30th October 2014

Our Ref: MK/RD/Q314

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Dear xxxxxxxx

Re: MPL Portfolio Valuation – xxxxxxxxxxxxx

<u>Findings</u>

In the period from 1st July 2014 to 30th September 2014, the portfolio has risen x.xx% in comparison to a decrease in the FTSE 100 Index* of 2.65% and a rise in the UK Gilt All Stocks Index* of 4.27%.

In the period from 1st October 2013 to the 30th September 2014, the portfolio has risen x.xx% in comparison to an increase in the FTSE 100 Index* of 2.51% and a rise in the UK Gilt All Stocks Index* of 5.88%.

Your current risk profile is xxxxxxxx, and we would be grateful if you would complete the attached questionnaire and return in the enclosed pre-paid envelope at your convenience, to ensure that your portfolio continues to be managed in line with your risk requirements.

MPL recently conducted a training day for a client for whom the Pension and Investment Team here have advised upon and managed investments over the past six years.

The investment portion of the training covered a basic outline of the different types of asset classes which have been utilised to achieve the clients' investment objectives, including diversified investment into:

Fixed-interest securities - a loan either to a company (corporate bond) or to a government (known in the UK as gilts)

Infrastructure or Public and Private Sector Partnerships which can be divided into three main groups

- **Utilities**: electricity, gas, communications and water
- **Transport**: airports, roads, seaports and rail
- **Social**: education facilities, hospitals and other community facilities

Commercial property including office buildings, industrial property such as factory's and warehouses; and retail buildings such as shopping centres' and out of town retail outlets and Restaurants

And;

Equity - A stock or any other security representing an ownership interest, in a company. Equity is the residual value of the most junior class of holding in a company assets, after all liabilities (such as fixed interest) are paid off.

It was explained that investment is made into equities primarily with capital growth in mind, although a level of income in the form of a dividend can also be achieved in many areas.

In the case of fixed interest, infrastructure and commercial property sectors, investment is made into these asset classes because;

- **They produce predictable and stable cash flows over the long term;**
- **They can also provide capital growth;**
- **Certain ones offer a degree of inflation protection;**
- **They offer DIVERSIFICATION to the assets within client portfolios as investment returns made by these asset classes are less correlated with the returns from equity investments;**
- **And, VOLATILITY - defined as "the dispersion (or spread) of returns in a given security or market index" - tends to be a lot lower for these asset classes when compared to the returns from equities.**

This reasoning can be used to define fixed interest, infrastructure and commercial property as comprising lower risk investments than equity investing, and why diversified investment into all of these asset classes is made by the MPL investment team for all investment clients of MPL Wealth Management.

The relevance of this approach was highlighted when we went on to ask our clients the following question;

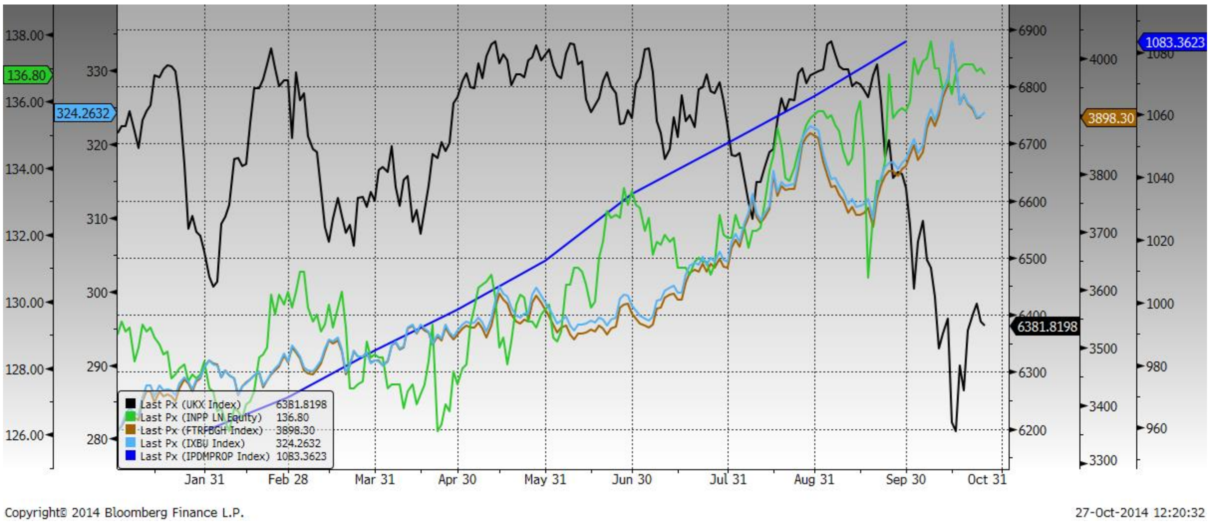
In your opinion, if we asked you "what is the market?" what would your answer be?

The resounding answer our clients' gave to this question was that **THE** market is the FTSE 100.

For reference:- *the FTSE 100 is a share index or an index of equities of the 100 companies listed on the London Stock Exchange with the highest market capitalisation (or the highest value).*

Our next step was to show our clients the following chart:

FTSE 100 Index vs. Fixed Interest; Infrastructure; Commercial Property Investments Jan to Oct 2014



This chart depicts the performance of the FTSE-100 Equity Index (black line) so far this year, in comparison to Fixed Interest investments (brown line – 15year Gilts; light blue line - 15 year Corporate Bonds); Infrastructure (green line); and Commercial Property (dark blue line).

The chart provides a succinct picture of the relative performances for the year to date of several different asset classes contained with MPL client portfolios, and goes some way to account for the performance of your portfolio year to date and why we do not invest in just one or two asset classes.

By utilising this diversified investment approach, we maintain the flexibility to increase or decrease exposure to asset classes we feel may outperform or underperform relatively quickly, given ongoing market conditions.

Referring to the chart above, we can see the impact of these market conditions so far this year: the FTSE-100 has fallen by approximately 5.76% (in capital terms) versus a rise in fixed interest of 14.90% in capital terms, a 6.25% increase in infrastructure in capital terms, and a capital increase of 16.78% in commercial property.

The FTSE-100 is not necessarily “the market” but it is “a market” in which we invest alongside other markets in order to achieve all of our clients’ investment objectives. Whilst we do now and will continue to maintain exposure to this Index, had we invested solely in this Index (or indeed had exposure in excess of a 30% weighting of client portfolios to this index, examples of which we have seen with some of our competitors) it almost certainly would have had a negative impact upon the overall performance of portfolios this year.

MPL Asset Allocation

Fixed Interest

Utilising some of the profits raised in the UK and US equity markets, and in order to hedge our continuing global equity market exposure, we increased our exposure to emerging market fixed interest in Asia and Latin America (after going underweight in 2013), which had suffered in 2013 due to interest rate increases in these regions.

The investment climate has arguably become more favourable here in the UK, as any increase in base rates is likely to be further delayed compared with earlier expectations, which delays will prove supportive of asset valuations. Fixed interest investments in emerging markets as well as in the UK and US for example have outperformed equity markets so far this year as those expectations of interest rate increases in the UK and the US have been pushed back well into 2015 in the UK and 2016 in the US. Expectations last year were that rates would increase by or before October 2014 in the UK and around January 2015 in the US. The revisions to these base rate expectations, along with the recent sharp reversals in global equity markets (due to concerns ranging from a reduction in global economic growth forecasts, Ebola, and deflation in Europe to name but a few), have enabled this outperformance to continue.

Equity

In early September our review metrics alerted us to the fact that our clients' equity investments in markets in the UK and the United States were probably slightly above fair value when considering earnings expectations to the end of 2014 for companies in these regions. We also considered that the recently renewed strength of the US Dollar vs. the British Pound had been fully priced into these markets by this stage. We consequently took the decision to reduce exposure and take some profits in the UK mid-cap, US large-cap, and global technology equity markets. The net result of these sales was that we had a circa 15% cash position within client portfolios going into the fourth quarter of 2014.

The sharp sell-off in global equity markets in the first two weeks of October gave us a good opportunity to redeploy some of the cash raised back into the UK and US equity markets, as value appeared once again in our earnings metrics.

Looking ahead to the end of 2015, we believe that UK companies within the FTSE-100 Index that have exposure to the US Dollar via their operations in the US, will benefit from this strengthened earnings position once the stronger Dollar-based earnings have been factored into their results through the course of this year. This is one factor which should help to drive the valuations of these companies higher next year, and we hope to the further benefit of our clients' portfolios.

We believe that improvements seen recently in the US and UK economies will continue to be reflected in equity market valuations in these regions for the remainder of 2015 and beyond, albeit subject to continued short term volatility and fluctuations occasioned by factors such as the forthcoming UK Election in May, and the ongoing debate concerning the point at which interest rates will (eventually) increase in both the UK and the US.

Comments made earlier regarding the impact of a weaker pound against the US dollar should be noted, when considering the performance of all of the UK equity indexes going forward into 2015, as this will also benefit the UK economy in general (although the situation in Europe could counter some of this).

The falling oil price will also be beneficial to the economy, more so in the US as this is an effective tax cut for the US consumer who will be paying significantly less for petrol and heating oil, giving them more discretionary spending power to utilise in other areas.

All of these factors lead us to remain positive about the investment climate in these areas. Investors will however have to be nimble in navigating the forthcoming investment environment, as the ultra-short term events evidenced over the past three weeks have highlighted.

With kind regards

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*Figures courtesy of Bloomberg