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# Calibre, Dedication and Professionalism

Being named Most Outstanding Global Macro Research & Advisory Investment Firm is no mean feat. Michael Petley tells us more about The ECU Group and what makes it so successful.

**F**ounded in 1988, The ECU Group plc ("ECU") is one of the UK's leading global macro advisory and currency management firms. We are proud to have been named "Most Outstanding Global Macro Research & Advisory Investment Firm." This accolade is testament to our long term performance and the calibre, dedication and professionalism of our Global Macro Advisory Team and their supporting staff.

ECU's Global Macro Research & Advisory Team is chaired by Michael Petley and includes Stephen Jen and Fatih Yilmaz (Global Macro & Currency Strategy Investment Advisers), Neil Staines (ECU's Head of Trading), Professor Charles Goodhart, CBE, (Economic & Central Bank Policy Adviser) George Magnus (Senior Economic Adviser), Neil MacKinnon (Global Macro Strategy Adviser), Kit Juckes (Senior FX & Fixed Income Adviser), Robin Griffiths (Chief Technical Strategist) and Simon Hunt (Commodity Adviser).

halve in value, in 2007 the US housing decline and Sub-Prime Mortgage Crisis to prompt a US recession and banking crisis, in 2008 the precipitous price declines in global equities and commodities (including a 25% fall in gold prices), in 2013 a 12% slump in EURGBP within two years and, not least prior to the referendum in 2016 the UK vote to leave the EU and the ensuing and precipitous drop in GBP, as well as the likelihood of a Trump victory.

Do we always get it right? No, of course not, but we do have a long track record of getting the big picture right significantly more often than not and of diligently, and successfully, mitigating the majority of the downside risk when markets move against us.

In today's economic environment the need for a professional, all-encompassing investment strategy is more prevalent than ever. Our global macro "big picture" investment philosophy, methodology and process are central to our ability to provide all our clients with a structurally sound and well balanced global investment roadmap in order to optimise investment returns on a fully risk and currency adjusted basis. Our entire investment approach is based upon an ever adjusting balance of key considerations, in line with the changing financial and economic landscape.

It is with these building blocks that we have evolved from focussing purely on currency risk management mandates to becoming a multi-faceted research and advisory firm, creating modern investment solutions to suit prevailing market challenges.

Whilst we draw on a full range of investment principles and methodologies, we maintain, as distinct from many, an overriding discretionary control over our global macro and currency management programmes.

We believe that the progressive, hands on engagement of our investment process by high calibre and fully accountable investment professionals, subject to appropriate risk management protocols, is preferable to a number of rigid or systematic processes which have become increasingly susceptible to swift over-replication and market exploitation.

On balance, the increasing potential for major unforeseen events in the world today points us to a preference for knowledge and experience, underpinned by a deep understanding of markets, over automation. At heart, we are very much a "people business" driven by a collective will to perform, something which is reflected in whom we deal with and the systems we deploy.

“Bottom Line: We believe that we now have one of the clearest and **most significant** macroeconomic movements in the making.”

For 28 years, ECU's commitment to deliver superior investment performance, quality research and analysis and sound investment advice has enabled the company to navigate clients through many differing economic cycles, both positive and negative, providing them with continuity and reassurance in an ever changing investment world. What sets ECU apart is the importance we place on managing currency debt. We believe currency assets and liabilities have equal significance in a balance sheet and should be given equal attention.

From a currency risk management perspective, ECU has outperformed its benchmarks by an average of 3% per annum since inception in 1988. In absolute terms, ECU has generated solid risk adjusted returns and turned liabilities into assets, simply by utilising major trends in the currency markets as a means of dissolving debt and saving interest. ECU's Global Macro Research & Advisory team has made a number of major calls over the past three decades, including, in 1992, sterling's withdrawal from the ERM, in 2000 the bursting of the 'dotcom' bubble and predicting that Nasdaq would

With today's significant global economic, political and social challenges, the importance of credible knowledge and experience should not be underestimated. After all, the financial landscape has changed markedly over recent years. Central banks have been engaging in ever more unconventional and untested policy tools. Policy short-termism has become a global disease.

Bold and dramatic policy measures (be they excessive quantitative easing or currency intervention) have created a false, fractious and unbalanced marketplace. Whilst the benefits of many of these measures are front-loaded, the costs will, no doubt, be back-loaded. The central banker's role seems to have changed, radically. Traditionally tasked with setting the rules, they now seem to be playing the game at the same time.

In steering through this new financial and economic world order, one requires not just an understanding of the world macro-economic backdrop, but a recognition and capturing of the key driving forces (be they financial, economic, political or social) and turning points.

At ECU, we are driven by high calibre research inputs. In determining our global macro strategy, we draw upon the breadth and experience of our Global Macro Research & Advisory Team, members of which contribute their considerable experience, expertise and independent views from each of their own specialist focal points (be they monetary policy, economics, technical analysis, international politics, market intelligence or trading and execution) to assist us in developing a balanced and informed high level investment roadmap. Individual members of the committee are highly regarded in the investment industry and are advisers to a number of the world's largest fund managers, sovereign wealth funds, central banks and governments.

The Global Macro Research & Advisory Team's high level process helps ECU to formulate its "big picture" global investment roadmap from which all the company's products and services derive their individual bearings. At ECU, we have drawn together both the people and the products to work with our clients, in partnership, to help steer them through a very different economic and political world order.

To preserve one's wealth over time, consideration needs to be given to the best long-term currency strategy. The global economy and financial markets have undergone dramatic changes over recent years. Actions and reactions have culminated in the single largest financial and economic crisis since the Great Depression.

At the same time, longer term structural changes (e.g. globalisation, technological advancements, demographics and the geopolitical balance of power) are taking place which will exert persistent pressures on economies and financial markets, especially currencies. The resultant opportunity for profit and loss over coming years is likely to be considerable. It is our profound belief that global investors face growing investment challenges brought on by a marked increase in market volatility going forward. Accordingly, a competent and effective currency risk management strategy is more important now than ever before.

After a quarter of a century of refinement and the evolution of technological systems, we have been able to develop some of the most versatile global macro and multi-currency products and services ever witnessed in the financial arena, giving international trading companies, investors and borrowers alike the opportunity of using the world's largest financial market to their distinct advantage.

In 2015/6, ECU provided the economic insights for Change, or Go – an authoritative 1,032 page all-encompassing research publication (serialised by the Daily Telegraph), that demonstrated why the EU needed to change and concluded how and why Britain would otherwise be better off leaving an unreformed EU. Unlike the copious amounts of sensational, but highly inaccurate, claims subjected upon us all by both sides of this debate during the Referendum campaign, these economic inputs were based on hard facts and inescapable financial, economic, social and political realities and trends.

Without a doubt, the long term ramifications of both the Brexit vote and Trump victory are deeply profound and cannot be underestimated. Indeed, they will, no doubt, be recorded in history as truly defining moments. What now lies ahead is potentially one of the biggest and clearest long term currency prospects of a generation.

Factor one: Over the next 5-7 years, there is an overwhelming balance of probability that monetary union in Europe, as we know it today, will fail. We consider this an inescapable conclusion. We have specialised in the euro and EMU since its conception, through to its introduction and throughout its evolution ever since. Its construct was and remains to this day deeply flawed, driven by political expediency, and not economic, financial or social reality. It is wholly unstable, divergent and unquestionably to our thinking and analysis, from every objective angle, utterly unsustainable. Its trajectory towards disintegration remains clear for all to see.

Factor Two: Over the next generation, for a whole host of contributory factors (underpinned by powerful global economic, demographic, (geo) political and social trends, together with important advances in technology), we believe that the UK's wider economy will ultimately thrive outside of the EU. As such, whilst there will be much political posturing and media fanfare, we consider many of the market's present longer term misgivings on life for the UK economy after Brexit to be dubious, unsupported by credible evidence or historical example and/or simply flawed. Regardless, such misgivings are almost certainly overdone.

The UK economy is highly likely to outperform the Eurozone as a whole for as long as the EU and Economic and Monetary Union within Europe, as we know it, exist. The prospect of one of G7's top performing economy retaining the weakest currency status indefinitely is neither realistic nor likely.

In short: Not only will sterling, in our opinion, mean-revert over the coming years from its present (and excessive) undervaluation, but, within say 10 to 15 years, we see it becoming one of the strongest currencies of all (most likely attracting a safe-haven status at certain junctures of European turmoil). Against the euro, we deem this recovery and subsequent strengthening is likely to be significant and, at times, unremitting.

Bottom Line: We believe that we now have one of the clearest and most significant macroeconomic movements in the making. The currency implications will be significant and, at times, unremitting. Consequently, UK companies and investment managers alike should seek to implement strategies that will serve to protect their businesses and/or clients against the potential losses that such an outcome may generate for them, or to strategically position themselves in any manner of ways in which they can profit as a consequence of such eminently foreseeable events unfolding.

