31st October 2016

Our Ref: MK/RD/Q32016

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Dear xxxxxxxxx

Re: MPL Portfolio Valuation – xxxxxx.xxxx

Market review

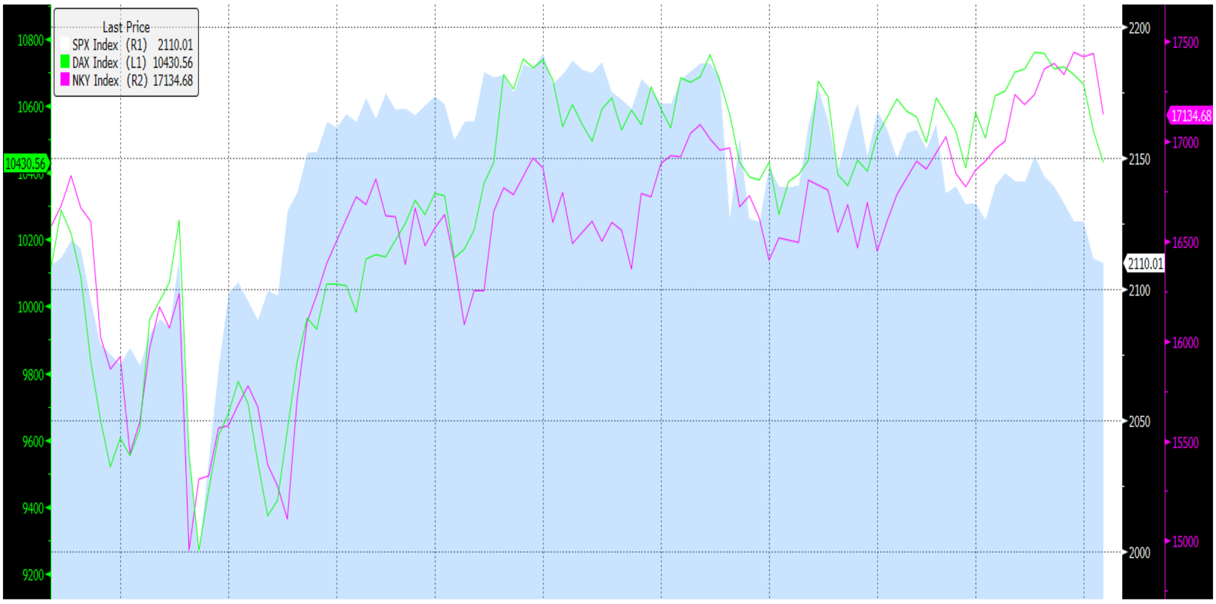
Ahead of the Brexit vote here in the UK we had sought to reduce international equity exposure in the portfolios, taking profits in this area and owing to our belief that the UK public would vote to remain within the European Union. This would have resulted in an appreciation in Sterling against other international currencies, which would have curtailed some of the gains which the portfolios had achieved in this area. In tandem with this view, we increased UK equity and UK corporate bond holdings within the portfolios as we expected UK markets to rebound after the vote, as the uncertainty regarding the referendum had overshadowed UK markets for over a year prior to the vote.

The subsequent decision to exit the EU by the UK voting public in June initially resulted in sharp falls in both the UK and global equity markets coupled with a significant weakening of Sterling against other international currencies. However, the extent of Sterling's fall was partially mitigated by the Pound having in fact appreciated by over 7% against currencies such as the US Dollar in the days prior to the referendum result, so that much of what Sterling lost after June 23 was what it had made in the days leading up to the vote.

Swift and powerful action from the Bank of England immediately following the referendum result saw Mark Carney and the Monetary Policy Committee cut the UK base rate by and to, 25 basis points (previously it had stood at 50 basis points), and also introduce a sizeable package of new Quantitative Easing measures aimed at reassuring and stabilising the UK fixed income and equity markets. This prompt action succeeded in its aims, and aided global markets to rally significantly from the falls occasioned immediately following the Leave vote.

Whilst - perhaps perversely - the decision to increase UK equity and UK corporate bond holdings has benefitted the portfolio because the Pound has weakened against international currencies, the decision to sell the international holdings in June has meant that some ground has been lost (circa 1% in currency terms) in this area, although - as the chart below shows – major international equity indices as at now are still at roughly the same levels relative to the position they were at in June when profits were taken.

S&P 500 (USA), DAX (Germany), and Nikkei 225 (Japan) Equity Indices – June 2016 to Present.



Furthermore those markets that were sold down have become more volatile in recent times, notwithstanding the fact that international equity markets had over the summer remained in a relatively benign mode. This current increase in volatility is driven by a range of both political and economically derived events and uncertainties that have still to play out on the world stage, not the least of which are the Brexit negotiations, the Italian constitutional referendum, and of course the US election, all of which present a range of different outcomes and the latter two of which are imminent. We believe that markets are finally approaching a period of possibly significant event-risk based on a range of possible scenarios, and this has prompted us up to now to maintain above average cash weightings in client portfolios.

At this time, the level of global equity market volatility is increasing as markets move to the downside ahead of these events. As markets are still currently at elevated levels, and therefore possibly subject to meaningful downward corrections in value, we aim to take advantage where possible of these increased volatility levels. This will involve reinvesting into international equity markets in areas where for instance, corporates stand to benefit from rising interest rates, or from an improving economic and rising inflationary environment. We will also be paying close attention to specialist and thematic investment areas where non-cyclical or super-cyclical sectors evidence attractive earnings prospects for 2017, the intention being to reinvest into markets once we perceive valuations as having returned to more appropriate levels.

With kind regards

*figures courtesy of Bloomberg

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