29th April 2016

Our Ref: MK/RD/Q415

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Dear xxxxxxxxx

Re: MPL Portfolio Valuation – xxxxxx.xxxx

Findings

In the period from 1st January 2016 to 31st March 2016, the portfolio has risen x.xx% in comparison to a fall of 1.09% in the FTSE 100 Index* and a rise in the UK Gilt All Stocks Index* of 4.70%.

In the period from 1st April 2015 to the 31st March 2016, the portfolio has risen x.xx% in comparison to a fall in the FTSE 100 Index* of 8.84% and an increase in the UK Gilt All Stocks Index* of 2.61%.

Your current risk profile is xxxxxxx, Should you wish to discuss further then please don't hesitate to contact your adviser.

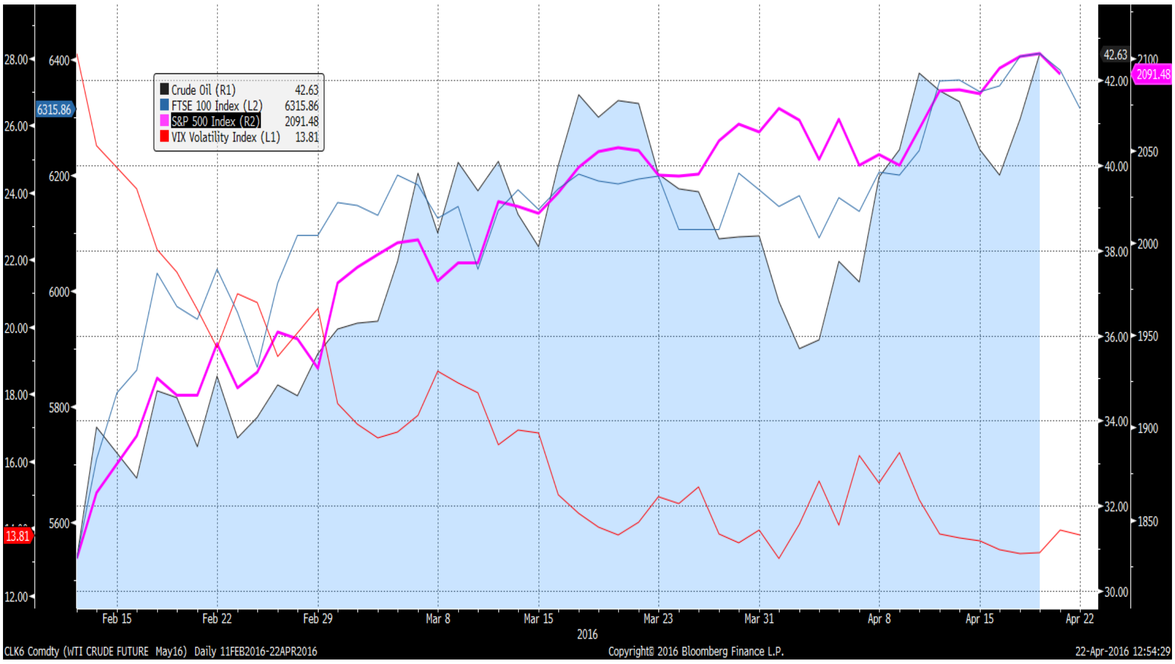
Volatility

The first quarter of 2016, which had started off in an extremely volatile manner for global equity markets in general, has now calmed and we have seen a return to the general uptrend which was experienced in quarter four of 2015.

To recap, early in the first quarter of 2015 market participants became fearful regarding what was perceived as a sharp slowdown in Chinese economic growth (given that China accounted for almost 30 per cent of total expected global growth last year), an ever-declining oil price that could lead to wide-scale sector bankruptcies, and the possibility that the US was headed towards a near-term recession. These then added to concerns that policymakers at central banks are out of ammunition in a world where global growth and inflation are both faltering badly.

These fears have recently abated significantly (albeit perhaps temporarily), as Chinese officials have been able to dispel the notion that a severe slowdown in growth and a significant devaluation of their currency the Yuan is likely in the near term, thus avoiding the perceived distress signal mentioned in our previous letter to you.

CRUDE OIL, FTSE 100, S&P 500 AND THE VIX VOLATILITY INDEX FEB 2016 TO PRESENT



Source: Bloomberg

Oil prices have lately stabilised above US$40 a barrel, and talk of a US recession has faded somewhat as economic data have begun to surprise to the upside after more than a year of weaker-than-expected readings.

However, US inflation is also showing signs of picking up from low levels, as readings on consumer price inflation (CPI), producer price inflation (PPI), and the implicit price deflator for Personal Consumption Expenditures (PCE) have all surprised to the upside, lessening previously widespread fears the global economy was slipping into a deflationary spiral. Hence in the short term at least, the relief that these events had not snowballed into a global crisis entailed that the initial fall in equity markets early in quarter one 2016 had been vastly overdone.

These factors have been the driver of the major rally we have experienced since the market low point in early February, but what in terms of fundamentals actually has changed from the beginning of this year?

Company earnings expectations worldwide but particularly in the US were expected to be lower going into 2016 and whilst this has generally proved the case, it turns out that the downward revisions by analysts were also overdone, and earnings in many cases have exceeded what were admittedly low expectations, and this has provided a further boost to the equity markets.

With China and US concerns having now receded in terms of their perceived threat level, the key issue we continue to face here in the UK and indeed globally is now the EU referendum scheduled for 23rd June 2016.

<u>The EU Referendum</u>

At this stage we do not feel that there has been enough of a constructive debate from either side of the argument, the so-called ‘Brexit’ and ‘Bremain’ camps, to have a completely constructive view on how the British public will vote on this issue.

The sense is that a significant percentage (some 20% or so) of the general public still forms "the undecided" element of the voting populace, and remains unsure about what the key issues are; they are confused, but they want to find out more. The media and proponents of the IN and OUT campaigns have focused upon the potential outcome of the vote, but what was the initial focus of the referendum to begin with?

<u>The Initial Focus</u>

In a speech published during the 2010 to 2015 Conservative and Liberal Democrat coalition government, Prime Minister David Cameron outlined on 23rd January 2013, the three major challenges confronting the United Kingdom in relation to its membership of the EU.

In short these challenges were:

1. Given the single currency combined with multiple national governments conundrum, and the problems stemming from that within the European Union (EU) at that time, the EU leadership was attempting to stabilise and underpin the Euro Currency. This had profound implications for the EU member states such as the UK which were outside of the Euro Currency bloc.

   Hence, Mr Cameron wanted to ensure that the Eurozone had the tight governance and structures to secure a successful currency for the long term, despite this being contrary to the notion that the EU should preferably not continue on its centralising path. At the same time Cameron also needed to ensure that sufficient safeguards existed to ensure the UK's access to the Single Market was not compromised in any way.

2. Taken as a whole, the EU area's relative stagnation on the world economic stage meant its share of total world output was projected at that point to fall by almost a third over the next two decades. Hence the competitiveness of the Eurozone was being challenged across the world, with much of the weakness in meeting this competitive challenge being self-inflicted by problematic EU policies.

3. There was a growing frustration that the EU was seen as something that is 'done to European citizens, rather than being for them or as acting on their behalf'. There was a growing frustration among the European public that decisions taken further and further away from them meant that their living standards were being slashed through austerity. Or that their taxes were being used to bail out profligate and incompetent governments on the other side of the continent.

Note here that at this stage there was no mention of the migration issue in Cameron's argument.

Following the Conservative Party's majority win in last year's UK general election, in a speech delivered at Chatham House in London on 10th November 2015, the prime minister reinforced the three challenges listed above and in the process added a fourth, namely the question posed by the significant migration crisis within Europe.

As a result of ongoing conflicts and refugee crises in several Middle Eastern countries, the greatest movement of people Europe has seen since 1945 has raised serious doubts about open borders and provoked a dispute over sharing the burden, hence Mr Cameron stated in his November 2015 speech, that:

4. "We do need some additional measures to address wider abuses of the right to free movement in Europe". In addition he added, "and to reduce the very high flow of people coming to Britain from all across Europe".

The frustration thus far with the IN or OUT debate process, has been that while there are clear positives in holding a referendum in that this should cause major information flows and resulting debate, leading potential voters to confront the issues and in turn prevent the exploitation of public ignorance by creating scope and space for all of the various arguments to be heard, these higher levels of debate have thus far arguably not been seen in any great measure.

Although the four challenges listed above, which form the basis of the referendum decision every registered voter will face in June are very clear, the economic numbers resulting from a decision to remain within or more especially to exit the EU, as produced by the IN and the OUT campaigns are both highly subjective and involve much estimation – no one can be absolutely sure of the actual near and long-term implications of a decision to leave.

For those registered voters who have personally distilled not only the current issues surrounding this referendum, but also the historical facts associated with this debate, their decision will be more informed and clear, but it seems for a large part of the population at least, a lack of knowledge and a lack of in-depth analysis will result in many votes being cast on a less rational basis, if indeed they are cast at all.

Many if not all of the undecided voters will be reliant upon the provision of an unconfused, uncompromised and balanced debate upon which to base their decision; in the absence of such a debate, the undecided may well vote in an emotive way and given the pollsters' current predictions, these 'floating voters' may well be responsible for deciding whether we remain IN, or step OUT of the European Union.

Market Review

Equities

We have remained largely unmoved in terms of market activity since initiating an overweight stance in US, European and Global equity markets back in September 2015, when equity markets were weakened as a result of the afore-mentioned concerns over Chinese growth and fears over possibly fast-rising US interest rates. At this time Sterling was also at an advantageous level against the basket of international investments that MPL clients had within their portfolios and which we were then looking to add to. Hence, while the start of 2016 saw markets correct back to lower levels, this was only back roughly to those levels where we had initiated our overweight stances in various areas.

With global markets having now largely recovered from the falls seen early in quarter one 2016, together with the fact of the EU referendum now only some two months distant, MPL client portfolios have largely benefitted from the weakness in Sterling (due to Brexit fears) evident since September 2015, given the widely diversified nature of the portfolios and their exposures to several key overseas equity markets.

We perceive now that we are not too far away from fair value in European ex-UK, US, and Global equity markets, when considering company earnings expectations through to the end of this year. Coupled with this view is the prospect that if the UK public vote to remain within the EU (we believe this to be the most likely scenario), the US Dollar and the Euro will be vulnerable to a strengthening Sterling in the short term. Hence we will shortly take profits in certain key areas, and initiate a largely underweight stance in European, US and Global equity markets ahead of the EU referendum.

Fixed Interest

Having been largely neutral on fixed interest over the past 18 months, if the UK public do vote to remain within the EU there may well be a short term boost to UK corporate and government bonds as the credit outlook for the UK as a whole will become instantly more certain. In turn this will enhance the valuation in the short term of UK fixed income markets, which from a tactical point of view we will seek to take advantage of.

Vote to Exit

In the (presently unlikely) event that the UK public votes to exit the European Union, we will move quickly to protect client portfolios, utilising cash and safe haven assets such as US$ T-bills (US government bonds), as we wait for the global equity, fixed interest, and currency market volatilities expected in the aftermath of an Exit vote to subside.

With kind regards

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*figures courtesy of Bloomberg