not be eligible to receive a mutual bonus.

What expenses are charged?

As with any investment, there are certain costs involved in setting up and looking after a unit-linked fund option – including investment expenses paid to Columbia Threadneedle Investments, 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 Key Features Document and Key Facts illustration.

What steps do we take to ensure your funds are managed fairly?

You can be confident that your money is being managed by a professional team of investment experts and that you'll be treated fairly. The Board of Directors of LV= is ultimately responsible for the supervision and management of its unit-linked funds.

These responsibilities include:

- Ensuring the unit-linked funds are managed consistently in accordance with their investment strategy and our operational controls.
- Ensuring that, where any discretion is applied, it is done so fairly and in line with Plan Conditions.

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 to ensure that policyholders are put back in the position that they would have been in had the error not occurred, subject to a De minimis 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.

Could we ever close LV= to new business?

We could stop accepting new business into LV=, or just the LV= Smoothed Managed Funds Pension or LV= Smoothed Managed Funds Trustee Investment Plan, in future.

Once I have invested, if anything should happen to LV= is my Smoothed Managed Funds investment safe?

If we ever did get into financial trouble and could not honour our commitments, If LV= closed due to being unable to meet its financial 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](https://www.fscs.org.uk) or call **0800 678 1100** or **0207 741 4100**.

Conflicts of interest

Should any conflicts of interest arise, they will be referred to the appropriate Committee and may be escalated to the Board.

How to find out more

We hope you've found this guide useful. You can find the latest version of this guide at [LV.com/investments](https://www.lv.com/investments). If you have any questions regarding this document, please contact us or your financial adviser.

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



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