30th January 2015

Our Ref: MK/RD/Q414

XXXXXXXXXXX
XXXXXXXX
XXXXXXXX
XXXXXXXX
XXXXXX

Dear

Re: MPL Portfolio Valuation – XXXXXX.XXXX

Findings

In the period from 1st October 2014 to 31st December 2014, the portfolio has risen x.xx% in comparison to an increase in the FTSE 100 Index* of 0.14% and a rise in the UK Gilt All Stocks Index* of 5.45%.

In the period from 1st January 2014 to the 31st December 2014, the portfolio has risen x.xx% in comparison to a fall in the FTSE 100 Index* of 2.71% and a rise in the UK Gilt All Stocks Index* of 13.42%.

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

UK equity markets have struggled in the last calendar year, with the FTSE-100 Equity Index in particular producing a negative return of -2.71% in capital terms and excluding income, for the whole of 2014. In Total Return terms, that is including both capital and income returns, the Index produced a small gain of 0.74%.

In mid-January 2014 the FTSE 100 fell circa -5.6% over two weeks owing to poor economic numbers released in the United States (which were weather related and short-term in nature). By late February of that year, the FTSE 100 had recovered all of the ground which had been lost, then rising some 6.2% in the subsequent three week period.

As we approached March 2014, comments from Bank of England Governor Mark Carney in relation to the timing of the first UK interest rate increase led to the FTSE-100 sliding once more, on this occasion falling a total of 5.3% by the fourth week of that month, before once again regaining all of the ground lost by mid-May. Inflation data produced shortly after Carney made his comments had indicated a trend of falling inflation, implying that no rise in UK interest rates would occur in 2014 – this was taken as a positive by equity market participants, and was reflected by the bounce-back in value in the FTSE-100.

In the period from May to July, the FTSE-100 drifted sideways, albeit with a slight downward bias. Companies in the index faced headwinds such as the strong pound versus a basket of foreign currencies, which impacted company earnings going forward and their overall price valuation at that point.

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.

In early September, the MPL investment team's review of global earnings expectations showed that annual earnings expectations for 2014 in the UK and US equity markets had been met, and that these markets were consequently trading at a premium to their current value. We sold down a portion of our clients' equity holdings, taking some profits in this area as we took a more neutral investment stance at that time.

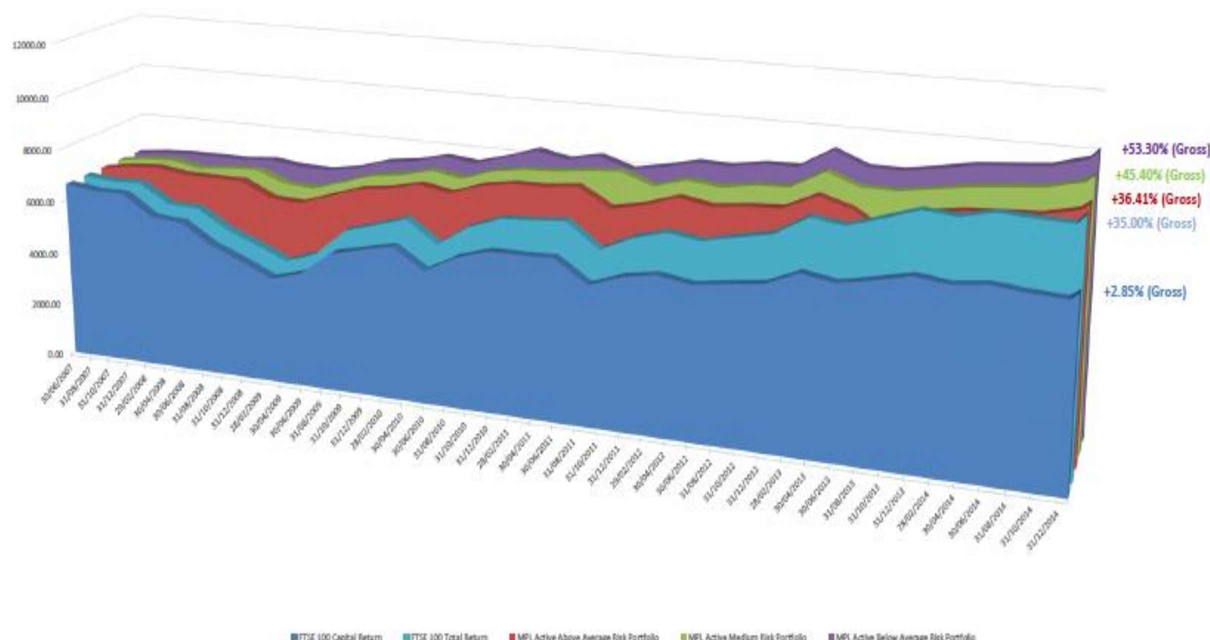
In late September global equity markets, including the FTSE-100, sold off very sharply with the FTSE falling some 9.6% in a four-week period from mid-September to mid-October. Market concerns this time centred yet again on the ending of the Quantitative Easing policy by the US Federal Reserve, together with a new worry in the form of the Ebola virus having reached the United States by this time, these two factors triggering a severe global market sell-off.

Once again the FTSE-100 quickly recovered around three-quarters of the ground lost, as the concerns mentioned above proved both over hyped and short lived, only to fall sharply again and rebound almost equally as sharply within a volatile and memorable four-day spell in December 2014. On this latter occasion the market swings were primarily due to concerns that continuing falls in the price of crude oil, which by then had already fallen over 33% since June 2014, was symptomatic of faltering global growth and would have a further negative impact on the growth of the global economy.

Once again - at the time of writing - these concerns have proved to be short-lived as the FTSE-100 has again recovered all of the ground lost to these short-term events, but the overall result of these gyrations is that this index has made hardly any growth headway over the past 13 months.

This volatile performance of the FTSE-100 Index over the last year highlights once again the fact that a portfolio comprised of diversified but complementary asset classes can substantially help investors to weather difficult investment periods, as opposed to any form of concentrated equity exposure via the FTSE-100.

MPL Below Average; Medium & Above Average Risk Portfolio Performance vs. FTSE 100 Capital and Total Return Indices June 2007 to Present.



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.

The chart above is a simple illustration of the performance of three MPL portfolios with Below Average, Medium, and Above Average risk ratings, against the performance of the FTSE-100 Equity Index in terms of both capital return and total return (total return = income plus capital return), from June 2007 to the present.

Calculated on a quarterly return basis, we can see that the chart lines for the MPL portfolios offer far smoother progressions than those of the FTSE returns shown, which implies that the portfolios shown are subject to a lower level of acute price movements.

To support this view, in the 30 quarter period from June 2007 to the present we have calculated the number of occasions within each quarter over this time frame that there were drawdowns in value, that is to say occasions when the portfolios lost value, in comparison to the FTSE 100 index:

Portfolio Volatility

Drawdowns since June 2007 – 30 Quarterly Periods

Portfolio Risk	Drawdowns	Maximum Quarterly Drawdown
Below Average	8 out of 30	-5.30%
Medium	8 out of 30	-6.10%
Above Average	8 out of 30	-8.60%
FTSE 100 Index	13 out of 30	-13.74%

This implies that positive quarterly returns were made by all three portfolios in 73% of the 30 quarterly periods, and consequently negative returns in 27% of the quarterly periods. This is in comparison to positive returns being made in 57% of the quarterly review periods by the FTSE-100 – and consequently drawdowns in this index in 43% of the quarters over this period.

We expect that the current level of volatility being experienced in equity markets in general will continue through 2015. The decision as to when the US Federal Reserve will increase interest rates in the United States continues to be a major talking point. In the UK meanwhile, the forthcoming general election in May will increase the level of political risk attaching to the market, and with it uncertainty as to future outcomes given that prospects for a hung parliament and the need for coalition government are high. This will have a bearing in the short term not only on UK equity markets, but also on Sterling which may possibly weaken in the uncertain periods ahead of and possibly after the election result.

Not forgetting Europe here, the recent decision by Mario Draghi and the European Central Bank to implement Quantitative Easing on a scale larger than was widely expected, has been received favourably by global investors, as signalled by most European equity indices generally receiving a significant boost in the period after the announcement was made, and this in spite of ongoing concerns surrounding the outcome of the Greek snap election. Nevertheless, the jury remains out as to whether or not the ECB's Quantitative Easing program will succeed in kick-starting a full recovery in the European economy, although it has to be said that Europe was exhibiting some encouraging signs of recovery even prior to the announcement from Draghi and the ECB.

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.

MPL Asset Allocation

Fixed Interest

We continue to view longer-dated (over 5 years) UK Sovereign Fixed Interest (Government Bonds) as an area greatly vulnerable to any hint of rising UK interest rates, as this will decrease the capital value of these instruments. Whilst UK corporate bonds generally could suffer a similar fate in the short term, those corporate issues with both a short term to maturity and an improving credit profile could negate or even escape these falls as and when interest rates increase, as they offer sufficient short term security. Indeed, we continue to view these issues as a good source of income.

Equity

In the US we are closely watching earnings metrics going forward to 2016. Whilst we remain overweight in this area (returning to this stance in October 2014), the benefits of an ever improving US economy and a stronger US Dollar (certainly versus Sterling), are finely balanced against an increasingly full valuation for the US large cap equity market (the S&P 500) in general.

Back in October 2014 we also initiated an overweight stance within client portfolios to both the UK and European equity markets, and the portfolios have largely benefitted from this decision. We think that European equities (which are generally considered cheap in comparison to UK and US equities) in select areas will continue to benefit from the ECB's Quantitative Easing program, hence we intend remaining overweight in this area.

Moving through the 1st quarter of 2015, we will be looking to take more of a neutral stance in the UK equity market (potentially locking in some gains here), as political risks associated with the UK general election start to build as May 7th draws nearer.

With kind regards

ADIAN VAUGHAN
MANAGING DIRECTOR
aidan@mplltd.co.uk

MARK KITSON
INVESTMENT DIRECTOR
mark@mplltd.co.uk

RICHARD DAWES
INVESTMENT MANAGER
richard@mplltd.co.uk

*figures courtesy of Bloomberg

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.