

# ECU's Summer Reception

*Thursday, 9<sup>th</sup> July 2009*



## Summer Reception

*Edited speeches*

**The Royal Geographical Society**

*1 Kensington Gore*

*London SW7 2AR*



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Speeches given at The Royal Geographical Society (edited)

9th July 2009



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**Charles Manduca**

*ECU's Chief Executive Officer*



Ladies and gentlemen, good evening. My name is Charles Manduca, and as ECU's Chief Executive I would like to extend a very warm welcome to all of you this evening.

ECU is in its 21<sup>st</sup> year. Since taking over the role of Chief Executive at ECU at the beginning of this year, I have made a number of changes. The business has been restructured so that it is forward facing and sufficiently strong to deal with the current economic conditions in line with two of my key objectives of ensuring that ECU is an intensely client and performance focused business. I believe this has resulted in improved investment performance. I intend to recruit additional top level executives to further strengthen the company and announcements will be made over the course of the next few weeks and months. We will of course keep you informed via our website, which is updated more regularly now with company news, the investment team's media appearances, the company's investment views and product launches.

Our aim is to recruit the best possible professionals both in investment management and client relations, to offer our clients the highest quality service. This is an era of debt management. Debt management has historically been our main business focus and area of expertise, we have been the world's leading company in multi-currency debt management solutions for over two decades and we are totally focused on remaining so.

The recent global financial crisis has caused all of us widespread disruption and challenges. We have made significant improvements this year within ECU to prepare the company to meet those challenges and we believe that our performance in 2009 is evidence that these changes have made a difference and that we have been successful in managing money amidst heightened volatility, uncertainty and difficult market conditions.

We are also introducing a number of new asset management products to help our clients with a low interest environment and to take advantage of the current opportunities in the markets. This range of asset management products will afford investors access to our improved investment performance for the first time. We're also launching a global macro hedge fund which will trade in the major markets including equities, precious metals, commodities and interest rates as well as FX. We look forward to discussing these products with our clients in the coming months. I would like to thank you all very much for coming tonight and for supporting us. We greatly value our relationships with you.

I'd now like to hand over to Philip Manduca, ECU's Head of Investment. Philip and two members of our Investment Committee are going to spend a few minutes talking to you about their views on markets and about our investment process.

## Philip Manduca

*ECU's Head of Investment*



Once again, thank you for coming. I am the Head of the Investment Team at ECU having assumed sole responsibility and control for investment management in November 2008. It's great to see so many of you here and we recognise that it's a wonderful opportunity for all of us with a common financial interest to meet together. These are very uncertain times, unprecedented in our lifetime and there are so many issues and problems that have arisen that touch all of our lives in many ways.

What is the next year or two going to look like in the major economies and global financial markets? There are several big questions occupying the minds of all of us as they touch both our professional and personal lives deeply. We therefore thought it appropriate to spend a few minutes giving you a brief summary of our current thinking on the future direction of the world economies and markets. You already hear regularly on investment perspectives from Neil MacKinnon on his daily blog, which is a great read in the morning, and you hear enough from me via the monthly newsletter and the mid-month conference call.

We therefore thought it would be very helpful for you to hear directly from two members of our Investment Committee, which was established in 1992 and is largely an external advisory group of top-level specialists in markets and economies exclusively advising the ECU Investment Team at regular intervals. George Magnus will speak about his expectations for the economy. George is the Senior Economic Advisor at UBS Investment Bank and was previously their Chief Economist for seven years. He was formerly Chief International Economist at UBS and Head of Fixed Income Research at S G Warburg.

Shortly thereafter, Robin Griffiths will give us his view on what the technical charts are suggesting will be the future direction of key markets. Robin is Chief Technical Strategist at Cazenove Capital. He was formerly Head of Asset Allocation at Rathbones and Chief Technical Strategist at HSBC Securities.

Subsequently, I've been asked to say a few words about how we manage debt and asset mandates at ECU in an investment process that has contributed to the strong risk-adjusted profits seen to date in 2009. We're currently up over 6% year to date in both our euro and sterling debt mandates, but as we will discuss, these returns tell less than half the story.

**George Magnus**

*Investment Committee Member*



**Senior Economic Adviser**

*UBS Investment Bank*

The Royal Geographical Society opened its doors here at this great venue for the first time in 1913, which for many of you may resonate as the year which also saw the birth of the Federal Reserve System in the United States.

The events leading up to the creation of the Federal Reserve, as some of you may know, comprised a very severe banking crisis a few years before and the events that followed it were characterised by unprecedented economic, political and institutional upheaval. So we're no strangers to this sequence of financial crisis and upheaval and it occurred again in the 1930s, again after World War II, again after the inflation of the 1970s, and this current financial crisis I think too is likely to be followed by a period of great upheaval. So I'm afraid to say that when dismal scientists are asked to pontificate about the dismal science at the moment, we make for a really melancholic bunch.

And I'm not going to surprise you in this five minute *tour de raison* of the economic outlet, subject to two caveats, which may lift your spirits afterwards over a drink perhaps. The first is that I don't think we're going to end up with a re-run of Japan's lost decade – or decades I should say – though obviously that remains a major risk, and tough as the next few years look – and I think the search for new drivers of economic

growth in emerging markets, new technologies and changes forced by rapid aging will bear fruit eventually – it may not be something that we'll see very obvious signs of in the next one to two years.

So for now, I think we can be thankful at least that the risk of systemic failure in the financial system has receded, which is not to say that all banks are safe, nor that the risk has gone completely, and some countries notably in the Euro area for example have not done enough to recapitalise their banks. Most, including those in the United States, do not have sound enough plans yet to get bad assets off the banks' balance sheets, although we may have succeeded in our own version of doing that through asset insurance for two banks.

But no countries have embarked yet on the kind of triage that's necessary to create a new viable banking system in which the banks can actually come off life support and I think Alistair Darling's white paper yesterday, which some of you may have had a chance to read about in the papers this morning, doesn't quite bite the bullet on this at all.

In any event, fixing finance is going to take a long time, certainly measured in years rather than quarters and the same is true of fixing households. Household de-leveraging has barely begun as suggested by debt to income ratios, but the early signs are quite clear in this country as well as in the United States that people are saving more and starting to repay debt. These trends will continue too, meaning that in the absence of new job creation there isn't going to be much income growth or spending growth of any significance. So these de-leveraging and debt repayment trends in the banking and household sectors will weigh on the economy I think for quite some time. You can't get a sustainable expansion out of an inventory change and out of temporary fiscal measures which is what today's green shoots debate is really all about.

And you can't finance capital spending, construction spending and durable goods purchases with credit because either you don't want it or because the banks won't lend it to you, or only on very, very penal terms. The only other way you can actually finance an expansion in the economy is through a turnaround in employment and wages and profits and these I think will not really show any marked pick-up until 2011 at the earliest, so it's going to be anaemia at best over the next couple of years.

And of course if this wasn't enough, we're now starting to lose another of our big growth drivers of the last twenty five years which are the baby boomers. Roughly 20 to 25% of the population of western countries who boosted the labour force and economic growth in the last twenty years – especially baby boomer females who joined the labour force on an unprecedented scale – are beginning to head off to retirement and low fertility rates mean they're not going to be replaced fully or indeed at all in some countries.

So this unique – and it is unique – change in the age structure of our societies if unaddressed also stands to be a drag on economic and financial asset performance. In general, I'm not saying there aren't very exciting opportunities in particular companies and sectors, but I'm just looking at the general market trends.

More immediately, let me say a couple of things just to complete the picture in five minutes. Many people are worried that unprecedented monetary and financial stimulus will lead one way or another either to a solvency crisis for the government and/or unacceptably high inflation. So public debt and fiscal credibility are indeed a worry, though perhaps a much exaggerated worry when you think that private sector borrowing and spending has pretty much gone into hibernation, so effectively the government is just displacing what we would have been doing or were doing in the last few years. But we surely will have at least one, possibly two parliaments in which the next government or governments will have to reduce the fiscal borrowing and fiscal debt quite substantially through some combination of expenditure cuts broadening the tax base and raising tax rates, and not just for upper income groups by the way, because that won't do anything on its own.

In the UK we have had some form here. Public debt was over 100% of GDP in this country for the 50 years before 1964, peaking

at over 250% just after World War II. And of course, we lived to tell the tale, but we did it in the context of both fiscal surgery from time to time and of course most important of all, sustainable economic growth. So I would submit that over the next three to five years we're either going to have a stabilisation of our public debt from the next government or we're going to end up like Japan with a rising debt to GDP ratio on an enormous scale, which can only be tolerated if we have the introduction of exchange controls, which is somewhere we really don't want to go. So I'm going to make the presumption that we are going to get on top of this because there's a public consensus that it should happen.

Finally, much higher inflation doesn't seem terribly likely to me in the face of what are very, very strong deflationary forces. Or – in the face of what promises to be two or three years at least of very weak demand in the economy – that seems to be very much an economic consensus for what it's worth. It is possible that we could have inflation from a completely different source as we did the 1970s which is when supply begins to squeeze up either because of lower trend growth, lower productivity growth, higher capital costs, capacity destruction, protectionism or import tariffs and all of these things could create an inflationary environment, although it wouldn't be necessarily the most likely outcome today.

This would be very sensitive for central banks because monetary policy typically acts only on demand not on supply. So would central banks sit on this type of inflation if by doing so it means that unemployment which would already be high could actually rise even further? Tough call. I think on balance the answer is yes, but I'm not absolutely convinced. Political pressures on central banks are already on the increase and the potential for more scraps about monetary and regulatory issues is very high for the simple reason that the financial crisis has sort of turned central banks into the off-balance sheet agencies of the government. The Japanese experience of this in the 1990s suggests that independence under these circumstances could become academic quite quickly.

Philip asked me to conclude with a couple of what he called 'Black Swan Events', so I assume that a Black Swan Event is something which markets cannot price or price adequately. So I'll offer you three, one good and two bad. One good Black Swan Event would be, say a decision by China to announce a timetable for the abolition of capital controls and an appreciation of its currency, which I think is one of the great anomalies in global currency markets. I'm certainly not expecting that to happen anytime in the next eighteen months, but nevertheless it would qualify as a Black Swan Event.

The two bad Black Swan Events; one would be I think a rating agency downgrade of Triple A countries like the UK and the US not least because a lot of very, very important investors would then not be able to hold our debt or American Treasury debt, and I think that could trigger some very, very nefarious circumstances.

And a second, and perhaps even more serious Black Swan Event, would be the fragmentation of monetary union in Europe. In the event of further problems, banking problems and deflationary pressures in not the largest countries, but larger countries (so not Ireland and Portugal and Greece, which certainly welcome the umbrella of the EU, under which they can try and adjust to these very difficult circumstances) but countries like Spain and Italy which would not be as vulnerable as smaller countries, but have the shelter of the umbrella and certainly not as strong as France and Germany, so I think that could be quite a serious event if that would happen.

Finally then, to return to the main theme, we're experiencing a collusion of cyclical stress, structural change that's leading who knows where and a policy response that has been appropriate, but now needs new definition and clarity especially as regards the kinds of exit strategies that will be taken and the stabilisation of public debt. This needs to be sorted out within the next twelve to eighteen months. The outcome over this period I think will be a drop in the long-term growth rate that drives earnings and multiples in equity markets, an eventual, but nowhere near imminent rise in long-term interest rates across the yield curve, and I think one thing we can take for granted is much, much higher market volatility.

**Robin Griffiths**

*Investment Committee Member*



**Chief Technical Strategist**

*Cazenove Capital*

With that volatility of course it'll be all the more necessary to have active fund management advice, you won't be able to take the passive stance. I'm going to try briefly to give you my global overview of world markets and currency trends, and to do that briefly without visual aids is quite tough. It involves forecasting the future of some economies and my favourite economist was J K Galbraith who was famous for saying, "The only reason why anyone ever makes such a forecast is you're trying to make astrology look good".

There are of course only two types of people who attempt to do this, the first type know that they don't really know what's going to happen in the future, and the second type doesn't know that they don't really know what's going to happen in the future. I'm in the first category, but I bring to it the blending of two disciplines, the first is technical analysis and the second is economics and specifically from economics, the work of Joseph Schumpeter published back in the thirties, of course standing on the shoulders of earlier work, which is that there are cycles in economic activity. Of course there are several lengths of cycle and you have to follow their interaction in a complicated way and I have spent my life trying to work out and how would that look on the chart when we do that?

The best analogy I can give you is of a Russian doll, I'm sure you know what it looks like, a big bottle with a picture of a doll painted on the front, but you can open it and inside there's another one slightly smaller and then you open that and inside that there's another one slightly smaller, and of course when the whole thing is assembled you only get to see the outer doll. Well these trends work like that, the dominant trend is always the longest, biggest one, and it frequently appears that the little trends inside aren't working. When you back test it though, you should always assume that they are there, and they are working. They just get dominated from time to time and that is the rule, the long-term trends dominate. Well, I call the really long-term trends secular trends. They persist for very long periods of time, they're almost like tectonic plate movements of the world economy.

And most people have got the story by now the world is reverting to its mean. What is the mean for the world? Well, for eighteen hundred of the last two thousand years, the two biggest economies were China and India. That's the norm for this planet and we're going back there. And the stock markets will discount that trend and probably get there too soon, but that is basically the tectonic plate movement. And we're not going to get there in a straight line, that sort of trend never goes in a linear fashion, it's much more complicated than that, it's a journey with twists and turns and potholes. But we're moving into an Asian-dominated future.

Just to put some scale on that though, for all the growth that it's had to date, China is still a small economy – a quarter the size of America, at the very best. If America doesn't grow at all and China keeps up its recent growth, we're talking 16 years down the road before China's number one, and we're probably talking 25 to 30 years before India's number one. In terms of the stock market, India may become the biggest stock market because it's a democracy and there are various other reasons that emphasise the stock market in India may outperform the economy.

But I think we're already moving into Asian-dominated world and basically the slow fading away of the US hegemony. I mean, we're British and we were once the superpower, now it's passed over to America and we're now moving into an Asian world, and I don't think anything can stop that trend. Of course that will affect currency markets. It goes without saying that over a very long period of time, the trend for the dollar is downwards, but at the moment it is still by far the world's dominant currency, we're not going to abandon it overnight. So you will get regular rallies, significant tradable rallies within the background of a long-term downtrend, and any major panic right now would be another Black Swan Event. At the moment nobody is in a position to take over the role of being the world's dominant currency.

The next cycle within our Russian doll comes from Schumpeter's model, and briefly there's a ten year cycle and there's a four year cycle and we call the four year cycle the presidential election cycle. These two fit perfectly together every 20 years but other times they get out of sync, and at the moment both the ten and the four year cycle are in the negative phase.

And then there's one more cycle which is annual seasonality. Most people know it: sell in May and go away. Well, we're past May and we're in the going away phase. We should've done the selling already. When you do back testing on the seasonal deviation, it comes in three parts, sell in May and go away is very reliable, so about eight times out of ten you can expect it to work. The middle bit is you do sometimes get a midsummer rally, but actually that's about a 50-50 bet, and if the ingredients for it being not a very good midsummer rally anyway, it hardly passes the 'so what' test, when you say if there are risks involved for taking this reward, forget it basically. And then the nine and a half out of ten bet is you'll get a fall down to a late October low. So my call to you is the rally from the March low is over, we're in a down phase, forget about a midsummer rally, take a holiday, make sure your capital is preserved and is ready to buy a dip late October, and on most stock markets they're all correlated. As you know, for years people did diversification of risk into non-correlated assets, it works just fine until you come into something called a bear market and they all fall like a stone together, they're perfectly correlated at one again. So we know that there's no point being too clever by half here.

There is a sort of plan A and plan B. My preferred plan is the best case scenario that markets fall now to an October low which retraces a half to 60%, actually 61.8% to a chartist: a Fibonacci ratio of what it had risen from the March low. It will then make a higher low than the March low this October. On that, you can buy that low and you will get a run-up through the end of the year into the next year, and by that time people will find some more shoots, "V" shaped objects and shoots will be appearing all over the place. As you know, there have been no shoots up until now, that was an illusion, no green shoots, purple shoots, polka dot or khaki shoots, there aren't any at the moment. But there will be by then in this best case scenario. But that rally, that recovery will not create any new employment. As you know, businesses like British Airways have asked half of you to take a holiday, to go away for a year, you might be allowed to come back, but they're not going to hire anyone else, and as we get into next year when people realise it's not a very good recovery anyway, and there's no more employment. Actually the unemployment figure is far higher than the American lying statistics have been telling us, there won't be, and they'll realise it'll fade, it'll come back down.

And then my final low actually comes later, actually in 2011, late 2011, that low will be lower than the March low of this year, and that's my best case scenario.

On a worst case scenario, we break the March low this year, if that happens you will need active managers and you won't want stocks and shares at all, but currencies would be the most liquid and safest place to be, so I guess you'll be even keener to do business with ECU. But I think what I'm really saying to you is as Professor Niall Ferguson has been pointing out, if you look at the economic data, the rate at which it turned down, it is spookily similar to the thirties only actually it's worse. I can tell you as a technician, if you look at what the stock market has done it is spookily similar to the 1930s, only it's worse. If you overlay them on each other they're very similar but it's worse. We've had the crash of 1929, after that there was a 53% rally, we'll we've had a 43% one in America and it's now over, and then it's going down. But we need to, this time what we've got different is Bernanke and quantitative easing and all of that, and it's jolly nice to believe the magic man from the fair comes to centre stage and he goes "Dah Dah!" and we're back. It's wonderful isn't it?

Well, it's not going to work. It just doesn't work like that. When you have a credit bubble, and history shows there's been plenty of them before, eventually what has to happen is that credit has to be paid back or written off and then you're fine again, and that takes a long time, it doesn't take place in a few months. It's just possible that what he's been able to do is take away the bottom of the pit that we were going to fall into at the price of the growth of the next few years, so we go into a sort of flat line.

But either way, the chart call on world markets is this, and it's quite optimistic actually: all of those markets where the vast majority of people live are in a new bull market, a new cyclical bull market in the presence of an old secular uptrend, these markets are called China, India, Brazil, Indonesia and markets related to metals, minerals and resources.

In the mature western world we have technically had a rally in a cyclical bear market in the presence of a secular downtrend. The secular downtrend has been falling since the year 2000, so it's nine years old. Just to encourage you, these secular trends usually last a minimum of 16 years in a normal 20, so we're roughly halfway through the bad news in the bad part of the world. But the positive part of the world carries on growing. What you do need to believe though to just think you can buy every dip in the China market, you need to believe the Jim O'Neill story if you like to put it like that, that China will de-couple from the western world and it will save itself and drag everyone else up behind it. At the moment China is still an export economy and it's a quarter the size of the American economy.

So a very little engine to pull a very big train behind it, so I would be very careful, even in the markets that we like, like India and China. The Indian market was up 100% almost exactly in six months, with the best will in the world that's too high too soon, I've taken money off the table, I think it will retrace back between a third and a half of what it had just put on giving us a new buying opportunity and I don't want to miss that. But I'm far more confident about buying a dip in India than I am in China. The reason is India doesn't import or export very much of anything to anybody, it really can grow its own economy with infrastructure projects: if you put in a water pipe to a village or take in one mobile phone, the lady – and it's normally a lady who has got that phone – she's in business renting it out. You can really multiply growth with fairly simple, easy to do projects.

Coming onto the currency markets, it is too soon for the renminbi or the rupee to take up the running as the world's leading currencies, but if you take a long enough view into the future they'll get there in the end on my basic view, so inherently willing to look for buying rupees on dips, in fact the rupee is already outperforming sterling on my trend. The DX, the dollar trade weighted, was in an uptrend up until three months ago. It did look as though it could get to about 100, that has now faded away.

Normally what happens is when markets get confident, people are buying equities, the dollar weakens off; when markets get risk averse again the dollar would rally. What's happening today is the markets are going risk averse and the dollar is falling, and the dollar trade weighted has fallen through 80, which is a very important support level. It either has to be reinstated quickly, i.e. tomorrow or you're going to see more dollar weakness right here in front of us now.

One of the places where the money's going to is the yen, not that it's good for the Japanese economy but it's seen as a safe haven possibly the safe haven currency right now. Going under 92 is a pretty big signal; on the chart there's not a lot there until 80, which is a really strong yen and a weak dollar. The yen/euro rate has always been a very good lead indicator for equity markets, it's an uncanny signalling record in recent years and when it falls below 132, it's time to get out of equities. Well it was 129 this morning and it's lower than that now. It's saying get out of equities right now this minute. Lastly dear old cable, the sterling rate; for about thirty years it's been somewhere between 1.40 and 1.60, and if you'd always said roughly 1.50 you'd have been right for most of the last 30 years and occasionally it breaks out of that and goes to 2.00 and then comes back down again, or it breaks out of the bottom and goes to 1.00 and comes back up again. Just at the moment it's slightly out of the top end of its normal trading

range, it's in a narrow range between 1.62 and 1.66, and within that range, quite frankly, I can't add any value. But if it breaks one of those two levels I would follow it and the greater probability is it will go up to 1.70 pretty soon. If it does that my opinion is it will be unstable at that level and therefore will come back down into the normal trading range. So that it's like teeing up a golf ball, there will be something to be done if we get up to those higher levels, but in its current narrow trading range it's okay to hold sterling, it's a lot less frightening holding sterling than dollars at this moment.

**Philip Manduca**

*ECU's Head of Investment*



I want to talk to you about how we manage money since it's central to what we do, and I think that the major reason that you've asked us to manage your assets or debt is that you think that we can make you money or reduce that debt. But a different question might be 'why do we accept your money to manage?' It's certainly not much fun working as intensively as we have to thinking about markets all of the time knowing that the way to outperform competitors is not by adding two plus two quicker than them or analysing economic data more intensively.

What has always made the difference throughout my career is the intensity of focus, the degree of subconsciousness, the level of intuition that is supported by non-stop market analysis; a history of short-lived experience of loss and distress mixed with long periods of success. Managing your money means that we cannot focus on anything else – that we need to be thinking of markets all of the time in and out of the office, with colleagues, with family, on holiday, day and night. Everything one sees in day-to-day life relates back to economic themes and market value and can tell us more than investment bank forecasting. How far one can take this immersion into all of one's life is the difference between more successful and less successful managers in my opinion.

The answer to the original question is that we manage your money because we are also managing ours and we can and do treat yours as we do ours. I was a client of the firm long before I became Head of Investment. Our money is side-by-side with your money, in addition, your money defines the success of our business and we manage your money as we do our business, with tight controls. The trouble with a major loss, besides the degree of loss itself, is that it damages one's ability to invest soon thereafter. Often when there really is an opportunity after such a big move, damage control is the same as risk management and is wrapped up in the word "discipline". As many of us know from both dieting and the gym, it's easier said than done, but that is a major part of our job.

Since I assumed sole control of money management at the firm, it is this high level of discipline that we have pursued, and our biggest loss in our sterling debt book has been less than 0.4% with the profit to loss ratio to date of 11:1. To supplement this process, we appointed a dedicated and very experienced Head of Risk Management, Mike Hughes, whose principal job is to override any member of the Investment Team should any one of us seek to expand predetermined risk once a position has been established.

How have we achieved this strong performance in 2009? Firstly, experience. Some of us actually predate the 1982–2007 bull market, God help us, and commenced our careers at a similar time to today, in the late 1970s. It has proven to be very important. We have experience of deflation and stagflation; it is an edge. I've been involved in the hedge fund industry as a global macro manager, which encompasses FX as well as all other market sectors, for almost three decades, as has David Lavers, Neil MacKinnon and George and Robin, and this is a time when experience matters and truly benefits all of you.

Secondly, teamwork: we work well together in the team and with the committee, we think very differently, we come from different market disciplines and I do not let up on any of them. We believe in conflict within teams where there's trust, as healthy conflict extracts the very best out of people, getting them to perform better than they often will let themselves perform for a variety of psychological reasons. I ask them questions all day long especially when we have a position, never allowing any complacency or loss of concentration. Whether we should we be in this position is an examination that needs to take place all day and night long.

Thirdly, risk management: we start executing a position based on how much can we lose, we size the position according to analysis of volatility and loss tolerance at any time.

Fourthly, value: we try to position into other people's pain, when they are liquidating positions and markets are either undervalued relative to new information or overshooting on existing information.

Fifthly, trading infrequently: being invested is intensive, exhausting and nerve-wracking. We only want to trade when we have a high conviction and the risk reward ratio is highly favourable. Overtrading is one of the most common causes of loss. Because of our tight risk management and reliance on deep valuation to trigger our high conviction trade, we feel we are not dependent on a currency being in an uptrend to achieve positive returns, it helps, but it's just not critical.

And sixthly, targeting performance: we believe that an 8 to 12% per annum for the next several years would make the majority of us happy. Getting that sort of return using risk tolerance of only 3% or so would be even better. In other words, risk adjusted performance is key for performance measurement. Achieving a 10% return with 10% risk exposure is just not the same thing. If we can focus on a target level of return that makes you happy, then we can afford to miss sub-optimal opportunities as we are therefore not trying to generate infinite returns.

Missing poorer quality opportunities means missing a higher frequency of errors and losses. It's why we believe that our attractive profit-to-loss ratio year to date can be maintained above four to one. We have used less than 0.5% of risk to make the current 6.5% return this year in the sterling debt book. That is the sort of risk adjusted performance that deserves celebrating. Clients and managers, one team united together today and again and again in the future.