31 January 2013
Our Ref: MK/RD/Q412

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

Dear Mr & Mrs Other

Re: MPL Portfolio Valuation – 123456789.1

<u>Market Review</u>

<u>Post Cliff</u>

As we anticipated, the new calendar year has seen short term concerns regarding the 'fiscal cliff' dissipate as an eleventh hour deal was struck in the US congress on 1st January 2013, to largely avert the 4.5% fiscal GDP contraction associated with 'going over the cliff'.

The deal that was struck should result in a contraction in US GDP of approximately 1.3% relative to the 4.5% contraction associated with going over the cliff in its entirety.

In brief, the deal made <u>permanent</u> the Bush tax cuts for the middle classes (but not Upper earners), the expiry of the Alternative Minimum Tax (AMT) patch, and the rates on investment income and estates. This gives American taxpayers more certainty about their tax liabilities going forward. Also, unemployment benefits due to expire on 31st December 2012 were extended for one year, and the "sequester" (automatic spending cuts) was delayed by two months, with a small offset deficit reduction which should have little effect in 2013. According to estimates from the Congressional Budget Office, the fiscal cliff deal as it stands will add $3.9 trillion to the US debt over the next 10 years.

The deal failed to address the debt ceiling limit, which has temporarily been suspended by Congress, to allow for the borrowing limit to be increased from the current limit of $16.4 trillion until May 19th, when the bill is sent to the US Senate for approval. The sequester delayed for two months also needs to be addressed, and in order to keep the US Government funded, a resolution needs to be passed before March 27th 2013, in order to avoid a Government shutdown. As these issues come into play between March and May, we expect to experience a pick-up in short term market volatility in this period.

Coupled with the issues surrounding the partial resolution of the fiscal cliff discussed above, we have also seen a higher than expected LTRO (Long Term Refinancing Operation) repayment from 278 European Banks of €137 Billion (against a consensus expectation of €84 Billion), and strong global Purchasing Managers Index reports, all of which are positive indicators. In the UK, the office for National Statistics unexpectedly elected not to change the RPI measure to which UK inflation-linked government bonds are linked to, also a positive development from our point of view.

These factors have reduced some of the uncertainty surrounding the US economic recovery, giving investors (in the short term at least) confidence in Europe and the Euro, as there is now a perceived implication that the European interbank market is also healthier than expected. This in turn gives investors hope that global economic growth prospects are improving, and led to holders of UK index-linked government bonds seeing capital value increases, as uncertainty surrounding their valuations has been removed.

Whilst the aforementioned factors occurred after the date of your 31st December valuation, they have all resulted in a very positive start to 2013 across the majority of the assets held in MPL client portfolios, with the asset allocation measures undertaken in November 2012, now bearing fruit.

We reiterate that increased market volatility is expected between March and May this year owing to the factors discussed above. We also have to negotiate Italian government elections in the next few weeks and in the latter part of this year, German Government elections.

As ever, we believe that these issues could create investment opportunities which the investment team will be hoping to exploit.

With kind regards

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