27th April 2011

Our Ref: MK/RD/AV

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

Dear Mr & Mrs Other

Re: MPL Portfolio Valuation – 123456789.1

Market Report

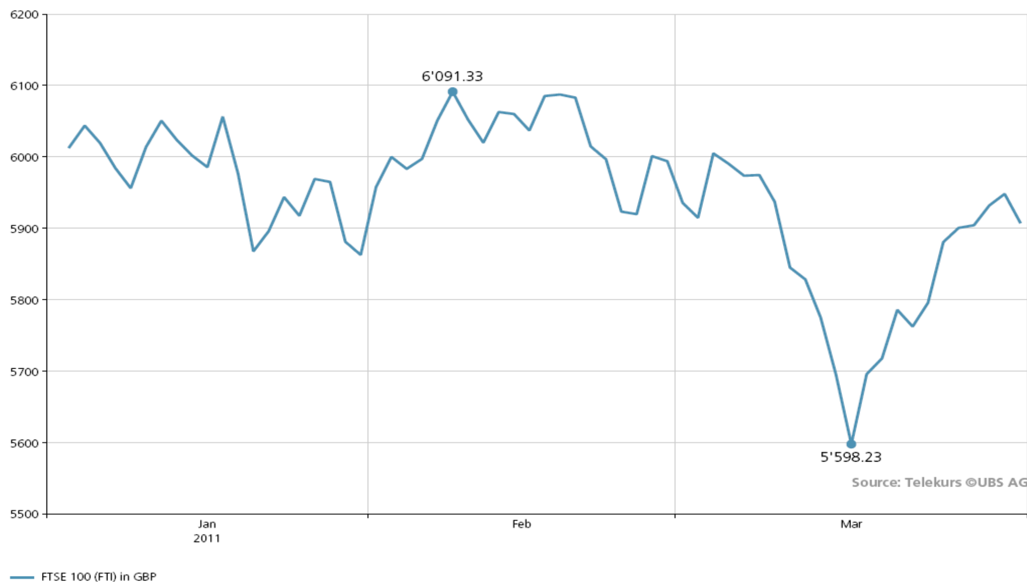
At the beginning of the first quarter of 2011, we had experienced an appreciation in the UK equity market of over 7% in the five week period preceding the New Year. Against a backdrop at that point of an improving corporate picture and continued economic problems in indebted developed nations worldwide, numerous MPL investment department debates focused upon what possible "future" events could potentially cause the UK equity market to deviate from this positive course.

The vast magnitude of events that followed in the subsequent quarter not only highlights the continued volatile nature of financial markets at this point (which has presented us with good opportunities), but also just how resilient the UK equity market in particular is proving to be.

The negative headwinds encountered include geopolitical tensions in North Africa which have spread to the Middle East and were partially responsible for the recent spike in crude oil prices (a possibly negative factor in considering prospects for the continuance of the global recovery); continued pressures in the euro zone capital markets exacerbated by ratings agency downgrades for both Portugal and Spain; concerns about radiation risk at the Fukushima Daiichi nuclear power plant, following the horrific natural disaster which occurred off the eastern coast of Japan in March; as well as the possible end of quantitative easing (QE) in the US and further monetary tightening (increased interest rates) in China which again are negative factors for global growth.

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.

FTSE 100 – 1st Quarter 2011



As a consequence of this multitude of negative events, the FTSE 100 equity index corrected by just over 8% from its high to low point. Looking back to the same period in 2010, when the first concerns regarding the sovereign debt problems in Greece were brought to public attention last year, the main UK market index fell by over 8.60% from its high point to its low point on this event alone. This comparison highlights the resilience of equity markets at present. Not only has the FTSE 100 fallen less in value this time as a result of the multiple events mentioned above in comparison to the singular event which occurred in 2010, the index has also already recovered over ninety percent of this fall (at the time of writing the FTSE 100 index had a value of 6,059 points).

There could be many reasons for this resilience, but to name one, we do know that there is still a wall of money in investment accounts at various institutions which as yet has not been invested in financial markets. This probably highlights the nervousness which remains in investors' minds in relation to the events which have beset equity markets over the past three years.

Considering the current problems faced across all of the asset classes that our investment team use to achieve our clients' objectives; the nominal returns on annual cash investments remain below the real returns needed to preserve purchasing power in the current inflationary environment; short to medium term index-linked gilts (5-10 years to maturity) also have low returns excluding inflation; however, there may be investment opportunities in conventional gilts (non inflation protected) going forward. The corporate bond market, excluding the financial sector, can now be largely viewed as an asset class which will produce income at this point in time. The capital gains which have been achieved in the fixed income asset class over the last 3 years will probably not be repeated. Un-geared commercial property in prime locations with good A-grade tenants still has the potential to benefit from increased rental yields, which will be the main driver of any further capital appreciation.

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This leaves global equity markets, which, having all had a significant correction in the first quarter of 2011, now present us with good opportunities to increase our clients' exposure (below average risk and above) to this asset class.

In line with the comments made in our last investment letter, "*in order to maintain a positive store of wealth or purchasing power, investments made within client portfolios going forward will have to produce a total return (income and capital growth) equal to or in excess of inflation, through capital growth, inflation protection, or a mixture of both components*", in increasing equity exposure in client portfolios recently, we have done so with an international focus, hoping to take advantage of the structural change (which should result in growth) now in evidence in various regions worldwide.

Whilst there continues to be a high level of nervousness surrounding global equity markets at present, the resilience of these markets continues to support our view that a higher level of risk has to be taken in portfolios at this juncture, in order to avoid an erosion of capital (purchasing power) in all portfolios resulting from cost push inflation.

MPL Asset Allocation

Cash

With the prospect of monetary tightening being debated in the UK, fixed term deposit rates will benefit from any increase in interest rates here. However, we believe that over the course of the next few years, any rate increases will not reach the levels seen in the period up to September 2008 (when interest rates hit 5.75%), as the UK consumer remains embattled. Hence fixed term deposit rates will continue to pay relatively low levels of yield. As a result, we have largely been reducing the levels of cash held in portfolios.

Fixed Income

In line with comments made in our last investment letter, we have trimmed our holdings of UK Treasury gilts and UK corporate debt ahead of the potentially negative effects of a tightening in UK monetary policy by the Bank of England. Holdings in emerging market sovereign debt have been increased owing to the additional demand we expect to see for this fixed income asset class over time. The demand growth should be a result of the demographic and structural changes occurring in developed nations at present.

Equity

Equity market holdings have been increased this quarter in the UK (due to the factors above) and globally (as part of a wider move from emerging markets to developed markets by some investors) taking advantage of the weak market conditions brought about by these events.

Corporate earnings continue to improve, with some multi-national companies in a position where they have lots of cash to invest and operational margins to exploit. We are wary of the effects that the potential end of quantitative easing may have on global equity markets in the short term, but this should be seen as a positive. Indeed, the international focus that we have taken in increasing the equity allocation in client portfolios should help to negate the effects of any weakness that QE's termination could present in the short term and these holdings could well benefit from the new perception of a stronger post-QE US economy and stronger US dollar in the longer term.

With kind regards

Yours sincerely

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