13th February 2017

Our Ref: MK/RD/Q42016

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Dear xxxxxxxxx

Re: MPL Portfolio Valuation – xxxxxx.xxxx

Findings

In the period from 1st October 2016 to 31st December 2016, the portfolio has fallen by x.xx% in comparison to an increase of 3.52% in the FTSE 100 Index* and a fall in the UK Gilt All Stocks Index* of 3.34%.

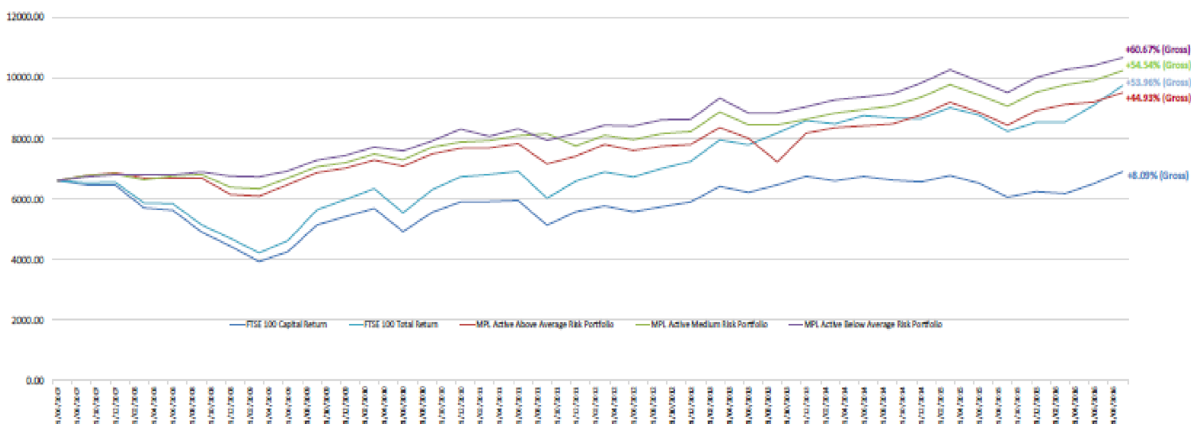
In the period from 1st January 2016 to the 31st December 2016, the portfolio has risen x.xx% in comparison to an increase in the FTSE 100 Index* of 14.41% and a rise in the UK Gilt All Stocks Index* of 10.47%.

Your current risk profile is xxxxxxx, Should you wish to discuss further then please don't hesitate to contact your adviser.

Market review

Much has been written about the uncertainty which characterised 2016, from concern over a possible slowdown in Chinese economic growth early in the year, the largely unexpected outcome of the Brexit vote here in the UK in June, and the unlikely outcome of Donald Trump triumphing over Hilary Clinton in the November US Presidential election. The ultimate result was an increased level of investor nerves represented by increased volatility in all financial markets.

MPL Below Average, Medium & Above Average Risk Portfolio Performance vs. FTSE 100 Capital and Total Return Indices June 2007 to Present *



But what did this all mean? With reference to the above chart showing the performance of MPL's Below Average, Medium, and Above Average risk portfolios from June 2007 to the present, the annualised volatility in the monthly returns of the Medium Risk portfolio was 5.33%. As the events of 2016 unfolded, the volatility in monthly returns increased over 25% to 6.73% in spite of there being a healthy

cash balance in the portfolio between June and November of 2016. Hence, whilst there was a relatively good investment return in this period, the level of risk inherent in this return was quite significant.

The upshot of these events however was that February, June and November all represented good opportunities to invest in different financial markets which had experienced overblown responses respectively to the underwhelming Chinese growth, Brexit shock and Trump victory events.

Chinese Growth

In February, sharp falls in global equity markets resulting from the response to slower Chinese growth were quickly reversed as investors realised that their concerns over this were overdone.

Brexit

In June, the negative initial response to the outcome of the UK referendum was eclipsed by a positive move in UK markets over a three day period between the 27th and 30th June: this came after the Bank of England's Monetary Policy Committee had taken further decisive and extraordinary monetary measures to boost confidence, and furthermore indicated that there could be another cut in the UK base rate to follow.

These actions occurred because Sterling, which had already weakened significantly against the US Dollar in the immediate aftermath of the vote, weakened even further. As a significant number of companies within the UK FTSE-100 and FTSE-250 indices generate considerable revenues in both US Dollars and other currencies, this meant that the earnings expectations for these companies increased markedly as a consequence, and this expectation was quickly priced into the overall value of these indices. As we had overweight exposure to companies quoted within UK equity indices at this point, this area of our client portfolios benefitted.

Trump

The outcome of the US Presidential election also created opportunities for investment, and in the aftermath of Donald Trump's victory, we again moved to take advantage of the negatively perceived election result, primarily by repatriating the US and Asian equity exposures that we had sold in June.

The surprise Trump victory which had initially negatively impacted US equity markets with a broad brush, however proved to be a positive for cyclical companies, particularly those companies which are highly exposed to US economic growth such as Banks, industrial, and technology companies. This combined with the improving economic outlook for the US consumer, and the prospect of further increases in US interest rates, now finally indicate a likely normalisation of monetary policy in the months and years ahead, which again is a positive after around eight years of extraordinary policy measures following the Great Financial crisis.

The new President has consistently indicated that spending on US infrastructure is set to increase dramatically, something long overdue given the country's oft-crumbling transport and other facilities; this would clearly benefit the US's construction and manufacturing industries. In addition, tax reform proposals being drafted by the new administration could add a significant further percentage to earnings expectations for these and several other corporate sectors.

It was for these reasons that in November we increased exposure to companies with exposure to the US infrastructure, technology, and industrial sectors. The first 100 days of the new administration will be closely watched to see if rhetoric does in fact translate into fact, but this process could easily be smoothed by the fact of the US Republican Party now having control not only of the White House itself, but also of both the legislative houses, Congress and the Senate: this should enable the Trump Administration to be able to drive a greater amount of legislation to be passed than was the case certainly under the Obama Administration.

What we see now

With the dust having somewhat settled somewhat over the events of 2016, we are of course going back to basics in the UK by examining the current economic environment here. We can see that a weakened

Pound and an increased oil price have significantly raised headline inflation expectations - that is the measure of total inflation within the economy, and including commodities such as food and energy, which are mostly US-Dollar priced and also tend to be more volatile and prone to inflationary spikes.

UK household appetite for major purchases remains low although consumers are still willing to spend on low-ticket items, while public and private sector wages are still falling in real terms. However, certain UK manufacturing companies have seen overseas new order intakes expand at a robust pace owing to our now much cheaper currency, this despite them experiencing input cost inflation increases as imported raw material costs rise. In this area manufacturers producing intermediate goods such as sugar and steel registered strong growth of output and new orders, along with consumer goods producers. Companies in the UK Construction industry i.e., housing, commercial, and civil engineering, also face a similar outlook of increased input cost inflation, yet the sector is currently showing job creation at an eight-month high.

In Continental Europe, sporadic growth is being seen in specific Eurozone countries. In France particularly there has been a marked increase in retail sales year-on-year as a result of overall improved consumer sentiment and a reviving labour market, probably as a result of expectations of forthcoming political change as the Socialists appear set to be swept from power.

What this points to is that in certain pockets of Europe, despite the never ending media noise regarding Brexit, the forthcoming French Presidential elections and Trump, there are certain areas of the UK and Euro-Zone economies that are improving. Whilst this is cyclical in nature we are only early into this cycle, and hence the best way to exploit these events is to remain exposed to cyclical companies in this area via our UK mid-cap holdings. In tandem with this, we will shortly be investing into Continental European equities once more, as the environment continues to improve in that region.

Third Platform Services

Further to our communication late last year, we can confirm that the transfer of your portfolio from the custody of Adam & Company Limited to Third Platform Services Limited has been successfully completed.

The account number for your new portfolio is listed at the head of this letter, and we anticipate that the online investment portal giving you access to your portfolio will be made available to you in March 2017. At this point, we will write to you, informing you of the login details for your new portal account.

We will be providing paper valuations to those clients that have indicated a preference to continue on a hard copy basis.

Additionally you will also note that you have received two separate valuations for Q4 2016, simply the Adam & Co valuation covers October 2016 and the Third Platform Services valuation covers November to December 2016.

With kind regards

*figures courtesy of Bloomberg

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