

LV= Flexible Guarantee

Investments

Q4 2018 investment report

One month performance

Positive returns from Gilt and Corporate Bond markets could not offset the negative returns across all equity markets during December.

The 1 month fund returns are provided below on a smoothed basis.

Flexible Guarantee Investments	Returns
Cautious	-0.24%
Balanced	-0.51%
Managed Growth	-0.74%

Property Fund: On December 13 Columbia Threadneedle Investments (CTI), our asset manager, temporarily changed the pricing basis of the dual-priced UK Property Fund in which we invest, from "offer" basis to "bid" basis. The change was made as a result of outflows on the fund and ensures that investors who exit the fund pay their fair share of the additional expenses incurred should sales be required to meet those redemptions, effectively protecting the remaining holders. The impact to the share price (and therefore performance) is around (6.5)%. When the funds revert to an "offer" basis there should be a corresponding positive performance impact. Property is therefore a large detractor to performance over all time periods.

Markets remain a challenging environment throughout December. All equity markets returned negative absolute returns. Gilt and corporate markets delivered positive absolute returns.

From an investment perspective, Property contributed over two-thirds of December's underperformance due to the change in basis mentioned above. Of the remaining asset classes, relative performance against the benchmark was driven largely by the underperformance of UK Equities, UK Gilts and Corporate Bonds. Stock Selection within UK Equities was negative. Positive relative performance was achieved in US equities.

The funds remain overweight equities and underweight fixed income in the month of December with a neutral position in property being maintained.

Three month performance

The 3 month fund returns are provided below on a smoothed basis.

Flexible Guarantee Investments	Returns
Cautious	-0.36%
Balanced	-0.62%
Managed Growth	-1.00%

Property contributed about a third of the underperformance during the fourth quarter driven by the temporary pricing basis change.

Other than property, stock selection decisions drove underperformance; UK Equities and Corporate Bonds detracted most from overall returns. Overweight Japanese and European equities also hurt performance as did the underweight position in UK Gilts.

Twelve month performance

The 12 month fund returns are provided below on a smoothed basis.

Flexible Guarantee Investments	Returns
Cautious	1.48%
Balanced	2.07%
Managed Growth	2.17%

Despite turbulent markets over the past year, client investments continue to provide positive returns.

The impact of the UK Equities portfolios has been largely responsible for the lower performance of the portfolio. Specifically, the majority allocation to the UK Growth fund, compared to the Income portfolio has reduced absolute returns. The decision to remain underweight UK Equities against benchmark through the majority of 2018 provided a positive allocation contribution.

Of the remaining Equity assets, selection decisions within US Equities provided solid positive contributions. However, currency movements against USD more than offset those gains. Japanese and European Equities also produced positive gains from stock selection decisions over the past 12 months.

Maintaining an underweight position to UK Gilts throughout 2018 generated small negative contributions to overall relative performance.

Property contributed a substantial proportion of the overall underperformance during 2018 which is primarily driven by the temporary pricing basis change.

Fund managers believe that the recent market weakness represents opportunities to add to preferred asset classes at attractive valuations. So whilst overall equity allocations have fallen, existing positions have been strengthened.

CTI, the asset manager, retains its preference for equities over fixed income, in particular favouring Japanese, Asian and European equities; these are likely to benefit from continued economic and earnings growth.

Please remember that past performance doesn't reflect what will happen in the future. The value of investments can go down as well as up.

Asset allocation

31 December 2018

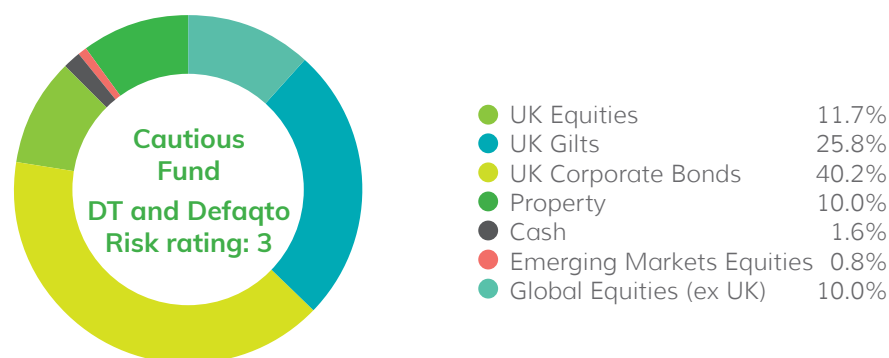
Investment Strategy

Positive returns from Gilt and Corporate Bond markets could not offset the negative returns across all equity markets during December.

Equities: overweight. Equities still offer better value than bonds in our view, though to a lesser extent than in 2018. Our overall outlook on the asset class remains constructive; within this, we are most optimistic on the outlook for Japanese and European ex UK equities.

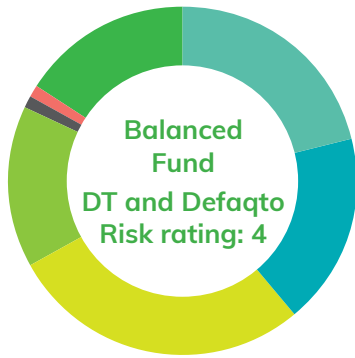
Bonds: underweight. We see limited value in developed-economy government bonds, where yields remain low. Meanwhile, spreads on corporate debt are now below long-term averages so the valuation case has improved. But while corporate earnings are strong, many companies are rewarding shareholders rather than shoring up their balance sheets.

Property: modestly underweight. The portfolio remains income-led and highly diversified by sector, geography and volume of properties. It is weighted away from large central-London assets, where international demand is focused. We have a long-held preference for smaller multi-let assets serving



Cautious S2 Fund: Top 10 Holdings (excluding property) as at 31 December 2018

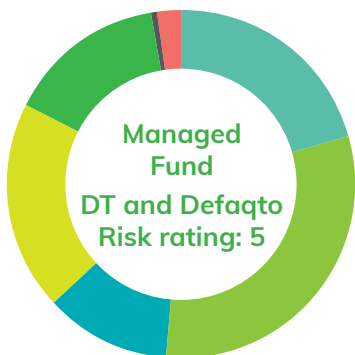
1	United Kingdom of Great Britain	25.0%
2	Federal Republic of Germany	2.3%
3	Imperial Brands PLC	1.2%
4	Legal & General Group PLC	1.0%
5	Tesco PLC	1.0%
6	People's Republic of China	0.9%
7	British American Tobacco PLC	0.9%
8	Lloyds Banking Group PLC	0.9%
9	Royal Dutch Shell PLC	0.8%
10	British United Provident Assoc	0.8%
Total Top 10		34.7%



● UK Equities	21.2%
● UK Gilts	17.8%
● UK Corporate Bonds	28.2%
● Property	14.9%
● Cash	1.2%
● Emerging Markets Equities	1.0%
● Global Equities (ex UK)	15.7%

Balanced S2 Fund: Top 10 Holdings (excluding property) as at 31 December 2018

1	United Kingdom of Great Britain	17.3%
2	Federal Republic of Germany	1.6%
3	Royal Dutch Shell PLC	1.5%
4	GlaxoSmithKline PLC	1.3%
5	Legal & General Group PLC	1.2%
6	Imperial Brands PLC	1.2%
7	Tesco PLC	1.2%
8	British American Tobacco PLC	1.1%
9	RELX PLC	1.0%
10	BT Group PLC	1.0%
Total Top 10		28.4%



● UK Equities	31.0%
● UK Gilts	11.7%
● UK Corporate Bonds	19.2%
● Property	14.9%
● Cash	0.5%
● Emerging Markets Equities	2.1%
● Global Equities (ex UK)	20.6%

Managed S2 Fund: Top 10 Holdings (excluding property) as at 31 December 2018

1	United Kingdom of Great Britain	11.5%
2	Royal Dutch Shell PLC	2.4%
3	GlaxoSmithKline PLC	1.9%
4	Tesco PLC	1.6%
5	Legal & General Group PLC	1.6%
6	RELX PLC	1.5%
7	British American Tobacco PLC	1.4%
8	BT Group PLC	1.4%
9	Diageo PLC	1.3%
10	Unilever PLC	1.3%
Total Top 10		26.0%

Returns

The tables below provide a snapshot of the past performance of the funds, measured to the end of the 3rd quarter.

For the latest performance figures, and up to date fund factsheets, visit the Morningstar® pages on our Adviser website (www.LV.com/adviser).

Cumulative Returns to end of Quarter 4 2018 (% change)	1 month	3 months	6 months	1 year	3 years	Since launch
Life Funds						
LV= Flexible Guarantee Bond Cautious (s2) fund	-0.2%	-0.4%	0.6%	1.5%	12.1%	64.1%
LV= Flexible Guarantee Bond Balanced (s2) fund	-0.5%	-0.6%	0.6%	2.1%	14.2%	77.3%
LV= Flexible Guarantee Bond Managed Growth fund	-0.7%	-1.0%	0.3%	2.2%	15.1%	88.0%
Pension Funds						
LV= Flexible Guarantee Cautious (s2) fund	-0.4%	-0.5%	0.6%	1.7%	14.2%	25.0%
LV= Flexible Guarantee Balanced (s2) fund	-0.6%	-0.8%	0.6%	2.3%	16.6%	29.8%
LV= Flexible Guarantee Managed Growth fund	-0.9%	-1.3%	0.3%	2.4%	18.1%	32.8%

Source: LV=. Basis: bid to bid, sterling, income reinvested to 31/12/2018. All figures are gross and do not take account of the annual management charge.

Discrete Returns to end of Quarter 4 2018 (% change)	31/12/17 to 31/12/18	31/12/16 to 31/12/17	31/12/15 to 31/12/16	31/12/14 to 31/12/15	31/12/13 to 31/12/14
Life Funds					
LV= Flexible Guarantee Bond Cautious (s2) fund	1.5%	4.6%	5.6%	5.9%	6.1
LV= Flexible Guarantee Bond Balanced (s2) fund	2.1%	6.8%	4.8%	7.7%	7.1%
LV= Flexible Guarantee Bond Managed Growth fund	2.2%	8.4%	3.9%	9.5%	7.5%
Pension Funds					
LV= Flexible Guarantee Cautious (s2) fund	1.7%	5.3%	6.6%	3.3%	N/A*
LV= Flexible Guarantee Balanced (s2) fund	2.3%	8.6%	5.2%	5.2%	N/A*
LV= Flexible Guarantee Managed Growth fund	2.4%	10.9%	4.0%	7.0%	N/A*

Source: LV=. Basis: bid to bid, sterling, income reinvested to 31/12/2018. All figures are gross and do not take account of the annual management charge.

* Figures not available as funds launched on 3/7/14.

Past performance is not a reliable guide to future returns

For more information about the LV= Flexible Guarantee Investments please contact 08000 850 250

For textphone dial 18001 first. Lines are open 8:30am – 5:30pm Monday to Friday. We will record and/or monitor your calls for training and audit purposes. You can get this and other documents from us in Braille, large print or on audio by contacting us.

Liverpool Victoria Friendly Society Limited: Tilehouse Street, Hitchin, SG5 2DX.

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