29th January 2014

Our Ref: MK/RD/Q413

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

Dear Mr & Mrs Other

Re: MPL Portfolio Valuation – 123456789.1

<u>Market Review – The Journey from A to B</u>

<u>What we do</u>

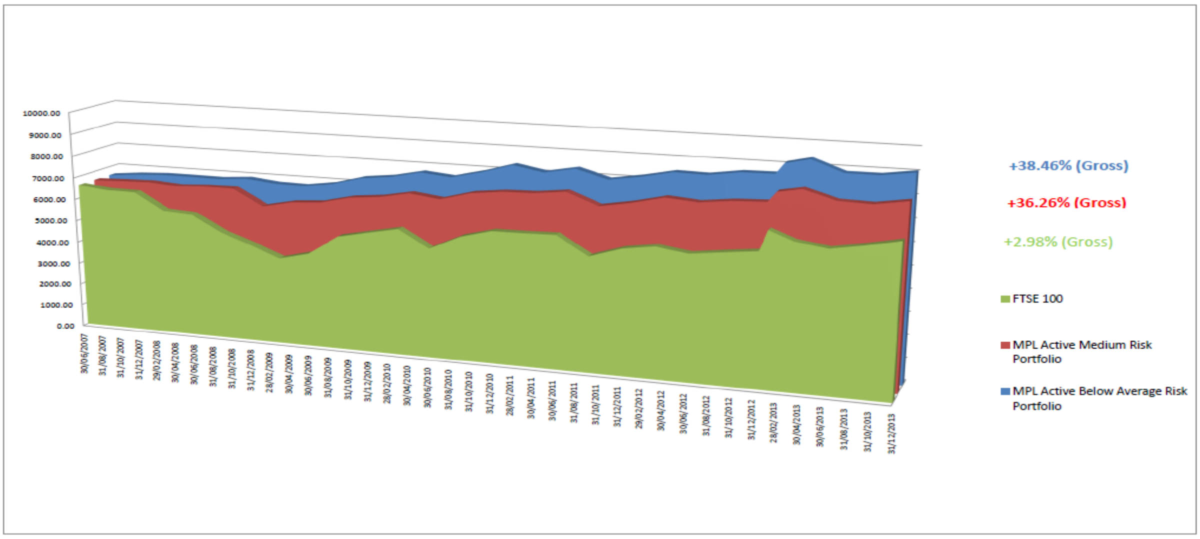
Over the past seven years members of the MPL investment department have been asked for their thoughts and opinions upon the FTSE-100, which many consider to be "the general investment market", however it is only one market within the investment universe.

We consider ourselves to be asset allocators who use many different asset classes throughout many different "general" investment markets, in order not only to meet our clients' financial planning and investment objectives over a long term investment horizon (as opposed to "rolling" one year periods), but also to diversify away from the risks associated with investment in just one general market.

Over 90% of the client money invested on a discretionary basis by the MPL investment management team, comprises Self Invested Personal Pensions of clients who have the intention of retiring within the next 5 to 10 years. As such we have to adopt more of a conservative approach than most.

<u>The Journey from A to B</u>

<u>MPL Active Below Average and Medium Risk Portfolio's vs. FTSE 100 Tracker & FTSE All Gilt Index</u>
<u>June 2007 to the Present.</u>



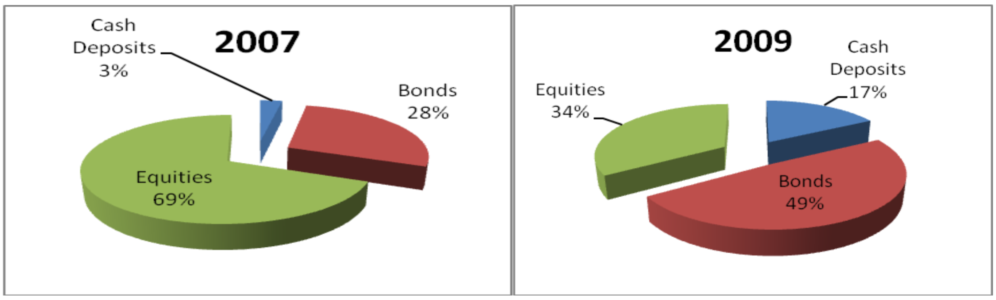
Source: MPL

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 above chart shows the journey from A to B, for two active portfolios, one a Below Average Risk example for a client in income drawdown, and the other a Medium Risk example for a client continuing to make pension contributions. The chart depicts their histories from June 2007 to the present against the FTSE 100 Index. It should be noted here that if income is included for the FTSE-100 over the period in question, then the FTSE 100-tracker depicted in the chart would have returned 31.30%.

In this journey from 2007 to 2009, the fall experienced in the FTSE-100 between 2008 & 2009 (the financial crisis), was largely negated due to a reduction in the equity risk/exposure in client portfolios from approximately 69%, down to 34% in this period, which was hedged with an overall weighting of approximately 66% investment in UK Government Bonds and cash deposits as seen in the following charts.

<u>MPL Below Average Risk Asset Composition from 2007 to 2009</u>

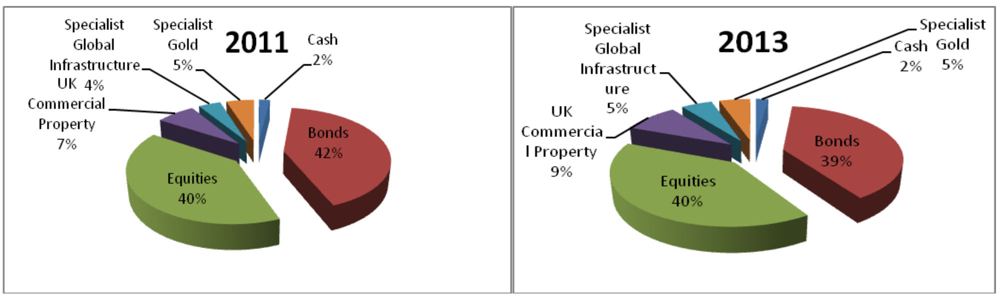


Source: MPL

From 2009, risk levels were increased via the introduction of corporate bonds and commercial property investments into portfolios at the expense of cash deposits, which by this time had matured.

In the period through to 2013, global bond, infrastructure and gold focused investments were introduced into portfolios. Equity markets remained volatile through this period due to the uncertainties surrounding the financial position of certain countries, and indeed entire economic areas such as the United States and the Eurozone.

<u>MPL Below Average Risk Asset Composition from 2011 to 2013</u>

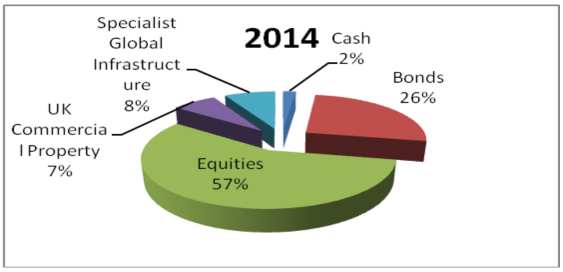


Source: MPL

Following the well documented shift in bond yields in May 2013, resulting from the US Federal Reserve Bank indicating that it was looking to reduce the level of financial support that had been fed in to the US economy, we have gradually decreased the fixed income (bond) component of client portfolios.

What now?

MPL Below Average Risk Asset Composition 2014



Source: MPL

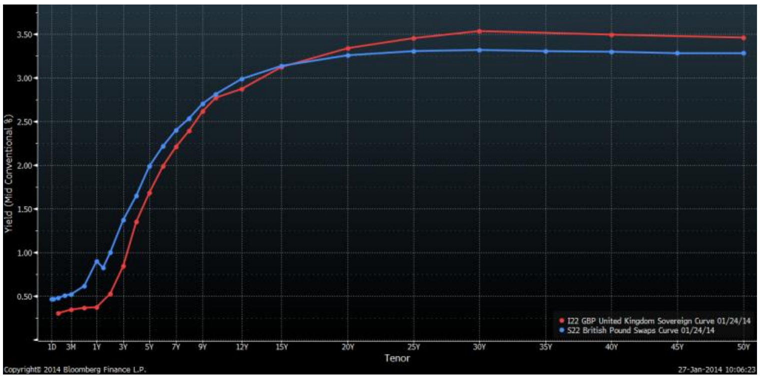
In Below Average Risk portfolios, we now have a weighting of circa 57% equity-focused investments (versus circa 65% in a Medium Risk portfolio).

The rationale behind this increase into equity focused investments is shown as follows:

The Fixed Income Conundrum

In the chart below we compare the maturities of UK Government Gilts (held primarily for the stable income they produce) over a 50 year period, to the maturities over the same period on British Pound forward rate swaps (simply a contract where one party agrees to pay a floating rate of interest on a principal amount in exchange for a fixed rate of return from another party).

United Kingdom Bond Yield Curves vs. British pound Swaps Curve



Source: Bloomberg

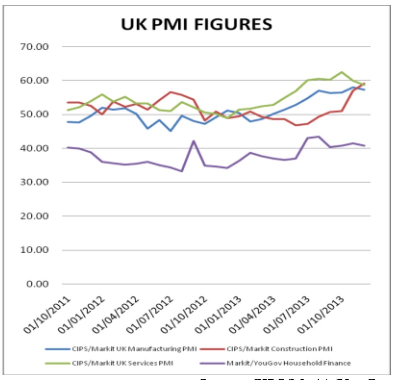
If you look at the left hand side of the two yield curves, you can see that the red yield curve representing UK Government Bonds is below the blue yield curve which represents British Pound Swaps. Simplistically, what this tells us at the present moment in time is that the British Pound forward rate swap market is anticipating that UK Government Gilt yields up to 15 years in maturity will increase going forward. As there is a negative relationship between bond prices and yields, if UK Government Bond yields do follow the forward rate markets by shifting upwards, then UK Government Bond prices will fall. At this juncture this could lead to capital losses, which will outweigh the levels of income that these financial instruments produce over that same time period.

Equities

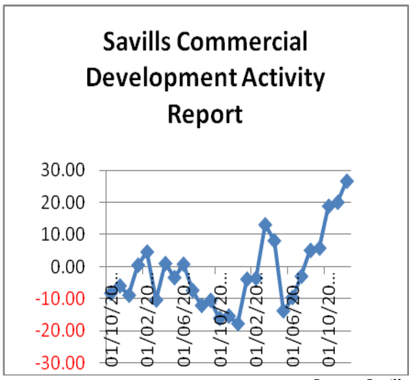
United Kingdom

In the last quarter we have increased exposure to the UK equity market, specifically in the Mid-capitalised area of our domestic market.

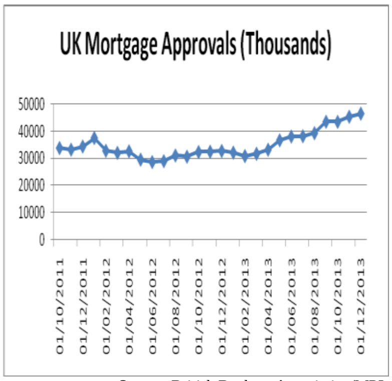
UK Economic Indicators



Source: CIPS/Markit/YouGov



Source: Savills



Source: British Bankers Association/MPL

Taking a brief snapshot of the UK economy, UK Purchasing Managers Indices (PMI's) for the manufacturing, construction, and services industries currently indicate that there is expansion in all these business sectors of the economy. Any reading over 50 indicates expansion, and since April last year the Manufacturing and Services industries began to expand, followed by Construction from September 2013. Interestingly, the overall measure for household finances - whilst increasing between January and September 2013 – is now contracting, which indicates both that consumers feel more confident and that they are drawing down savings (or saving less) in order to fund spending.

Savills' commercial development activity in both of the private and public property sectors also increased sharply in the second half of 2013, which ties in with expansion in the construction PMI, and the increase in UK mortgage approvals from March 2013.

The mid-capitalised area of the UK Equity market (as represented by the FTSE-250 Index) is more closely tied to the fortunes of the UK economy than that of the larger-cap and much more globally focused companies typically listed within the FTSE-100 Index. Hence, the Schroder Mid-250 and the Old Mutual Mid-Cap funds were purchased in order to capture some of these growth prospects in the UK economy, as these funds are currently invested in the more cyclical areas such as house building, construction, and financial services.

Europe

Given the geo-political and sovereign problems associated with the Eurozone over the past few years, we had avoided investment into European equity for some time.

Using as a backdrop the efforts of Mario Draghi (President of the European Central Bank) to 'do whatever it takes' to support the Eurozone economy, we now see attractive pockets of growth opportunities within European equity markets, where companies whose managements are now more confident about European and global economic prospects, have restructured or are just about to embark upon a round of capital expenditure which will drive future earnings growth.

At present we are seeing signs of increased manufacturing production in many regions throughout the Eurozone. Collective output, new orders and new exports have expanded for the fifth month in succession, with the rate of 51.6 (posted in November 2013) being the highest rate of increase in the last two and a half years.

As we are now confident that the worst of the Eurozone crisis is behind us, we have also invested in the Alken European Opportunities and the Baillie Gifford European funds, in order to drive portfolio growth and gain exposure to the interesting corporate story which is developing in this region.

We accept that moving more of the portfolio percentage weighting to growth-biased equity investments will increase the level of volatility in the overall capital values. However, at present the MPL Investment Team believes that this is the best course to take in 2014.

Given the risks associated with a further shift in UK Government Bond yields (and the temporary loss of a hedge against any potential equity market volatility), we believe the growth opportunities available in the UK and European equity markets, and continued improvement in the US economy (in which we still maintain an overweight stance via the US equity market) will continue to aid our long term journey from A to B.

Findings

In the period from 1st October 2013 to 31st December 2013, the portfolio has risen x.xx% in comparison to an increase in the FTSE 100 Index* of 4.47% and a fall in the UK Gilt All Stocks Index* of 1.48%.

In the period from 1st January 2013 to the 31st December 2013, the portfolio has risen x.xx% in comparison to an increase in the FTSE 100 Index* of 11.98% and a fall in the UK Gilt All Stocks Index* of 2.65%.

Your current risk profile is xxxxxxxx. Please contact your adviser if this is required to be amended to reflect your current circumstances.

With kind regards

AIDAN VAUGHAN
MANAGING DIRECTOR
aidan@mplltd.co.uk

MARK KITSON
INVESTMENT DIRECTOR
mark@mplltd.co.uk

RICHARD DAWES
INVESTMENT MANAGER
richard@mplltd.co.uk

*Figures courtesy of Bloomberg