

LV= DIVERSIFIED INCOME FUND

Interim Short Report for the period ended 30 September 2011

Fund Manager's Report



Paul Kim

managers, including AXA Framlington and particularly Invesco Perpetual and PSigma, both of which we had been building up their weightings through the period. Detraction from performance came from our underweight in UK Gilts, despite the very strong performance from the underlying funds held.

UK firms. Fixed interest by contrast is felt to offer immediate haven status only with a huge asymmetric risk to capital values in the longer term due to the current high prices and low yields offered by bonds.

Performance Review

LV= Diversified Income has underperformed against its benchmark over the six month period.

Good performance was seen from our overweight in Japan, from Jupiter Japan Income and with our move into Morant Wright Japan. We were broadly neutral in the UK and had very good performance from several

With the Fund managed to provide capital growth, a sensible level of income plus the growth in income, equities were overweight and fixed interest underweight compared to the IMA Cautious sector. UK Equities in particular are felt to offer potential for capital gains, income production and growth in this income due to the strength of corporate balance sheets, the current dividend yields and the magnitude of dividend cover at many

We consider that markets will continue to be unsettled for some time to come and remain driven by sentiment more than fundamentals. Macro concerns persist, including, European/Euro crisis, western banking problems, recession, slowing growth in Asia, inflation. With all of these and other problems around we feel that more short term tactical positions in portfolios will probably be required. These will then need to be closed out, back to neutral, in order to make progress.

FUND FACTS

Fund Accounting and Distribution Dates

Accounting Dates	Payment Dates
31 March	17 May
	17 August
30 September	17 November
	17 February

Total Expense Ratio (TER)

	30 Sep 11*	31 Mar 11
Retail Income Shares	1.97%	1.98%
Second Retail Income Shares	2.48%	2.45%

*The TER as at 30 September 2011 has been annualised to reflect a full 12 month period.

It has been agreed that on 1 November 2011 the ACD of LV= Diversified Income Fund will transfer from Liverpool Victoria Portfolio Managers Limited to Threadneedle Investment Services Limited, and the Investment Manager will transfer from Liverpool Victoria Asset Management Limited to Threadneedle Asset Management Limited. The name of the Fund will also change from LV= Diversified Income Fund to Threadneedle Diversified Income Fund.

SUMMARY OF FUND PERFORMANCE

Performance History (%)

	6m to 30.09.11	12m to 31.03.11	12m to 31.03.10	Since Launch
Retail Income Shares ¹	(8.43)	6.40	26.52	9.76
Second Retail Income Share ²	(8.56)	5.96	26.19	22.26
IMA Cautious Managed Sector	(5.19)	4.76	27.50	N/A

IMA Cautious Managed Sector

N/A: Data not available for this period.

Data Source: Copyright - © 2011, Lipper. All rights reserved. Bid to Bid basis with net income reinvested.

Net Asset Value (NAV)

As at:	Share Class	NAV (£)	NAV pence per share	Number of Shares in issue
30 September 2011	Retail Income Shares	7,410,273	100.00	7,410,448
31 March 2011	Retail Income Shares	7,139,256	110.46	6,463,272
31 March 2010	Retail Income Shares	2,602,104	106.31	2,447,728
31 March 2009	Retail Income Shares	810,559	86.35	938,729
30 September 2011	Second Retail Income Shares	253,953	114.51	221,780
31 March 2011	Second Retail Income Shares	302,127	126.75	238,373
31 March 2010	Second Retail Income Shares	116,072	122.48	94,765
31 March 2009	Second Retail Income Shares	4,992	99.84	5,000

Share Price Range

Year to:	Share Class	Highest (pence)	Lowest (pence)
30 September 2011 ³	Retail Income Shares	112.10	100.70
31 December 2010	Retail Income Shares	112.10	100.90
31 December 2009	Retail Income Shares	103.73	84.34
31 December 2008 ¹	Retail Income Shares	102.42	84.34
30 September 2011 ³	Second Retail Income Shares	128.80	115.30
31 December 2009	Second Retail Income Shares	128.80	116.30
31 December 2009 ²	Second Retail Income Shares	119.56	100.00

Distribution History

Year to:	Share Class	Pence per Share
30 September 2011 ³	Retail Income Shares	1.6631
31 December 2010	Retail Income Shares	2.5119
31 December 2009	Retail Income Shares	3.2439
31 December 2008 ¹	Retail Income Shares	1.5187
30 September 2011 ³	Second Retail Income Shares	1.9124
31 December 2010	Second Retail Income Shares	2.8950
31 December 2009 ²	Second Retail Income Shares	2.5335

Notes to Performance Tables

¹ The Fund and its Retail Income Share Class were launched 29 July 2008

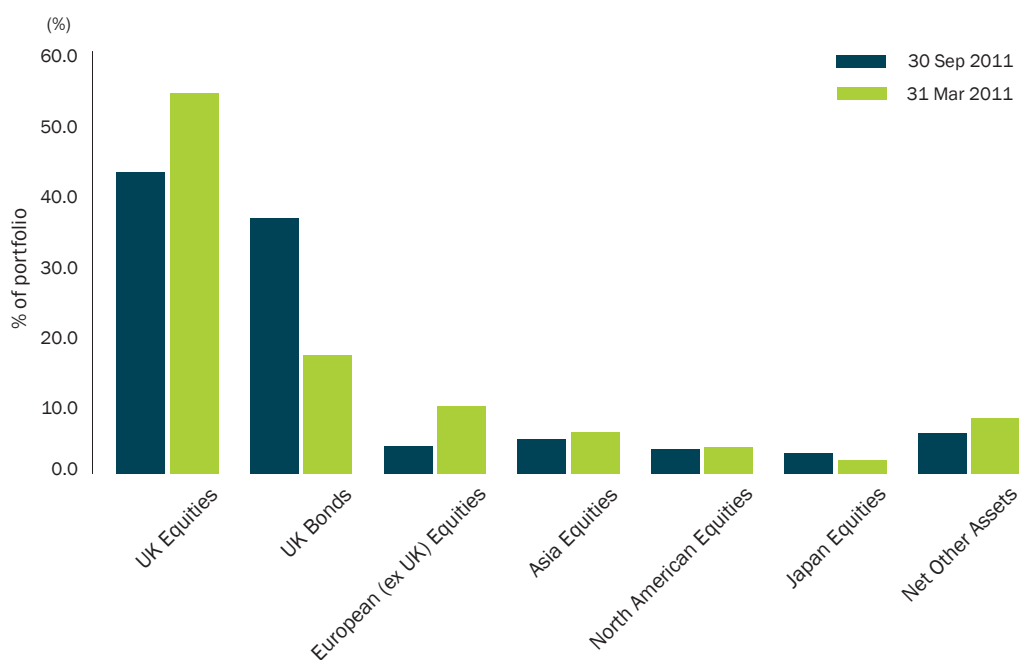
² The Second Retail Income Share Class was launched 31 March 2009

³ 9 Months from 1 January 2011 to 30 September 2011

Past performance is not a guide to future performance.

Classification of Investments

30 September 2011 vs 31 March 2011



Portfolio Information

Top Ten Holdings as at 30 September 2011		Top Ten Holdings as at 31 March 2011	
	Percentage of Fund		Percentage of Fund
Fidelity MoneyBuilder Income Fund	11.73	JPMorgan Natural Resources Fund	8.88
Franklin Templeton Global Bond Fund	9.97	BlackRock UK Absolute Alpha Fund	8.05
AXA Framlington UK Select Opportunities Fund	7.04	Aegon High Yield Bond Fund	7.97
LV= UK Fixed Interest Fund	6.02	Schroder Income Maximiser Fund	5.83
M&G Property Portfolio Fund	5.41	Fidelity MoneyBuilder Income Fund	5.81
Invesco Perpetual High Income Fund	5.27	M&G Property Portfolio Fund	4.05
PSigma Income Fund	5.19	Aegon UK Equity Fund	3.99
BlackRock Gold & General Fund	4.81	Schroder US Mid Cap Fund	3.80
Aegon High Yield Bond Fund	4.80	BlackRock UK Equity Fund	3.76
Franklin Templeton Global Bond Hedged Fund	3.74	M&G Recovery Fund	3.44

Investment Objective and Policy

The objective of the Fund is to achieve income with long-term growth potential.

The policy of the Fund is to invest primarily through equity and fixed interest exposure using collective investments mainly operated by other fund managers. Investment may occur in regulated and unregulated collective investment schemes and also in other transferable securities, money market instruments, deposits, cash and near cash, derivative instruments and forward transactions when deemed appropriate.

The Fund may from time to time use derivatives for the purposes of efficient portfolio management only, although derivatives may be used for investment purposes on not less than 60 days' notice to investors.

Risk Profile

- The value of Shares, and any income from them, can go down as well as up, particularly in the short term, meaning that an investment may not be returned in full.
- The Fund may invest in overseas assets which are priced in foreign currencies. So, regardless of stock market movements, changes in the exchange rate between UK sterling and the foreign currency may cause the investment's value to rise or fall.
- There are also risks that the issuer of credit instruments such as bonds may default and so fail to meet their liabilities.

A more detailed explanation of the risks involved with an investment in the Fund can be found in the Prospectus or the Simplified Prospectus, available on request from the ACD or via www.lvam.co.uk.

GENERAL INFORMATION

The information in this report is designed to enable shareholders to make an informed judgment on the activities of the Fund during the period it covers and the result of those activities at the end of the period.

The Long Form Report and Accounts is available free of charge on request from the ACD.

For more information about the activities and performance of the Fund during the period and previous periods, please contact the ACD at the administration address noted below, or visit our website at www.lvam.co.uk.

Contacts:

Authorised Corporate Director (ACD)

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Investment Manager

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