

# LV= UK PROPERTY FUND

## Half-yearly Short Report

30 June 2011

### Fund Manager's Report



Howard Meaney

### Performance Review

During the rolling 12 month period up to 30 June 2011 LV= UK Property Fund (Retail Share Class) has delivered a return of 2.84% against the IMA average return of 14.08%. The Performance Table on page 2 shows the returns of all share classes against the IMA sector.

The IMA Property Sector is diverse in its composition. As well as direct "bricks and mortar" property like LV= UK Property Fund, it also contains property securities funds which, in the 12 months to 30 June 2011, have benefited from the rising equity markets. This helps to explain LV= UK Property Fund's relative underperformance against the sector.

The Fund's return has been enhanced through active management. This includes the re-letting of an industrial unit in Crawley, the negotiation of terms for the letting of a retail property in Nottingham and advanced negotiations to re-gear the lease terms

of a retail warehouse unit in Suffolk. The new cash in the Fund has been invested into quality properties in keeping with the Fund's philosophy.

The Fund remains well-positioned, with no voids (i.e. properties with no tenant) and an average unexpired lease term of 7.6 years.

The Fund is now valued at £100.2m and is comprised of:

direct property	74.9%
equities	13.4%
bonds	4.1%
and cash	7.6%

The direct property portfolio has:

High Street Retail:	51.0%
Retail Warehouse:	19.8%
Industrial:	12.9%
Car Showroom:	9.0%
Office:	7.3%

Terms have been agreed to acquire another direct property which will further reduce the cash weighting in the Fund. This will increase exposure to industrial property in the portfolio and increase the average income return to the portfolio.

The balance of evidence suggests that the commercial property market is neither glaringly expensive nor obviously cheap. Yields remain above their ten-year average, remaining high relative to bonds and equities; void rates and market rents are showing stability; and outside central London the development pipeline in practically all markets has ground to a halt.

Generally, the fundamentals of the property market look to be in good shape and we think that Property yields are more likely to stabilise than to rise in the short term. In fact the recent solid performance of the real estate equity market suggests that property capital values may even continue to edge higher over the next few quarters. In addition, the weight of new money targeting the UK property market should also lead to yields remaining steady in 2011.

With the recovery in rental values remaining fragile at present, re-pricing is still the main source of growth, indicating the extent to which returns are principally determined by underlying investor sentiment. It does appear that the recovery period, which began two years ago, has run out of steam, with returns having ebbed away in the past nine months. Values are still rising and yields are still falling but at much reduced rates.

Over the course of 2011, a year of divergent property performance among the different grades of property looks likely, resulting in further gains in values at the prime end of the market and capital value reductions for secondary and tertiary property. Accordingly, values are likely to remain broadly flat overall throughout 2011 with investors seeing positive returns of around 6% coming from income for the year.

In 2012 we anticipate the improvement in prime rental values will lead to modest capital growth providing total returns of approximately 8.5%.

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

## FUND FACTS

### Fund Accounting and Distribution Dates

Accounting Dates	Payment Dates
31 December	30 April
30 June	31 August

### Total Expense Ratio (TER)

	30 Jun 11*	31 Dec 10
Retail Accumulation Shares	1.16%	1.19%
Second Retail Accumulation Shares	1.66%	1.69%
Second Retail Income Shares	1.66%	1.69%
Institutional Accumulation Shares	0.76%	0.79%
Institutional Income Shares	0.76%	0.79%**

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

\*\* The TER as at 31 December 2010 for the Institutional Income Share Class has been annualised to reflect a full 12 month period.

### Property Expense Ratio (PER)

	30 Jun 11	31 Dec 10
Retail Accumulation Shares	0.39%	0.23%
Second Retail Accumulation Shares	0.39%	0.23%
Second Retail Income Shares	0.39%	0.23%
Institutional Accumulation Shares	0.39%	0.23%
Institutional Income Shares	0.39%	0.23%

A property expense ratio (PER) is shown which takes into account expenses that are associated with the day to day maintenance of the property assets and excludes costs associated with operating the Fund.

## SUMMARY OF FUND PERFORMANCE

### Performance Table (%)

Fund Name and Share Class	01.07.10 to 30.06.11	01.07.09 to 30.06.10	01.07.08 to 30.06.09	01.07.07 to 30.06.08	Since Launch
LV= UK Property Fund Retail Accumulation Share Class	2.84	13.92	-13.98	n/a	-3.92
LV= UK Property Fund Second Retail Accumulation Share Class	3.61	12.39	n/a	n/a	16.57
LV= UK Property Fund Second Retail Income Share Class	3.23	n/a	n/a	n/a	10.35
LV= UK Property Fund Institutional Accumulation Share Class	3.15	14.27	-13.78	n/a	-2.97
LV= UK Property Fund Institutional Income Share Class	3.23	n/a	n/a	n/a	3.03
IMA Property Sector	14.08	20.67	-27.47	-21.81	n/a

n/a: data is not available for this period.

Data source: Copyright-©2011, Lipper. All rights reserved. Bid to Bid basis with net income re-invested.

### Net Asset Values

As at	Share Class	NAV (£)	NAV pence per share	Number of Shares in issue
30 June 2011 <sup>1</sup>	Retail Accumulation Share Class	783,011	95.99	815,727
31 December 2010	Retail Accumulation Share Class	747,537	92.87	804,942
31 December 2009	Retail Accumulation Share Class	134,127	89.4	150,029
31 December 2008	Retail Accumulation Share Class <sup>2</sup>	4,333	86.66	5,000
30 June 2011 <sup>1</sup>	Second Retail Accumulation Share Class	4,135,693	116.34	3,554,917
31 December 2010	Second Retail Accumulation Share Class	3,972,975	112.77	3,522,977
31 December 2009	Second Retail Accumulation Share Class <sup>3</sup>	1,009,089	109.01	925,691
30 June 2011 <sup>1</sup>	Second Retail Income Share Class	873,071	103.74	841,566
31 December 2010	Second Retail Income Share Class	541,834	101.44	534,157
31 December 2009	Second Retail Income Share Class <sup>4</sup>	1,034	103.4	1,000
30 June 2011 <sup>1</sup>	Institutional Accumulation Share Class	94,133,251	96.97	97,071,580
30 December 2010	Institutional Accumulation Share Class	87,835,954	93.65	93,787,541
31 December 2009	Institutional Accumulation Share Class	71,515,663	89.88	79,568,264
31 December 2008	Institutional Accumulation Share Class <sup>5</sup>	28,196,516	86.84	32,469,070
30 June 2011 <sup>1</sup>	Institutional Income Share Class	280,181	98.77	283,665
31 December 2010	Institutional Income Share Class <sup>6</sup>	61,791	97.27	63,528

### Share Price Range

Year to	Share Class	Highest (pence)	Lowest (pence)
30 June 2011 <sup>1</sup>	Retail Accumulation Share Class	105.10	93.44
31 December 2010	Retail Accumulation Share Class	103.00	89.87
31 December 2009	Retail Accumulation Share Class	88.78	81.68
31 December 2008	Retail Accumulation Share Class	98.53	88.55
31 December 2007	Retail Accumulation Share Class <sup>2</sup>	100.75	98.17
30 June 2011 <sup>1</sup>	Second Retail Accumulation Share Class	126.20	113.30
30 December 2010	Second Retail Accumulation Share Class	124.10	109.57
31 December 2009	Second Retail Accumulation Share Class <sup>3</sup>	106.07	99.74
30 June 2011	Second Retail Income Share Class	114.80	103.10
30 December 2010	Second Retail Income Share Class	117.50	103.89
31 December 2009	Second Retail Income Share Class <sup>4</sup>	100.55	100.00
30 June 2011 <sup>1</sup>	Institutional Accumulation Share Class	106.20	94.35
30 December 2010	Institutional Accumulation Share Class	103.70	90.35
31 December 2009	Institutional Accumulation Share Class	88.97	81.99
31 December 2008	Institutional Accumulation Share Class	98.55	88.72
31 December 2007	Institutional Accumulation Share Class <sup>5</sup>	100.74	98.17
30 June 2011 <sup>1</sup>	Institutional Income Share Class	110.40	97.99
31 December 2010	Institutional Income Share Class <sup>6</sup>	109.80	101.90

#### Notes to Performance Tables

<sup>1</sup> 6 months from 1 January 2011.

<sup>2</sup> Retail Accumulation Share Class launched 7 September 2007.

<sup>3</sup> Second Retail Accumulation Share Class launched 12 June 2009.

<sup>4</sup> Second Retail Income Share Class launched 15 December 2009.

<sup>5</sup> Institutional Accumulation Share Class launched 7 September 2007.

<sup>6</sup> Institutional Income Share Class launched 29 June 2010.

## Distribution History

Year to	Share Class	Pence per Share
30 June 2011 <sup>1</sup>	Retail Accumulation Share Class	1.8636
31 December 2010	Retail Accumulation Share Class	3.6452
31 December 2009	Retail Accumulation Share Class	2.3557
31 December 2008	Retail Accumulation Share Class <sup>2</sup>	4.3440
30 June 2011 <sup>1</sup>	Second Retail Accumulation Share Class	2.2644
30 December 2010	Second Retail Accumulation Share Class	4.3547
31 December 2009	Second Retail Accumulation Share Class <sup>3</sup>	1.5375
30 June 2011	Second Retail Income Share Class	2.0461
30 December 2010	Second Retail Income Share Class	4.1790
31 December 2009	Second Retail Income Share Class <sup>4</sup>	n/a
30 June 2011 <sup>1</sup>	Institutional Accumulation Share Class	1.8817
30 December 2010	Institutional Accumulation Share Class	3.7004
31 December 2009	Institutional Accumulation Share Class	2.6299
31 December 2008	Institutional Accumulation Share Class <sup>5</sup>	4.5448
30 June 2011 <sup>1</sup>	Institutional Income Share Class	1.9542
31 December 2010	Institutional Income Share Class <sup>6</sup>	1.9591

### Notes to Performance Tables

<sup>1</sup> 6 months from 1 January 2011.

<sup>2</sup> Retail Accumulation Share Class launched 7 September 2007.

<sup>3</sup> Second Retail Accumulation Share Class launched 12 June 2009.

<sup>4</sup> Second Retail Income Share Class launched 15 December 2009.

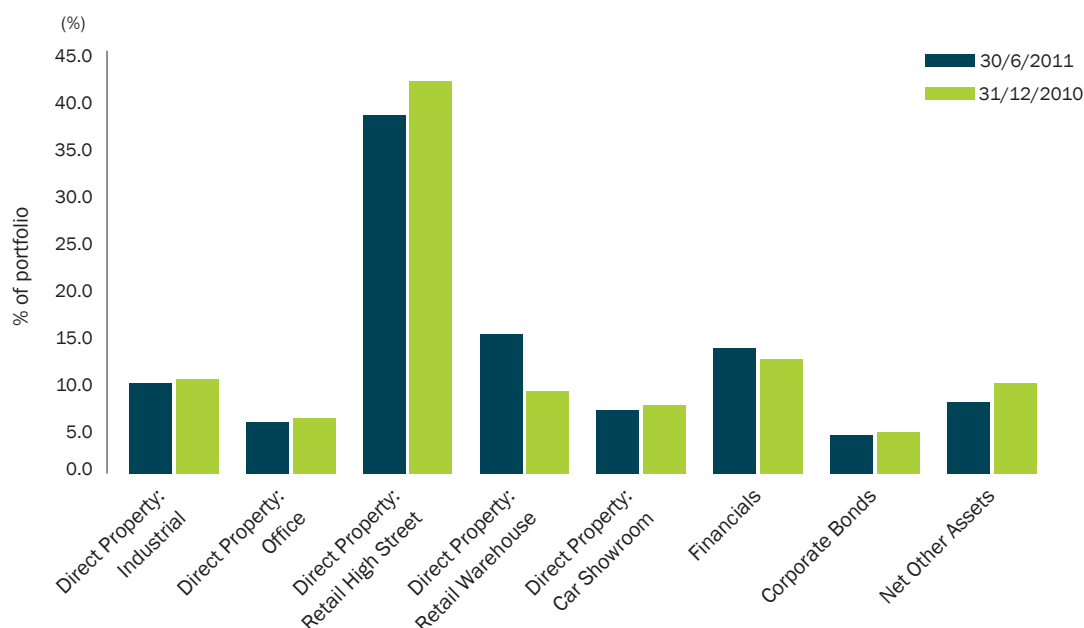
<sup>5</sup> Institutional Accumulation Share Class launched 7 September 2007.

<sup>6</sup> Institutional Income Share Class launched 29 June 2010.

**PAST PERFORMANCE IS NOT A GUIDE TO FUTURE INVESTMENT PERFORMANCE.**

## Classification of Investments

30 June 2011 vs 31 December 2010



## Portfolio Information

Top 5 holdings as at 30 June 2011	Percentage of Fund	Top 5 holdings as at 31 December 2010	Percentage of Fund
Lyons Farm, Worthing (Retail Warehouse, 10-15 year lease)	8.18	Lyons Farm, Worthing (Retail Warehouse, 10-15 year lease)	8.80
93-94 Pydar Street, Truro (Retail, <10 year lease)	6.79	93-94 Pydar Street, Truro (Retail, <10 year lease)	7.35
Edgware Road, London (Car Showroom, >15 year lease)	6.79	Edgware Road, London (Car Showroom, >15 year lease)	7.30
*46 Risbygate Street, Bury St. Edmunds (Retail Warehouse, <5 year lease)	6.64	Manor Gate, Manor Royal, Crawley (Industrial, <10 year lease)	5.90
Manor Gate, Manor Royal, Crawley (Industrial, <10 year lease)	5.77	19 Buckingham Gate, London (Office, <10 year lease)	5.88

\* Bought in 2011.

## Fund Objective and Policy

The investment objective of the Company is to achieve long-term capital growth and income primarily through direct investment in, or exposure to, UK commercial property.

The investment policy of the Company is to invest in UK commercial properties (including shops, offices, retail warehouses, leisure and industrial units), as favourable investment opportunities arise.

The Company may also invest in property related securities, regulated and unregulated collective investment schemes, debt instruments, and other transferable securities to gain exposure to the UK and other property markets. In addition, the Company may invest in money market instruments, deposits, and cash and near cash.

The choice of investment markets will be influenced by fundamental market characteristics such as liquidity, transparency, taxation policies, legal and lease structures, and by the relative value given market pricing and long term growth prospects.

Except in exceptional circumstances, the ACD does not expect more than 80% of the Company's assets to be invested directly in property.

Derivatives and Forward transactions may be used for investment purposes and the purposes of Efficient Portfolio Management and hedging.

## Risk Profile

- The value of Shares in this Fund can go down as well as up, particularly in the short term, meaning that an investment may not be returned in full.
- All property investments are relatively illiquid compared to equity and fixed interest investments. It can take time to buy and sell properties. In exceptional circumstances, dealing in Shares of the Fund may be suspended temporarily.
- Property valuation is a matter of judgement by an independent valuer. Valuation is, therefore, a matter of the valuer's opinion.

A more detailed explanation of the risks involved with an investment in the Fund can be found in the Simplified Prospectus or Full Prospectus, available on request from the ACD or via [www.lvam.co.uk](http://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 full Long 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.

### Contacts:

#### Authorised Corporate Director (ACD)

Liverpool Victoria Portfolio Managers Limited  
Administration address: PO Box 10033  
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#### Property Manager

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