31st July 2014

Our Ref: MK/RD/Q214

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Dear xxxxxxxx

Re: MPL Portfolio Valuation – xxxxxxxxxxxxx

Findings

In the period from 1st April 2014 to 30th June 2014, the portfolio has risen x.xx% in comparison to an increase in the FTSE 100 Index* of 1.37% and a rise in the UK Gilt All Stocks Index* of 1.05%.

In the period from 1st July 2013 to the 30th June 2014, the portfolio has risen x.xx% in comparison to an increase in the FTSE 100 Index* of 6.91% and a rise in the UK Gilt All Stocks Index* of 2.08%.

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

Market review

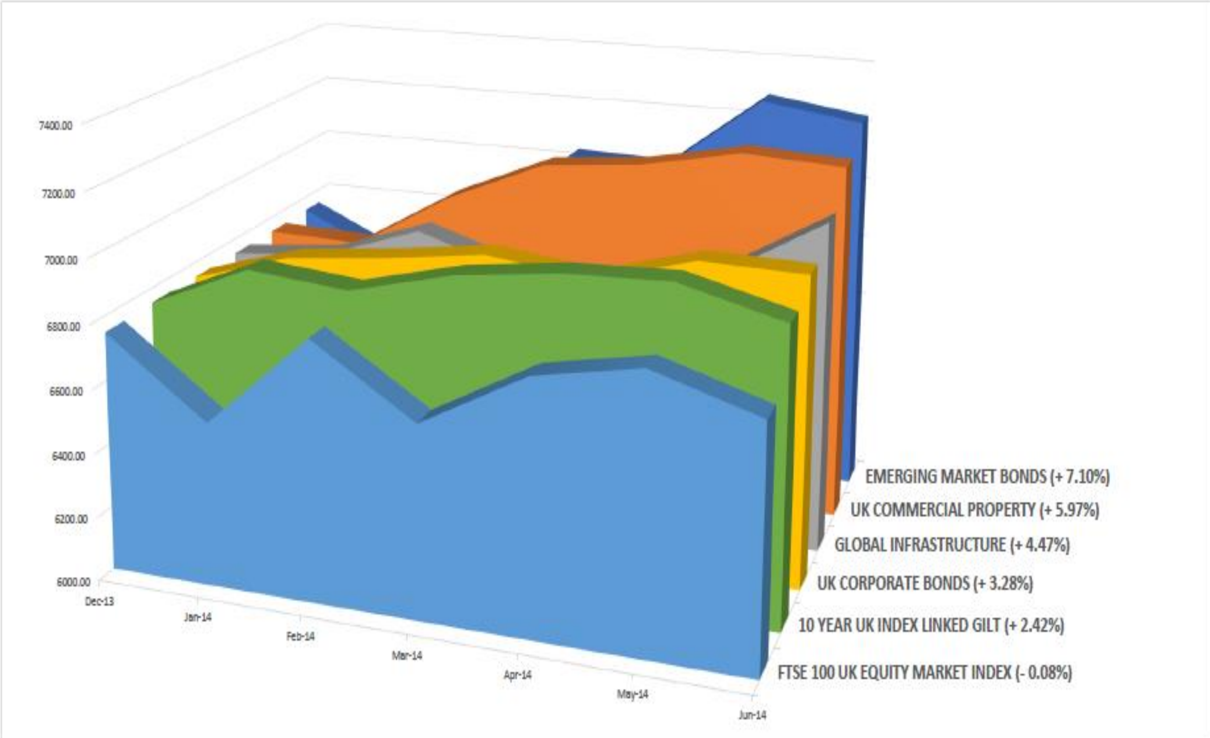
With Quantitative Easing (QE) in the United States and the United Kingdom being downscaled, and with interest rates in both of these nations seemingly on an apparent upward trajectory in the not too distant future, one would have expected to see continued falls in the interest rate sensitive areas of portfolios in these markets.

Somewhat perversely, it is this area of many portfolios which has performed quite well so far in 2014. Perhaps this is due to a realisation on the part of investors that the rise in bond yields (and the corresponding sharp fall in bond prices) already seen and resulting from the anticipated reduction in QE and consequent increases in interest rates, may have been overdone - in the short term at least?

The simplistic chart over the page shows how various (lower risk) asset classes in our diversified client portfolios have performed (in capital terms) against the FTSE-100 Equity Market Index in the first half of 2014.

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

Performance (%) of UK Commercial Property, Global Infrastructure, UK Corporate Bonds, Emerging Market Bonds and the 10 Year UK Index Linked Gilt vs. FTSE 100 Equity Index
1st January 2014 to 30th June 2014.



*Source: Bloomberg, MPL

As can be seen from the above, the UK equity market has been relatively flat in the first half of 2014, mainly due to concerns over the valuation of the larger-cap UK market in general and added to this the strength of Sterling against foreign currencies such as the US Dollar and the Euro, which makes conditions more difficult for UK exporters and results in lowered overseas earnings due to currency translation effects. Consequently, assets which are perceived to be lower risk such as bonds, commercial property, and infrastructure have outperformed the UK equity market.

The lack of urgency shown by the Bank of England in hiking interest rates (which conflicts with comments made recently by Bank of England Governor Mark Carney) has had some impact in the first six months of the year. As a result, real yields across the UK index-linked bond market remain negative across the maturity spectrum, reflecting a belief that there is little or no inflation inherent within the UK financial system, a view with which we not necessarily concur.

The hawkish comments made recently by the Bank of England Governor in relation to the possible timing of the first interest rate increase later this year, mainly to target strongly increasing property prices, have for the short term at least kept the focus upon interest rate-sensitive securities across all areas of investment markets.

Rather confusingly, data published only hours after Carney's hawkish comments were made suggested that Consumer Price Inflation (CPI) in the UK fell to its lowest level in five years this May, coming in at just 1.6%. Although headline CPI increased to 1.9% year-on-year in June, it should still remain below the BoE's 2% target in the short term. The UK economy created jobs at a record pace in the three months to April, sending unemployment figures tumbling.

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Wage growth (a major component of inflation and hence the major risk to inflation over the medium term) has once again fallen back below the pace of price rises, with average incomes rising just 0.7% in the three months to April, and further reducing the threat of a return of inflation in the short term.

Interest rates historically have been used as a tool to calm inflationary pressures generally and not just house price inflation, in much more buoyant economic conditions. We believe that the recent introduction of the Mortgage Market Review mortgage lending regulations may be going some way towards cooling house price inflation going forward, and this coupled with the threat of higher rates made by Carney may prove to be more effective than any pre-emptive monetary policy action in this area later this year.

This interest rate conundrum and the recent out-performance of the lower risk asset classes mentioned above, highlight the continuing need not only for a diversified investment approach, but also makes us wary of a purely passive investment approach.

As mentioned in our previous report, with the removal of the Quantitative Easing program nearing completion in the US (although there is the potential for the European Central Bank to step into the shoes of the US Federal Reserve with its own but probably more limited QE programme) investors can no longer rely upon central bank liquidity to drive financial markets as a whole. They will now have to revert to more normal modes of due diligence and analysis, focusing upon the fundamental as well as the macro factors, which affect the overall valuations of the underlying investments which are held within client portfolios.

Those investors who continue to take a completely passive approach (that is to say an index tracker-led approach) to investment in this normalising environment, may well struggle as investments within all financial markets come to be once again assessed on their individual merits.

We are now focused upon protecting clients' portfolios against exposure not only to UK interest rate-sensitive investment areas, but also looking ahead to the increased political risks we face here in the UK, firstly in the form of the Scottish referendum later this year, and next year with a potential change of government in Westminster.

With kind regards

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