

The ECU Group plc places the utmost importance on managing risk for all its clients across ECU's currency and investment management programmes. Responsible risk management is central and critical to ECU's entire business.

ECU has a disciplined approach to identifying, evaluating and managing risk through a comprehensive and rigorous risk management process, which is reviewed regularly.

ECU focuses on four categories of risk:-

- **Market Risk** Risk of loss as a result of changes in market factors (i.e., news, monetary and fiscal policy, prices, volatilities, and correlations).
- **Liquidity Risk** Risks of loss due to lack of market liquidity, which reduces the ability either to realise fair value or to finance investments.
- **Credit Risk** Risk of loss as a result of the lack of creditworthiness or failure of market counterparties.
- **Operational Risk** Risk of loss from data entry errors, fraud, systems failures and errors in valuations and/or risk measurement models.

Market Risk

ECU's investment process uses proactive risk management techniques to control/limit volatility and achieve risk adjusted returns in all market conditions.

ECU carries out a risk assessment before a new position is taken and calculates its trading loss tolerance based on the difference between its targeted entry and exit levels. These levels may be varied by ECU at any time.

ECU operates its risk policy for each single position by seeking to limit any such loss to below 2.25% of the position size. Losses may nevertheless exceed this percentage for instance in exceptional market conditions or if ECU determines, at its discretion, to expand the risk in such market conditions or in abnormal circumstances. ECU's approach to risk appetite will inevitably screen out certain trades, which may subsequently prove to be profitable. ECU's objective is to take a position only when it has high conviction levels as to the likely success of the trade.

ECU's investment team monitors risk 24 hours a day when the markets are open, through an FX prime broker structure, which provides a constant flow of information from financial centres around the world and speed and quality of order execution.

ECU combines two different stop-loss/review strategies with a take-profit strategy:-

- *A hard stop:* A level at which an order is either placed in the market or under the control of ECU's dealers. A breach of a certain level will result, in normal market conditions, in the automatic execution of the stop-loss order.
- *A mandatory review level:* A level set for mandatory immediate review by the Investment Team. This level can be adjusted at any time by the Investment Team.
- *Take profit level:* This level is identified prior to the new position being taken, and then continually reviewed.

ECU uses stop-loss orders and review levels as a discipline for exiting market positions when a position moving negatively as a safeguard against unanticipated events. Hard stops are not usually adjusted further away from the prevailing market price after the inception of a trade, in the absence of exceptional market conditions. This avoids any expansion of risk during a trade. Responsibility for oversight of hard stop-losses is undertaken by the Head of Risk Management. Stop-losses are not always given to the counterparty banks.

Liquidity Risk

- ECU only trades in liquid markets.
- ECU's FX prime broker structure and relationships with major FX banks provides 24-hour market access, ensuring both the speed and quality of order execution.
- ECU continuously monitors market liquidity through its FX banks.
- ECU's prime broker structure ensures the best possible prices in the prevailing market conditions.

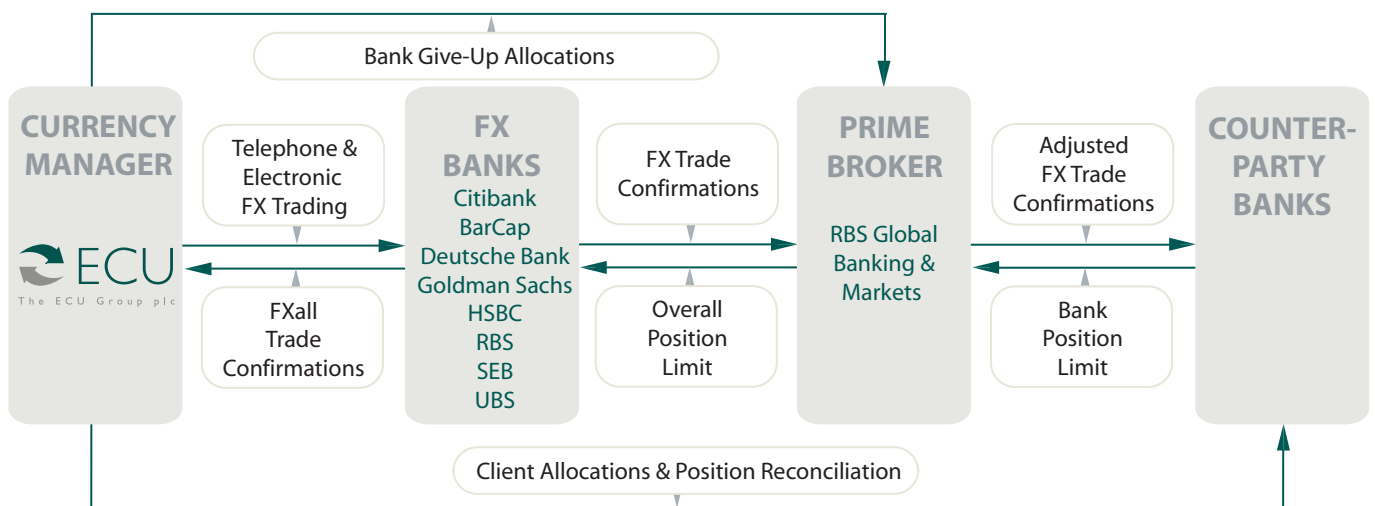
Credit Risk

- ECU transacts only with major investment banks and utility banks with good credit ratings.
- ECU's counterparty banks have their own failover systems.

Operational Risk

- ECU maintains clear separation and independence of front and back office functions.
- ECU carries out regular position reconciliation with counterparty banks.
- ECU ensures only authorised personnel can trade.
- ECU backs up all trade data and other information to servers at a fully operational and secure disaster recovery site outside London.

ECU's FX Prime Broker Structure



Trading Strategy and Risk Review Committee

The committee is responsible for the oversight of ECU's risk management processes. The committee typically meets quarterly; however, meetings may be called at any time should circumstances warrant.

The members of the committee are:-

Charles Manduca – Chairman
Chief Executive Officer

Philip Manduca
Chief Investment Officer

Charles Romilly
Head of Corporate

Mike Hughes
Head of Risk Management

Cormac Naughten
Head of Private Clients

Michael Diebel
Compliance Officer

A primary objective of the committee is to set risk levels for each of the programmes. Risk levels are set with reference to our ECU's current risk profile and the perceived current volatility in the markets.