27th January 2011

Our Ref: MK/RD/EHT

Mr & Mrs A N Other
123 ACB Street
London
NE1 2BA

Dear Mr & Mrs Other

Re: MPL Portfolio Valuation – 123456789.1

Market Report

The UK Gross Domestic Product (GDP) numbers recently released by the Office for National Statistics for the fourth quarter of 2010 continue to highlight the problems that the Bank of England (BoE), the underlying UK consumer and UK based investors continue to face in the tailwinds of the last UK recession.

According to the Financial Times, the provisional fall in UK GDP growth of 0.5 percent for the fourth quarter of 2010 was the worst fall outside the last two recessions since the mid-1980s. This gave us an overall annual UK economic growth number of 1.6% for 2010 which, whilst better than the total fall in economic growth of 2.9% in 2009, highlights the continued weakness in UK economic growth and the prospect of sustained lower growth over the longer term

This continued weakness is causing many problems for the BoE, consumers and investors alike. The Bank of England, who are charged (amongst other responsibilities) with ensuring monetary stability i.e., stable prices as measured by inflation; faces a major problem of controlling rising prices (inflation) whilst maintaining economic growth. To achieve this task, there would need to be increased interest rates from a current level of 0.5 percent. In very simplistic terms, this should in practice reduce the level of the money supply in the UK economic system which is available to buy goods and services. This consequently reduces demand for these goods and services, ultimately reducing prices and thus cooling inflation.

This action would directly affect consumers who, whilst already facing rising prices of goods and services, would have their problems compounded by higher mortgage and borrowing costs. These factors would produce a domino effect whereby demand for goods and services would fall as consumers scale back purchases, business profitability in sectors dependent upon the UK consumer would fall, a direct impact would be seen in job creation as a result, and ultimately economic output and growth would fall.

At present the BoE believe that many of the factors currently creating inflation, such as the recent Value Added Tax (VAT) increase from 17.5% to 20%; will drop out of the inflation calculations going forward. This, coupled with a lack of UK wage growth (another major source of inflation), should have a negative effect upon rising prices in the shorter term. Reduced demand for goods and services due to reduced discretionary consumer spending (the by-product of increased taxation and falling wages) in theory should force the providers of goods and services to reduce their prices to meet lower demand for their products and hence lower the level of inflation. This is the justification in simplistic form for the BoE's recent refusal to increase interest rates in the face of rising prices.

The value of investments and any income will fluctuate (this may partly be the result of foreign exchange rate fluctuations), and investors may not get back the full amount invested. Past performance is not a guide to future returns.

The over-riding problem for the BoE, and indeed investors, is that there are other rising cost push inflationary factors such as food and energy costs over which the BoE has no control. Not only are these factors felt directly by consumers, but individual UK investors who are reliant upon the income generated by their underlying portfolios should ensure that the strategy taken to produce this income allows for rising prices.

With attractive income generation currently a scarce commodity in many different asset classes, more reliance has to be placed upon a more internationally focused composition of assets within portfolios, along with a slight shift towards capital growth prospects in these assets classes.

Whilst this will increase risks such as the range of the annual return expected from our client portfolios, this is considered within the context of maintaining purchasing power in the face of rising inflation and falling economic growth ('stagflation').

Yours sincerely

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