1st July 2017

Our Ref: MK/RD/Q22017

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Dear xxxxxxxxx

Re: MPL Portfolio Valuation – xxxxxx.xxxx

Findings

In the period from 1st April 2017 to 30th June 2017, the portfolio has risen by x.xx% in comparison to a decrease of 0.14% in the FTSE 100 Index* and a fall in the UK Gilt All Stocks Index* of 1.28%.

In the period from 1st July 2016 to the 30th June 2017, the portfolio has risen x.xx% in comparison to an increase in the FTSE 100 Index* of 12.43% and a fall in the UK Gilt All Stocks Index* of 0.86%.

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

Market review

In the past year we have witnessed a gradual and relatively steady increase in global equity markets from low points seen in late June 2016, following the UK's vote to Brexit, and briefly in early November 2016 following the surprise election of Donald Trump as 45th President of the United States.

In April of this year the election of Emmanuel Macron as French President removed the threat of a Le-Pen led government initiating a potentially highly destabilising process of a French exit from the European Union. This, alongside a better than expected result in the Dutch general election, provided European equity markets with an added fillip, as relief at the preservation of the pro-EU status quo in these key and founder-member states led to Europe's equity markets driving higher, these having been earlier subdued over fears of less than optimum outcomes in these elections.

Moreover, in recent weeks we have seen that many and in fact most of the global companies that have reported their quarterly earnings have either met or exceeded analyst expectations, and this generally positive earnings atmosphere has added further support to recent market gains. These strong earnings have led to some heightened expectations for earnings across the second half of this year, and while we would exercise some caution in this regard, we note that current valuation metrics are now better supported as a result of the generally strong earnings season we have just seen.

We are now approaching the peak summer holiday season and this coupled with a slowdown in earnings reports and other information flows over this period, may result in the markets drifting somewhat from their current buoyant positions. With this in mind we have made some changes to client portfolios, the intention being to reduce the overall sensitivity of these portfolios to potential movements in global equity markets.

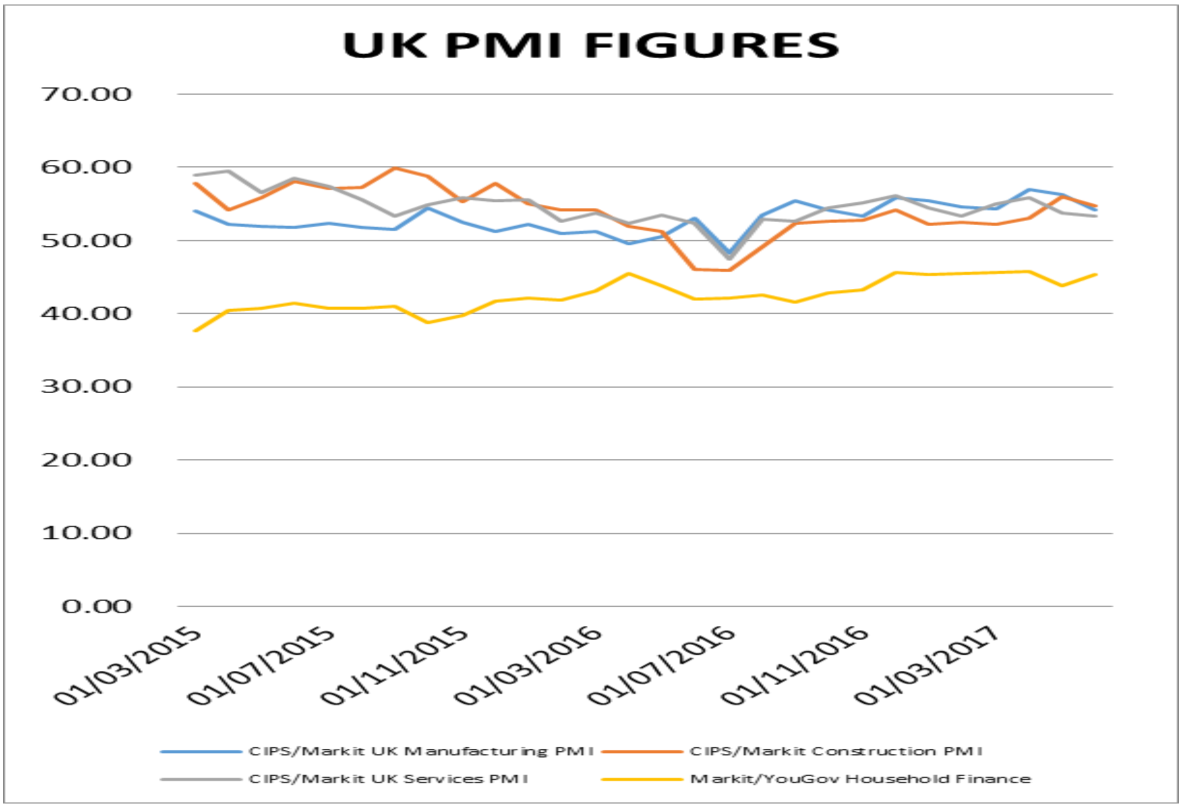
The changes we have made were down to prudence, and we have simply taken some 'cream off the table' as it were and rebalanced portfolios back to their model weights, this also serving to reduce the 'Beta' or sensitivity of the portfolios to future market movements. Whilst we are still quite positive on the outlook for global equities, markets can often display a tendency to drift off through the summer months, and by altering the portfolios as described at this time we are in a position to take advantage in the event that any one factor or another causes markets to drift down further than may be warranted.

Hence we have moved higher up the company structure in the UK, increasing our UK corporate bond exposure and at the same time reducing our UK equity exposure. This also reflects that the UK - for reasons of Brexit, political and currency uncertainties - is not the most attractive of investment prospects at present. At the same time we reduced exposure to the US markets given that they are riding high and that the Trump administration is having difficulty in pushing through with its legislative agenda. To compensate for the reduced UK and US equity exposures, we have increased exposures to global infrastructure, which we see as somewhat immunised against some of the geopolitical uncertainties clouding the outlook.

The principal concerns that we have in respect to the UK equity market are, firstly; that in respect of globally focused UK companies the earnings boost resulting from the sharp fall in the value of the Pound post the Brexit vote, and versus the basket of major global currencies, is now largely priced in. Thus, if in the near future there proved not to be a negative outcome to the Brexit negotiations, the consequent renewed strength in Sterling could significantly diminish the future earnings expectations of companies with extensive foreign revenues and therefore currency exposure. In the case of the FTSE-100 Index of leading stocks for instance, approximately 77% of earnings are derived from overseas activities, while for the more domestically-focused FTSE-250 Index of medium capitalisation stocks, the split between UK and overseas earnings is around an even 50/50.

We note furthermore that the UK consumer remains under pressure from declining wages in real terms, given the fact that moderate inflation has returned and remains above the Bank of England’s target rate of 2%, this as the quid pro quo of Sterling weakness as imports become more expensive and the ever-present current account deficit in the UK remains a drag on the economy. The UK consumer has indeed remained quite resilient, but we note in this respect that maintained or increased retail spending has been based on substantially heightened debt levels with the national savings rate decimated in recent months, making for a less than optimum outlook domestically.

UK Purchasing Managers Indices

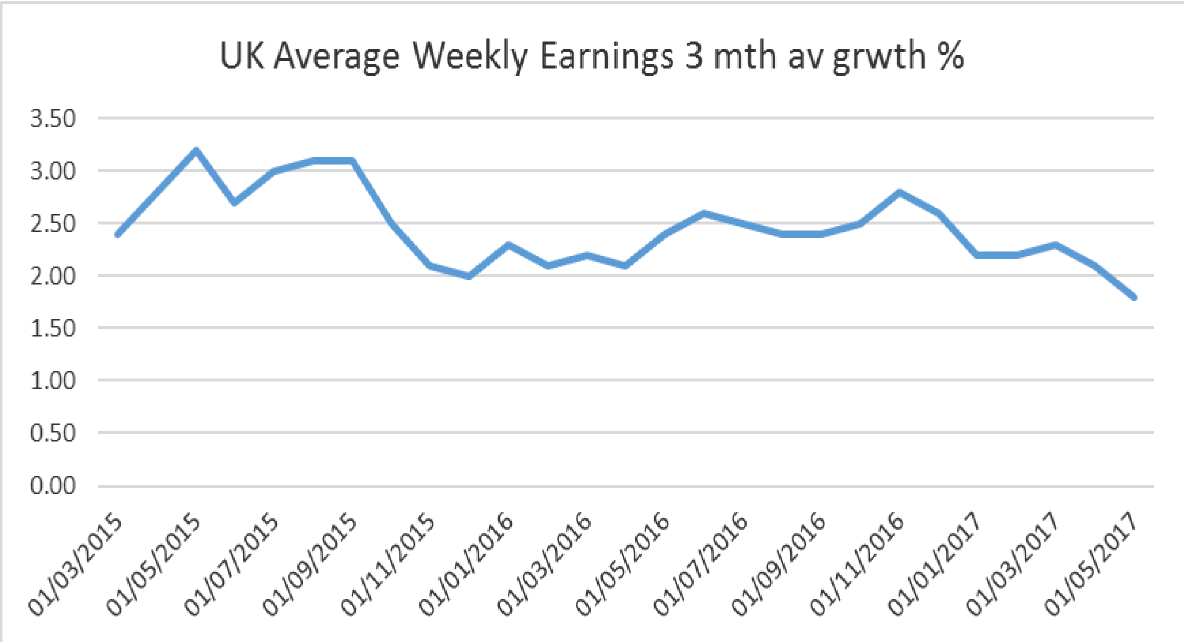


Source: Bloomberg

Evidence of the deteriorating prospects for the UK economy can be seen in the UK Purchasing Managers Indices (PMIs), which provide a powerful and usually accurate insight into the state of economic health of the Manufacturing, Services and Construction sectors. The **PMI**s are based on five major indicators: new orders, inventory levels, production, supplier deliveries, and the employment environment – any PMI figure in excess of 50 indicates growth.

At present the PMI's reflecting these areas of the UK economy indicate that the overall rate of expansion has begun to moderate, in turn indicating that growth rates seen in the recent past and particularly since the Brexit vote cannot be taken for granted, are unlikely to return any time soon, and need to be monitored going forward. Mark Carney stated recently that the Bank expects investment rates in the UK economy to be as much as 20% lower by 2020 due to Brexit-induced conservatism on behalf of company boards, and this cannot be positive for future growth prospects.

UK Average Weekly Earnings



Source: Bloomberg

In particular, UK consumers are as a result of weaker Sterling under pressure from increased energy and food prices, given that much of these are imported, as well as elevated housing costs. They are also experiencing a decreased rate of earnings growth as employers are reluctant to increase labour costs in the face of Brexit-related uncertainties. At this time it is largely low borrowing costs which continue to save the day for many UK consumers, and it is an ongoing concern as to how the many highly-indebted households will ultimately cope with increased borrowing costs, which will inevitably arrive, sooner or later. This does not bode well for the average UK consumer, and suggests that there are potentially recessionary forces in the mix, which need to be considered going forward.

To an extent therefore, we worry that financial markets may be currently priced for perfection. Market valuations have led the way upwards in recent months, and we now need to see earnings catching up with these valuations – in this respect we are encouraged to see the extent to which particularly US earnings have so far in this reporting season come in largely above expectations.

These increased or at least benign earnings are soothing market nerves, with several market indices riding at or near all-time highs, and market volatility measures remaining not far from all-time lows. While the outlook for the global economy remains reasonably benign or even optimistic in fact, there could in the near to mid-term future be some extraneous variable or event that could erupt on the world scene and spoil the benign outlook for sustained global economic growth. Such events could for example prove to be a slowdown in Chinese growth measures and its subsequent impact upon global growth projections, or the nuclear ambitions of North Korea and what measures the Trump administration may take to reign in those ambitions, or possibly a policy error by over-eager central bankers determined to raise and normalise interest rates.

If such were to prove the case, going forward this could possibly present us with an opportunity to again increase the equity component of portfolios, and thereby profit from an increase in the sensitivity of our client portfolios to risk assets once again as we head towards the fourth quarter of 2017. While we are closely monitoring events to try and ascertain the future direction of markets, we believe that due to the actions we have recently taken, we are reasonably well positioned to benefit on your behalf.

With kind regards

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*figures courtesy of Bloomberg