30th April 2014

Our Ref: MK/RD/Q114

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

Dear Mr & Mrs Other

Re: MPL Portfolio Valuation – 123456789.1

Findings

In the period from 1st January 2014 to 31st March 2014, the portfolio has risen x.xx% in comparison to a fall in the FTSE 100 Index* of 1.43% and a rise in the UK Gilt All Stocks Index* of 2.21%.

In the period from 1st April 2013 to the 31st March 2014, the portfolio has fallen x.xx% in comparison to an increase in the FTSE 100 Index* of 3.75% and a decrease in the UK Gilt All Stocks Index* of 2.49%.

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

Market Review – Back to the Fundamentals

Putting behind us the events of May 2013 and the impact of the fall in fixed interest bonds upon our clients' portfolios, we now have to deal with an environment (in the United States at present), where the liquidity pumped into the global economy by central banks, will be decreased as we slowly move towards more normal economic conditions (this will however take some years).

A lot of index tracking securities (and investors' model portfolios solely utilising these securities) have benefitted immensely as global quantitative easing has increased a broad range of company valuations, without having to focus upon fundamental investment aspects.

Now that quantitative easing in the United States is being tapered back, it will be a lot harder to pick passive index tracking investments and merely expect them to increase in value as a matter of course.

Investors will now have to do the "dirty work" of actively managing their investments, sifting through companies and picking stocks in industries which are expected to perform at this stage of the economic cycle.

Equities

United Kingdom

The mid capitalised area of the UK equity market (i.e. companies listed within the FTSE 250 index) continued to perform well in comparison to larger capitalised companies listed on the FTSE 100 index, as the UK economy continues to improve from a company perspective.

The Old Mutual UK Mid Cap and the Schroder UK Mid 250 funds appreciated by 4.76% and 2.44% respectively in comparison to a fall of 2.24% in the FTSE 100, as companies within the manufacturing, construction and services industries within the UK continued to experience increased expansion, albeit at a lesser rate than in January. The more internationally focused FTSE 100, on the other hand, suffered as a result of events in the Ukraine surrounding the annexation of Crimea by the Russian Federation, which hurt investor sentiment.

Another area that needs to be noted, concerns the impact upon many FTSE 100 listed companies of the strong pound in comparison to the US dollar. Over the last year, Sterling has appreciated against the US dollar (at the time of writing) by over 8%. This has not only negatively impacted upon the earnings of companies who report their earnings in US dollars, but it has also reduced the level of dividend income that companies pay out to UK investors, as this income is paid out in US dollars and converted into Sterling. This effect will be a negative headwind upon any prospects for appreciation in the valuation of these companies, and any upside movement in the FTSE 100, as long as the price of sterling remains strong against the US dollar.

Earnings expectations in the UK mid-cap area still look positive as we move through the second quarter of 2014. Consumer cyclical companies such as house builders continue to benefit from property price increases in various regions throughout the country, and will continue to benefit in this climate of low interest rates, and falling producer prices.

United States

We have recently taken down our exposure to large capitalised companies in the United States (those listed on the US S&P 500 index). Notwithstanding the currency impact mentioned above, we have taken some profits in this process, as we rebalanced our clients' US holdings back in line with a neutral portfolio position from an overweight stance held since September 2012.

The S&P 500 index remains close to its all-time high, and the results of quantitative easing by the Federal Reserve continue to be seen in increased company valuations, as investors have been squeezed into taking on board increased risk, owing to the lack of lower risk investment options which offer good investment returns.

Although earnings expectations still factor in single digit growth here, we are now having to focus upon individual companies' prospects, and the "fundamental" aspects of these companies' growth prospects; a more positive picture emerges when the mid-capitalised area of the US equity market is analysed. Like the UK, many companies listed in this area (on the Russell 3000 index) benefit directly from the domestic US economy, which continues to improve, enhancing earnings prospects for these companies.

Commercial Property

UK commercial property prices have performed well in the past year, to an extent that the market price of the investment trust through which we access direct UK commercial property (the UK Commercial Property Trust), now exceeds the net asset value of the property investments within the fund by over 12%.

Although this lower risk holding still pays out a decent dividend yield of 4.48% per annum (at the time of writing), the price of this investment is near to the top of its 5 year trading range in terms of market price and Net Asset Value; hence we have taken the opportunity to reduce our exposure in an environment where UK primary commercial property in this area is at best fair value after the increases we have experienced here.

Fixed Income

Having briefly touched upon the impact that fixed income sovereign bonds had upon client portfolios in May last year, and having significantly reduced our exposure in this area over the last year, we continue to monitor this area of investment with interest, as it still remains an area in which we can invest to hedge the risks of the global equities held in our clients' portfolios.

We believe that the sharp fall in prices in this area in May last year (owing to US taper concerns) was a one-off, and from a UK investor's perspective, we note that whilst real yields continue to increase as investors position for a normalisation of monetary policy over the medium-term (i.e. increased interest rates) we must be mindful of the following points:

1) Owing to lower producer input prices which in many respects is a result of the stronger pound, although there is no evidence that manufacturing and services sector firms are attempting to boost prices to enhance profit margins as the recovery gains traction, there is an expectation that these prices will increase going forward.

2) Coupled with this, in some sectors early evidence is now being seen of tighter labour market conditions, which will lead to wage growth as unemployment falls.

If both of these factors play out, there will be increased inflation going forward. This will justify an increase in interest rates in the UK. This will be a negative in some areas of the UK equity markets for companies which do not have pricing power, but importantly in the UK, the sovereign bond index linked market, could once again not only provide us with a natural hedge to the UK equity market (as the effects of any interest rate increases will be priced into these markets far in advance of any move in the UK equity market), but also a potential capital gain in these securities as inflation begins to appreciate.

With kind regards

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