25th January 2012

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

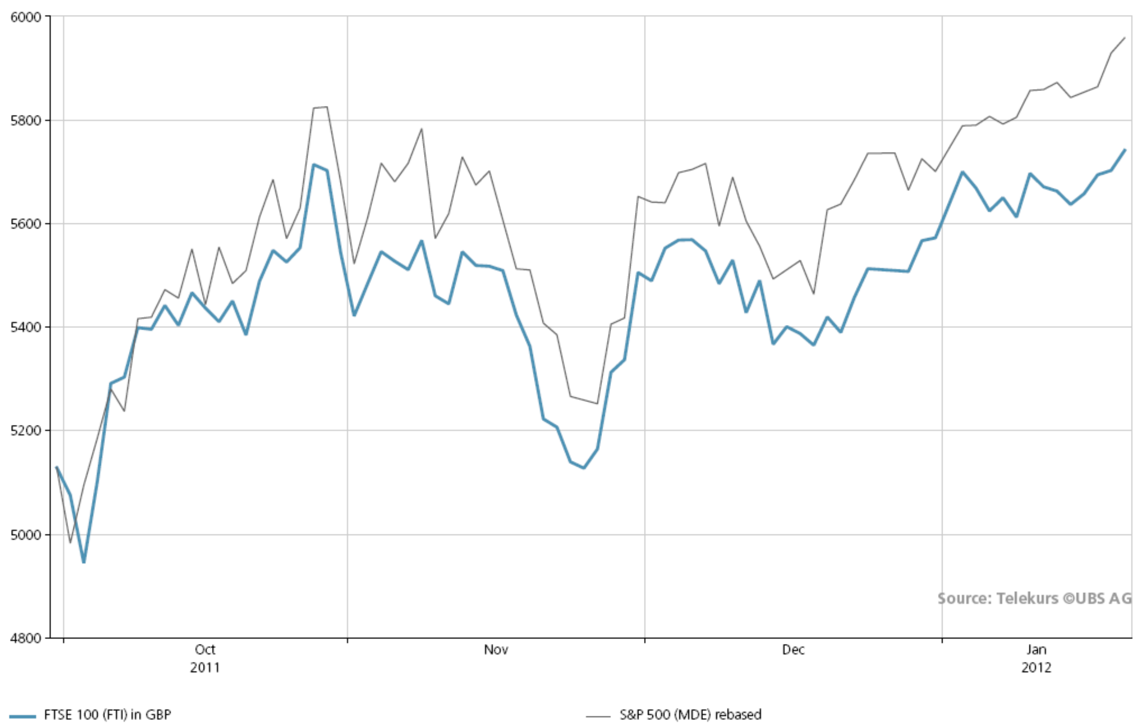
Dear Mr & Mrs Other

Re: MPL Portfolio Valuation – 123456789.1

<u>Market Review</u>

From the beginning of the fourth quarter 2011 to the present, we have recouped the majority of the capital value lost in the brutal August to late September period of 2011. The initial trigger for the rally in risk assets (indicated in the chart below) resulted from improved US economic numbers in late September which suggested that the world's largest nation had avoided a double dip recession, growing, albeit at a weak level.

<u>FTSE 100 and S&P 500 September 30th 2011 to 20th January 2012</u>



On the 30th November 2011, the US Federal Reserve released a press statement announcing that six central banks (the bank of Canada; the Bank of England; the Bank of Japan, the European Central Bank and the Swiss National Bank) including themselves, would "coordinate actions to enhance their capacity to provide liquidity support to the global financial system."

Putting these actions into simplistic terms, investor demand for the US dollar (which is the world's reserve currency) increases dramatically in times of economic and financial stress. With recent global economic problems well documented, this led to a situation whereby many banking and institutional investors held onto their dollar holdings refusing to lend this currency to other institutions. This in turn created a situation where financial and commercial institutions were no longer able to gain access to the US dollar because the market for dollar funding had completely dried up. The vast majority of global commercial transactions from international state to state, are executed in US dollars. The seizure of the dollar funding market threatened world trade, and in turn threatened the US economic recovery from recession.

The liquidity support announced by the Federal Reserve focused upon an existing instrument called central bank liquidity swap arrangements. These arrangements allow a foreign central bank to swap/sell its own currency for dollars with a binding agreement to repurchase its own currency from the Fed at a pre determined rate of interest at an agreed date in the future. With this fresh injection of dollar liquidity, the foreign central bank could then lend dollars to its own domestic financial and commercial institutions, which in turn prevents the seizure of global financial and commercial trade.

The Fed reduced the underlying interest rate at which these swap arrangements were taking place, by 50 basis points (or ½%). This allowed the foreign central banks to swap these funds at a better rate of interest and in turn lend these dollars to their own domestic commercial and financial institutions at more attractive rates.

Global bond and equity markets took this as a huge positive. Bond yields in stressed European nations such as Spain fell (with prices increasing in tandem), and equity market indices rallied on the back of this news.

On 21st December 2011, the European Central Bank (ECB) deployed a historic and unprecedented LTRO (Long Term Purchase Operation) to offer loans at very low rates to the tune of €489 billion. 560 banks desperately and immediately grabbed what they could, thus providing another short term backstop to European financial institutions, which was again looked at favourably by financial markets.

US Economic data continued to improve as we moved into the New Year, bolstering equity markets, and US Purchasing Manufacturing Indices (PMI's) which are a leading indicator of US economic growth, continued to expand, along with US jobless numbers falling.

<u>MPL Asset Allocation</u>

The rally in all risk assets from early October has resulted in all of our client portfolios rebounding significantly from the position they were in at the end of September 2011. Taking this on board, we have begun the process of reducing the risk levels of all portfolios taking profits upon holdings within the UK Equity Income, UK Equity Growth and US Equity sectors, and have increased exposure to UK Commercial Property, and the Global bond markets, which have fallen in value whilst equity markets have been rallying.

In taking more risk off the table we are attempting to hedge the position of the remaining risk assets within our client portfolios, consolidating our position. With the European Central bank printing money through the back door via the Federal Reserve, this will benefit risk assets (such as global equities and commodities) in the shorter term hence we have retained a lesser exposure to this asset class. However, the prospect of a Greek default on its debt in March (despite market comment regarding this event being priced in) could still hit riskier assets quite hard. If this is the case, not only do we want to protect our strategic longer term risk holdings, but we wish to take advantage of any short term swings in global equity markets resulting from investor panic.

With kind regards

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