Thank you for your recent call in relation to the charges being applied to your XYZ portfolios. Rest assured, we do take the issue of costs very seriously.

This report, we hope, will go some way to explain the recommendations that we have previously made and why we continue to believe that they continue to be suitable for your ongoing needs.

The Active versus Passive Debate.

You have recently learnt of the launch of Vanguard's new direct to consumer platform into the UK. This offering, we understand, is very cost effective and should this be the route you wish to explore further, we would be more than happy to assist you.

For months now the media have been debating the merits of active investment management versus passive investment management, with a clear bias toward passive management.

Passive investment management seeks to replicate an index and in doing so requires little or no human intervention making the charges very cost effective when compared to active management.

Active investment managers research different countries, industries, market caps, and individual companies and so on, to arrive at a final portfolio. The press has highlighted the fact that many active managers have failed to beat either their benchmarks or passive peers and this is largely due to every market in the last 5 years having experienced positive returns. Over the page is the historic performance of a sample of some of the best known market indices over the past 5 years.

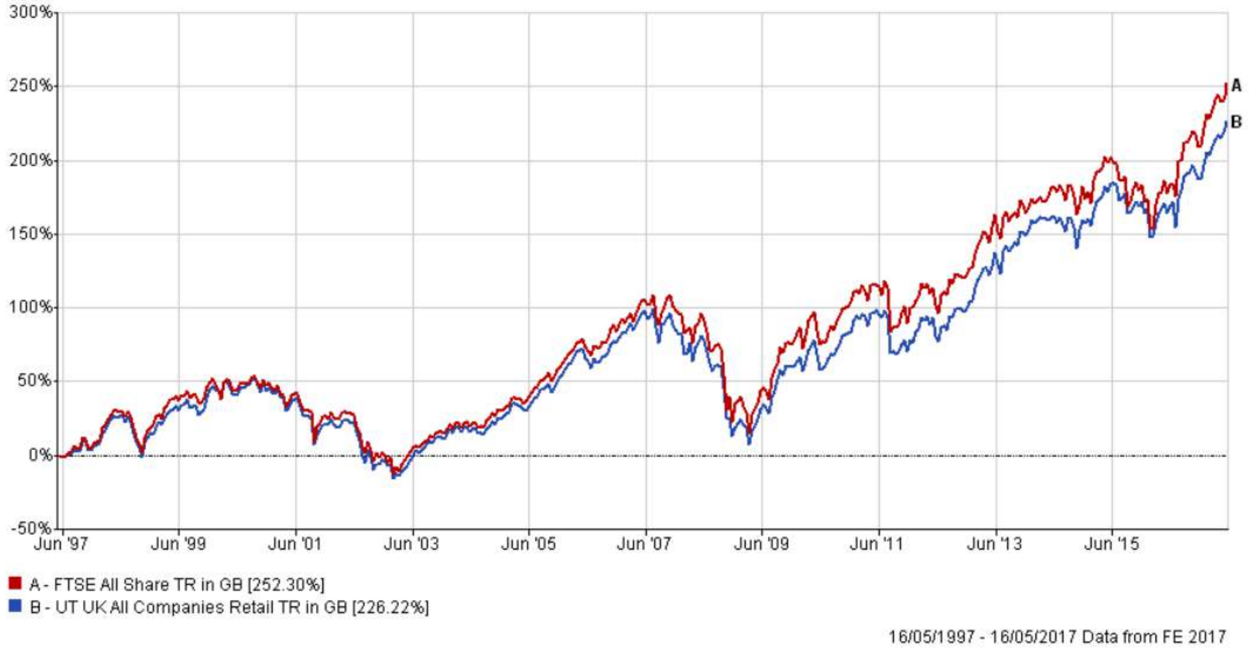
As you can see, even the worst performing index in our selection over the last 5 years has returned 58.42%

When active managers allocate, they have to establish the level of risk being taken for the level of potential reward. An active manager will typically have an estimated upside and downside scenario for each stock and upon reaching either of those points, they would re-assess their thesis for purchasing that stock. They then decide whether or not to continue to hold or sell. Typically, it would result in the sale of the stock as the risk of continuing to hold it would outweigh the potential returns. A passive fund will hold the stock throughout the market cycle.

The opposite of this is also true though; if a stock has reached its lower target the manager would sell the asset to limit the losses.

In essence, what the active manager is doing is limiting both the gains and the losses in a controlled manner with the aim of delivering a "smooth" journey for the end investor.

Below is a chart of the IMA UK All Companies Retail Sector, which is the average performance of all the funds available in the UK that select stocks from the FTSE All Share, versus the FTSE All Share over a period of 20 years period:



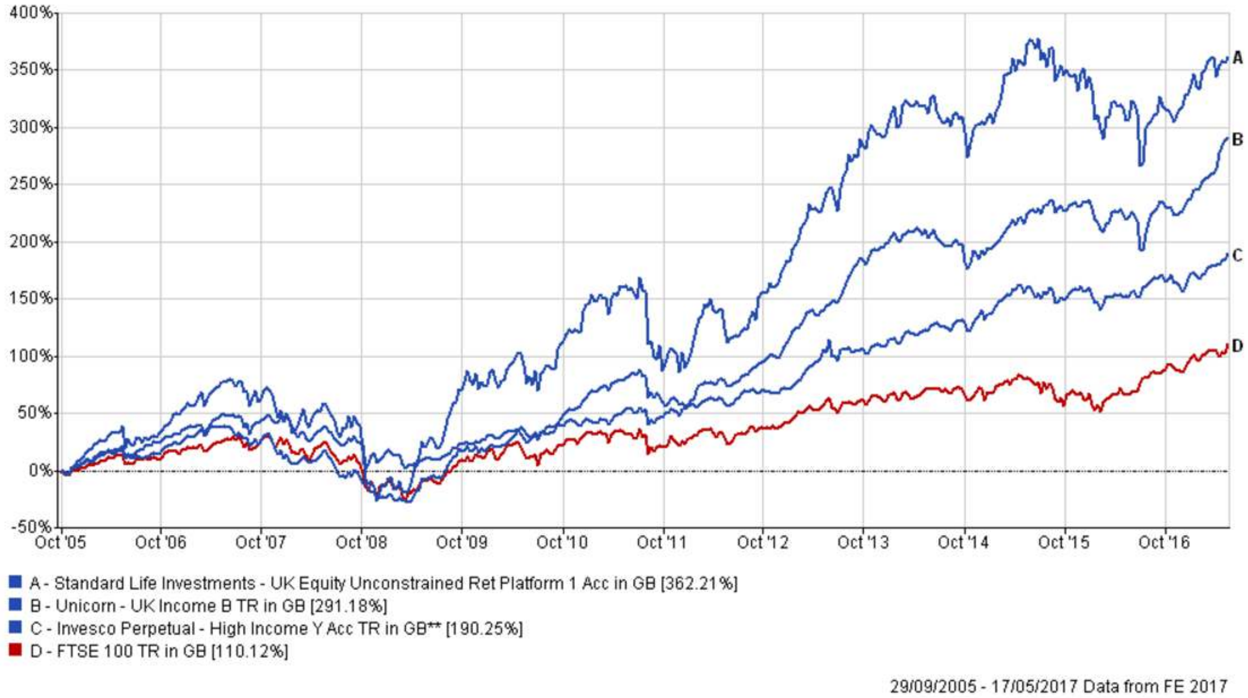
The passive proxy outperforms the market average funds over the long term.

If we look at these same two assets over the past 5 years, the results are as follows:

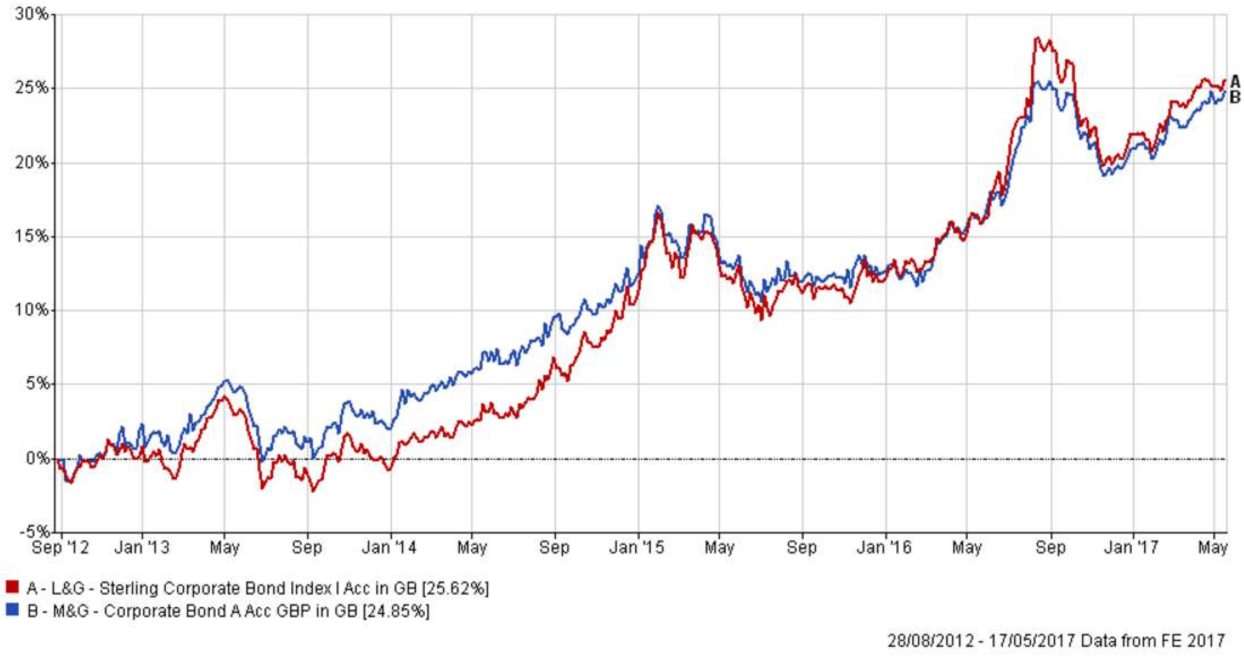
The results are switched largely because the active managers do not participate in all of the falls.

The following charts provide some examples relating to your individual holdings.

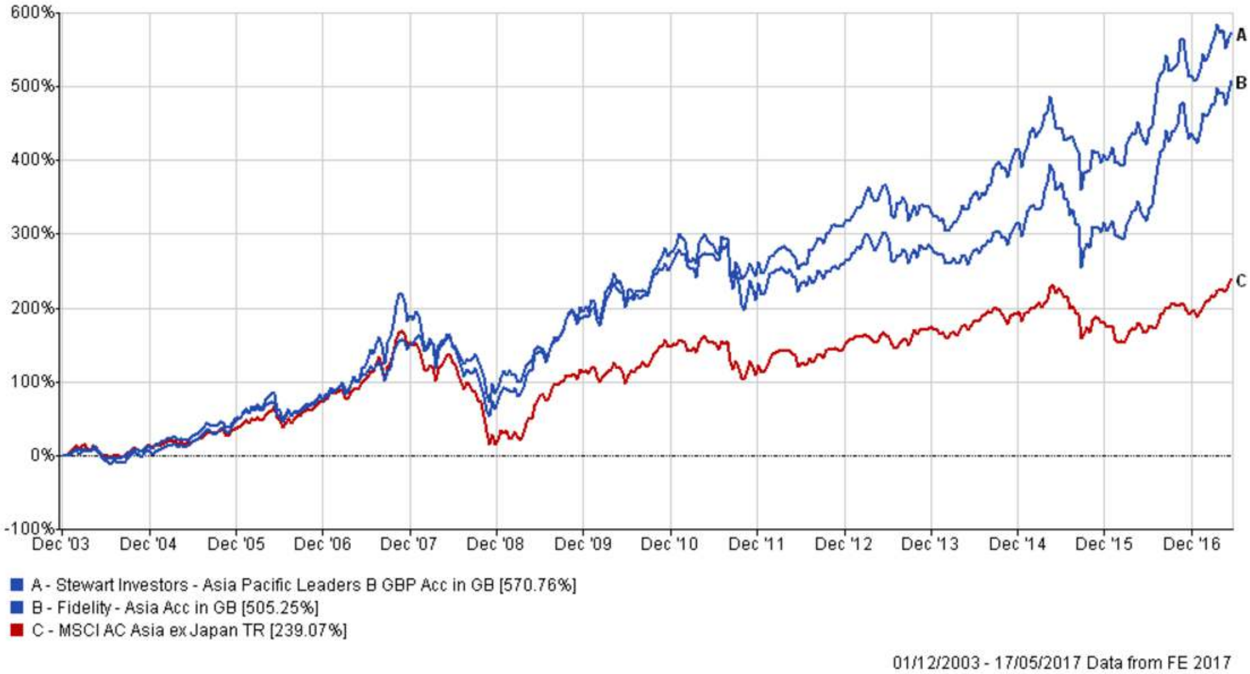
UK



UK Sterling Bonds



Asia Ex-Japan



US

It is in times of market turmoil that you want active managers to be seeking out strong companies to invest in whilst ignoring the weaker others. This is not to say that an active manager has a crystal ball, but what we do know is that interest rates can only go one way, up.

If we look now to explore the idea of bonds, bonds are an "I owe you" or a loan; e.g. I loan a company money and in return they provide me with a return (coupon) and the capital back at the end of the term. At the moment, with interest rates at all-time lows, the rate at which companies can borrow money is low and therefore if a company wants to raise finance by issuing a bond they do not have to offer attractive rates of interest. For example if ABC Company issued a ten year bond with an interest rate (Coupon) of 2.50%, the company will have obtained low cost finance and an investor a better rate of return than they are receiving from a bank, everyone is happy.

If however, the bank interest rates go up, for arguments sake to 3%, the investor feels hard done by as they are receiving 0.50% less than they would in the bank and have the added risk of the company not being able to make repayments. This typically would result in the investor looking to sell the bond to get the better rate from the bank. Bonds are tradable assets, meaning you can buy and sell them, they start at 100 pence and go up and down in price in-line with supply and demand.

Rule 101 of economics, if supply outstrips demand, the price goes down. So with everyone wanting to sell bonds that are not achieving the same as a bank, the value of those bonds fall.

This risk cannot be mitigated through passive investment as through their very makeup they buy the entire market, regardless of political and interest rate uncertainty.

Bonds also have different risk categories in the same way that lenders make decisions about consumers. High risk companies will offer a higher yield (Coupon) than a lower risk company. The extra yield is the reward for the additional risk taken. Active managers will have a sense of which companies will be able to make its payments and which will not and invest accordingly, whereas a passive investment will purchase the entire index, We liken this to purchasing a bowl of fruit, half of which is inedible; you would not do it.

In conclusion, we believe that passive investing has its place and we will continue to use it within our client portfolios where we consider active management cannot deliver the additional reward for the price being paid.