

S U C C E S S I O N

Platform based Discretionary Model Portfolios

Managed by Evercore Pan Asset

18th November 2011

Model Portfolio Update

Changes to Succession Models

The Eurozone crisis lurches on. Earlier this week, the installation of 'Eurocrat' governments in Greece and Italy gave the impression that the Eurozone leaders were winning back control. However the markets gave them no respite and within a day or two had pushed Italian and Spanish government bond yields back into the danger zone and even increased French yields.

The extraordinary thing about this crisis is that it eminently solvable in the short term, even if it is more intractable over the longer term. If the ECB agrees to buy enough bonds to refinance the weaker Eurozone countries in return for their new austerity measures the problem will go away, at least for the time being. German fear of inflation has prevented this so far but they may relent if sufficient austerity measures are taken by other countries

This uncertainty makes it hard to manage investments. Equity valuations are generally attractive, there is still plenty of growth in much of the world – the US has recently produced a stream of positive economic numbers – and although the UK and Eurozone seem to be destined for little or no growth next year it is probable that this risk will be met with further interest rate and monetary easing designed to boost demand and growth. A further interest rate cut is likely in Europe in the near term and the UK government will probably have to announce new growth measures. President Obama faces re-election in 2012 and will also want to keep the US economy moving forward.

These factors would make us more positive about risk assets at current levels, were it not for the persistent threat of European banking collapse which could result from a general Eurozone sovereign default. As things stand, the two main possibilities still remain, a positive outcome which would accompany a Eurozone resolution and the negative outcome of a Eurozone breakup – although even this outcome would probably spur a deluge of measures by individual countries to try to repair the damage and stimulate growth.

Therefore although uncertainty has reduced, it would not be appropriate to be overweight risk assets. However, there is a sufficient likelihood of some sort of fudged medium term Eurozone resolution that it would not be wise to be underweight risk assets either – even if this would be the most precautionary approach.

The model portfolios have no Eurozone exposure (apart from Income which now has a small holding for yield reasons) and the risk assets are concentrated in the stronger economic regions of the US and the Pacific. The yield on most risk assets is now above government bonds and far higher than cash. We have therefore taken the opportunity of market weakness following the euphoria of last week's putative resolution of the Italian and Greek debt crisis to bring the risk weightings in all portfolios back to a neutral position. To do this we took the following action:

Succession Defensive

No action was taken. The Growth/Defensive mix is currently 11:89, close to the 'neutral' weighting of the Defensive Model.

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Succession Cautious

The US equity position was increased to reach a total exposure of 6.5%. This was implemented through introducing the HSBC S&P 500 ETF, a cheaper alternative to the existing iShares ETF, and the Credit Suisse Nasdaq ETF, to gain exposure to the technology index. Growth assets were also boosted by the addition of Vanguard Emerging Market Index Fund and increasing the existing position in iShares MSCI Far East ex-Japan ETF. The new Growth/Defensive mix stands at 30:70.

Succession Balanced

The US equity position was increased to reach a total exposure of 8.5% of the portfolio. This was implemented through introducing a 2% holding in the HSBC S&P 500 ETF, a cheaper alternative to the existing iShares ETF, and 2% in the Credit Suisse Nasdaq ETF, to gain exposure to the technology index. Growth assets were also increased by the addition of the Vanguard Emerging Market Index Fund and increasing the existing position in the iShares MSCI Far East ex-Japan ETF. The new Growth/Defensive mix stands equal at 50:50.

Succession Growth

The US equity position was increased to reach a total exposure of 11.4% of the portfolio. This was implemented through introducing a 2% holding in the HSBC S&P 500 ETF, a cheaper alternative to the existing iShares ETF, and 2% in the Credit Suisse Nasdaq ETF, to gain exposure to the technology index. Growth assets were also increased by the addition of the Vanguard Emerging Market Index Fund and increasing the existing positions in the iShares MSCI Far East ex-Japan ETF and HSBC MSCI China. The new Growth/Defensive mix stands at 65:35.

Succession Adventurous

The US equity position was increased to reach a total exposure of 14.4% of the portfolio. This was implemented through introducing a 2% holding in the HSBC S&P 500 ETF, a cheaper alternative to the existing iShares ETF, and 2% in the Credit Suisse Nasdaq ETF, to gain exposure to the technology index. Growth assets were also increased by the addition of the Vanguard Emerging Market Index Fund and increasing the existing positions in the iShares MSCI Far East ex-Japan ETF and HSBC MSCI China. The new Growth/Defensive mix stands at 80:20.

Regards,

Evercore Pan-Asset Investment Committee

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