

Global Market Outlook  
Portfolio Management - No magic, mostly common sense  
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Property Investments  
The Retail Sector

NCB

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# WEALTH MANAGEMENT

A QUARTERLY  
PERSPECTIVE  
FROM NCB

# GOOD INDEPENDENT INVESTMENT ADVICE

A MUCH RARER COMMODITY THAN YOU THINK

Simply getting the regulatory approvals, putting a sign over your door and declaring yourself to be an Independent Investment Advisor is a very long way from actually being one. Many purport to be independent advisors but, in reality, they are not. In fact, there are so many 'so called' independent advisors out there that you could be forgiven for assuming that it is a basic commodity. But quality independent investment advice is no commodity. And it never will be.

One of the main reasons we decided to buy NCB in late 2003 was because we believed there was a once in a lifetime opportunity for us to build a genuinely independent Irish investment boutique – an investment advisor with absolutely no conflicts, that always puts the clients' needs first. Being owned by ourselves certainly gives us a good platform to pursue this goal, but it is only the beginning.

The kind of independence that matters to clients, has much less to do with your ownership structure and much more to do with your frame of mind, approach and culture. In fairness, NCB has always been a very independent minded company. This was still the case, even when we were 100% owned by Ulster Bank! However, we are now acutely aware that our success, going forward, will depend on just how successful we are at servicing our clients' needs and delivering on our promise. People become customers of NCB because they expect informed and impartial advice. They only stay customers, because that's just what they get!

Independent investment advice is far from an exact science. It doesn't always guarantee instant gratification and success. But like all rare commodities, good advice does get appreciated over time. Its difficult to accept, but perfectly reasonable advice, relating to specific transactions, doesn't always lead to a profitable outcome. And conversely, downright sloppy (perhaps even irresponsible) advice can actually work out. That's just the way it is. Investment advisors unfortunately don't have the benefit of 20:20 hindsight when advising on a particular proposition. We can only do our best, based on all the information we have, our experience, our knowledge and our understanding of the client. We still won't get everything right. Nobody gets everything right.

Successful investment is all about making informed, soundly based decisions while always taking account of the risks. It's about making plans, executing those plans, changing or amending the plans (if necessary). It's also about recognising when things haven't worked out and taking appropriate (sometimes painful) action. It's about having advisors that you trust.

Independent advice isn't a whole lot of use to anyone if its not accompanied by knowledge, experience and integrity. These virtues, brought together and delivered consistently by talented people, within a strong team culture, not only make for a very appealing customer proposition, but also give the advisor a very subtle but powerful competitive advantage.

No one advisor or organisation knows everything about everything. The really good ones fully recognise that fact, and know exactly where to go for assistance, or indeed specialist expertise, when they need it. This is what all good clients need – even if they occasionally don't realise it. Good independent advice isn't that cheap either. How can it be? Maintaining a team of multi disciplined professionals under one roof is certainly a big investment. But we believe it's a good investment.

Greg Dilger - Head of NCB Wealth Management

# MARKET OUTLOOK

As usual we start the year wondering what investment markets will do in 2005. In essence we feel that we are in for another positive year, though investors will probably need to be more nimble and careful in their asset allocation than in previous years.

For a start, investment markets have just completed another positive year, with the Irish stockmarket's 25% gain among the best performers internationally. Typically the large international stock markets gained 7% to 8% last year, to add to an excellent year in 2003.

The economic background has been very good as the world economy returned to strong growth. The fact that most of the major economic regions have been growing together has undoubtedly been a boost. The exceptions have been central Eurozone countries, with Germany the big disappointment. Cheap money in the form of exceptionally low interest rates around the world has been the big boost behind the better economic environment.

As ever there are imbalances and problems out there. The obvious issues failed to derail the economy or the stockmarkets in 2004, though they remain the issues that could cause problems this year. The US dollar fall has been rapid and could have more downside potential. The higher oil price looks here to stay, with political instability in oil supplying countries and more oil demand worldwide. Of course the Iraqi and terrorism issues are still outstanding.

In 2005, we see a continuation of good economic conditions and indeed Europe will start to join in to a greater degree. This background is certainly a positive for many companies. However, the economic cycle is further along and so the easy gains for company earnings are probably behind us. Additionally interest rates are rising and further moves higher seem certain in 2005, particularly in the US.

We would in general be bullish about prospects but investors have to be very cautious about high valuations. In particular, the high valuations of US equities should be eyed warily. The US is taking the lead in raising interest rates and this will make life more difficult for companies on stretched valuations. While most of the dollar fall is probably now behind us, further weakness may be another disincentive for Euro based investors.

We feel Europe is a more attractive place for investors. Valuations are much more reasonable. Eurozone interest rates are likely to be stable in 2005, providing a more favourable backdrop for companies. Also, we believe that European economic growth will pick up pace. Within Europe, Ireland will again stand out. The domestic economy remains one of the fastest growing in Europe and despite two very good years of share price appreciation, valuations are not excessive.

There will certainly be opportunities in equities in the year ahead. Good stock picking will, as always, be vital. Dividend yields in many sectors are still very attractive relative to deposits and bonds. Indeed high dividends should continue to be an important part of any portfolio's return. Our approach would certainly favour quality equities at reasonable valuations in any region, though we would certainly have a strong bias towards Europe.

For more information please call Bobby on 01 611 5611 or email [bobby.hassett@ncb.ie](mailto:bobby.hassett@ncb.ie)

# SUCCESSFUL PORTFOLIO MANAGEMENT

NO MAGIC. MOSTLY COMMON SENSE.

No service provider, no matter how good, can afford to stand still for too long. Hardly a day goes by that a good fund manager doesn't learn something new. And while consistency of approach is an absolutely essential attribute, a really effective fund manager must never get too set in his / her ways. No one recipe works all the time.

In NCB Portfolio Management we have a very open minded and flexible approach to managing private client money. Indeed many of our very best lessons have been learned from past experience – good and bad. Our whole process starts and finishes with the client. We don't do "off-the-shelf" solutions. Though it may sound like an old cliché – no two clients are, in fact, the same, and this is central to the way we go about our business.

One point that we often have to stress and make clear to potential new clients, is that, while we are obviously part of a stockbroking company, we do NOT have an inbuilt bias towards direct equities. People are often surprised by this but our portfolio management business operates very independently within the Wealth Management Division. The core business of NCB Portfolio Management is to design and manage bespoke investment portfolios for individual clients or families. As such, the clear objective is to deliver a return which is satisfactory while at the same time ensuring that the overall risks are within acceptable parameters. If the mandate allows it (and many do!) then we have absolutely no hesitation in using direct equities in the execution of our strategy. However, we should stress that we have many individual portfolios that contain little or no equities and are largely comprised of cash deposits, government bonds, corporate bonds and other guaranteed products etc.

The reason for this is because we have established that those portfolios simply cannot afford to take any capital risk and they must be designed accordingly. Ultimately a portfolio will contain whatever mix of assets and asset classes we deem appropriate for the job at hand.

It's hardly a huge surprise that pension funds (the classic long term investor) have a very high equity content (often greater than 80%). This is likely to be the case whether a fund is managed by a stockbroker, a fund management company, or indeed, a private bank. This is not because of any equity bias – it is simply because equities have always been, and always will be, the asset class with the best longer-term growth possibilities.

Of course, we all know that property in Ireland has been going through something of a golden era. You hardly need to own a house to know that. But it's a simple fact that, despite the stunning advance of residential property values in Ireland over the last 20 years, it still wouldn't be even close, in pure performance terms, to a simple equity portfolio made up of AIB, Bank of Ireland and CRH !

The most important part of managing a private client portfolio is probably the least glamorous part. We spend a lot of time at the outset getting "inside the head" of the client and seeing exactly what they want. Sometimes they don't really know what they want themselves, so we have to firstly help them to understand the kind of choices they have. We very often have to temper their expectations and make them more realistic. We have to take into account their experience, their temperament and their appetite for risk. Indeed, we believe we have a very important educational role at this early stage of the process. Simply telling clients what they want to hear is certainly not a recipe for success.

Following this detailed client profiling exercise, the asset allocation process must then be done. This effectively means choosing what asset classes to invest in, and in what proportion. This is by no means an exact science, but experience certainly helps. Once we are happy with the overall structure and asset mix, we can move on to the next stage.

We are also very flexible when it comes to portfolio construction. Again, it's very much down to the individual. We don't necessarily try to track indices and we don't tend to stick to the rigid asset mixes that are often imposed upon professional managers by trustees. Private individuals have an awful lot more freedom than any professional fund manager - we try to help them take full advantage of it.

We also recognise that our expertise in certain areas is limited and are happy to outsource segments of portfolios to specialist managers that we believe will add value.

The day the portfolio is finally constructed is really only the beginning of the process as far as we are concerned. From there it's all about patience, stamina and occasionally courage. Communication with clients varies hugely. Some want a lot, some want very little. We need to establish what exactly each client wants and then just go and do it. And while communication and service are both very important parts of our offering, we know very well that nothing is more important to any client than bottom line performance.

Our charging structure is not unusual. We typically charge an annual fee based on the total funds under management. We are also happy to build in pure performance fees where appropriate. Obviously, we are acutely aware that if we cannot demonstrate real added value over a reasonable time frame, then clients will "vote with their feet".

Managing portfolios consistently well doesn't require genius. Of course, being a genius would help, but most managers would admit that success is much more about having good sound principles, attention to detail and doing the little things well. We never forget that our first job is to protect our clients' capital. Only when we have that done can we set about trying to grow it. Many people might even call what we do boring. To be honest, we would almost take that as a compliment.

For more information on portfolio management please call Rory on 01 611 5611 or email [rory.hennigan@ncb.ie](mailto:rory.hennigan@ncb.ie)

## BREAKING NEWS

### Reduced Funding for CFD's

NCB is delighted to announce that due to the volume of business that we are undertaking in CFD's we have managed to negotiate a further improvement in the funding terms that attach to these accounts.

From 4th January 2005 the funding charge has been reduced from 1% above LIBOR to 0.75% on both long and short positions.

### Top Fund Picks for 2005

It is impossible to predict which will be the best performing unit funds for 2005 but with some hard work and a bit of luck it should be possible to predict which funds will be in the top quartile.

NCB has chosen six funds ranging from low risk (one is ideal for investors who require an income) to equity funds that we feel have the pedigree to outperform their peers.

For further information on the above call Killian on 01 6115611 or email [killian.nolan@ncb.ie](mailto:killian.nolan@ncb.ie).

# FROM GREEN FIELDS IN LEINSTER TO RETAIL IN AMSTERDAM

It will come as no surprise to learn that property has become the dominant asset class in the investment portfolios of individuals in Ireland given that the average house price has risen by 85% in the last five years.

But it should be noted that rental income in Dublin has been falling for two years due to oversupply in the buy to let market and house price inflation is projected to ease back to mid single digit growth within the next 12 months.

Also if you apply a price earnings (P/E) model to Irish residential property you will see it is in the region of 38 times earnings, compared to a multiple of less than 14 times for a diversified portfolio of Irish equities.

Despite these facts, NCB still feel there will be strong demand in the housing market because the demographics show that in 2006 the bulk of the population will be between the ages of 30 and 34. This age cohort are more likely to be buyers rather than tenants and more interested in family homes than apartments as their family expands.

The housing market is also strongly correlated with both growth in the economy and migration. Over the next five years Ireland is likely to achieve a 5% - 6% growth rate and net migration, which has averaged 35,000 over the last three years, is likely to increase with the accession of the 10 new countries into the EU.

We also feel that mainland Europe with low interest rates, no currency exposure and attractive yields is becoming a real alternative to investors who need to diversify from their existing portfolio of Irish and UK property.

Prime retail property remains the most sought after sector in all markets especially capital cities. First class retail property units in Amsterdam remain scarce and attractive for both investors and retailers. The top locations in Amsterdam are found close to Dam square on Kalverstraat, Leidsestraat and P.C. Hoofstraat. Prime retail units in these locations continue to rank among the highest in The Netherlands and show further growth potential.

Taking this information into account NCB sourced two very different investment opportunities, which we feel offers a real alternative for most property investors.

## Ardawn developments plc.

Land development in Ireland has generated significant returns over the past decade. A significant amount of value has been created by developers taking development land, without planning permission, through the planning process.

This activity, however, requires significant expertise in the areas of site identification, selection and knowledge of the planning process. In addition, such development typically requires significant up front investment and can take a number of years to generate returns. As a result, the majority of investors have not had the opportunity to participate in this area of the Irish property sector.

Ardawn developments plc has been set up to give investors access to the potential returns from the **land development sector**. Ardawn will seek to raise a minimum of €20 million, with a view to acquiring and developing zoned land, in the Leinster area.

Cova Properties Ltd. an experienced development company with a demonstrable track record of success will manage Ardawn. The directors of Cova are:

- Pat Shine, (49) Chief Executive. Pat is a qualified Chartered Accountant and Civil Engineer. Pat was a partner with Pricewaterhouse Coopers until June 2004, specialising in corporate mergers and acquisitions.

- William (Bill) Mulrooney, (60) Acquisitions Director. Bill is a qualified valuation surveyor and a member of the IAVI. Bill acted as an estate agent until 1999.

- Brendan Fitzsimons, (57) Projects Director. Brendan is a building contractor with 30 years experience of both residential and commercial development in Ireland and the USA.

Cova also intends to be a significant shareholder in Ardawn going forward so there will be an incentive for them to maximise shareholders returns.

The planned life for the investment is seven years, plus where required additional time (no more than two years) to dispose of properties held at that date. However Ardawn may offer to return investors original capital in advance of this, in the event that there is significant refinancing.

### The key points

- Opportunity to participate in future property development projects
- Cova have a good track record of delivering strong returns to investors
- Acquisition of potential development land
- Proactively managed to maximise shareholder value
- Seven year term
- Closing early February
- Minimum investment €250,000



## Retail Portfolio, Amsterdam, The Netherlands

A small group of investors will have the opportunity to participate in the acquisition of four retail units on PC Hoofdstraat, the prime upmarket retail street in Amsterdam, equivalent to Bond Street, London, where tenants are primarily well known clothing and jewellery brand names.

The portfolio comprises of 4 prime retail units let to excellent tenants, Ralph Lauren, Polo Ralph Lauren, Tommy Hilfilger and Filippa K (a Swedish Company, specialising in men's and women's fashion).

The total cost of the buildings is approx €17.3 million of which approximately €11.7 million will be financed by non-recourse debt and approximately €5.6 million by investors' equity. It is planned to hold the properties for 8 years when they will be sold to realise the investors' capital.

The minimum individual participation is expected to be €150,000 of which investors should be able to personally borrow c. €80,000 within the relevant tax rules.

### The key points:

- 4 retail units in a prime location in Amsterdam
- Excellent tenants
- Indexed rents
- Non-recourse bank debt (approx. 75% of the cost of the property)
- 8-year term
- Ability to borrow part of equity input
- Closing in February and on a first come first served basis
- Minimum investment €150,000

For more information on property investment please call Killian on 01 611 5611 or email [killian.nolan@ncb.ie](mailto:killian.nolan@ncb.ie)

# ARF'S - A WHOLE NEW WORLD

Those of you preparing to disengage from the daily necessity of going to work and earning a crust are probably now considering how best to sustain your retirement years without financial worries.

To achieve this it is likely that you may have to make numerous very important decisions over a short time span.

For instance, if you own your own business, you may have to consider:

- Do you intend to make a 'clean break' from the business or continue to be actively involved.
- Do you pass it to family members and will they compensate you properly for this?
- Have you adequate resources in place to sustain you or are you still depending on your business to support you in the future.
- What provisions and options are available to you with the proceeds of your retirement fund?

Fortunately, this last consideration should not present you with 'the horrors' providing

you have planned your pension contributions early and often and taken advantage of the very generous tax relief's available during your employed years.

In fact, with the advent of legislation introduced in 1999, the options available to impending retirees has begun to excite and invigorate a normally staid pensions industry.

The traditional mandatory requirement to purchase an annuity (a pension) was removed for certain categories of employed people in 1999. New options were introduced which allow for the retention of part of the retirement fund through investment in an Approved Retirement Fund (ARF). You can, of course, still buy a pension, but, depending on circumstances, it may be more attractive to invest in an ARF.

So what is an ARF?

ARF's are available to you as a retirement investment option if you are drawing down retirement benefits under one or more of the following headings:

- Pension benefits from a Personal Retirement Plan (RAC) or PRSA. This would generally apply to the self employed.
- Pension benefits from a company pension scheme where you were a 5% + shareholder of the employer at some point within 3 years of retirement.

- Pension benefits from a company pension scheme which have been generated by your own additional voluntary contributions (AVC's) to that scheme. This would / could generally apply to the vast majority of the employed labour force.

An ARF is simply a fiscal 'wrapper' on a personally held investment portfolio, with the 'wrapper' being required to ensure tax is deducted at certain rates on payments or distributions from the ARF.

## Two Types - ARF's and AMRF's:

There are two different types of post retirement funds - an Approved Retirement Fund (ARF) and/or an Approved Minimum Retirement Fund (AMRF). Depending on your circumstances, you may be required to set aside a part of your pension fund to buy an AMRF. The chart overleaf explains the circumstances in which investment in an AMRF is required.

So, in summary, ARF's are available as a retirement option to certain categories of pension benefits. They are the balance of an accumulated pension fund (after the tax free element has been paid out) and can be invested and retained as 'capital' by the retiree. 'Income' can, if necessary, be taken from the capital. ARF's can also pass from spouse to spouse tax free and are a

very useful 'Estate Planning' tool in distributing assets to children.

## Who provides ARF's?

The vast majority of ARF's marketed so far have been invested in pooled funds with life companies. This is understandable in view of the fact that most of the pension funds being managed in Ireland are held with affiliates of life companies.

However, stockbrokers such as NCB are now very actively involved in managing these 'new' assets. Legislation allows stockbrokers like NCB to set up as qualifying fund managers (QFM's). For clients who wish to retain day to day control of how their ARF retirement fund invests, using a stockbroker can have distinct advantages.

- ARF investments benefit from tax exempt growth (only distributions from the ARF are liable for income tax).

- Your ARF is your money and you are entitled to invest it in any way you wish. However, certain transactions involving ARF assets are, (since Feb 2003), deemed to be a distribution from the ARF and hence trigger an immediate tax (PAYE) liability. These primarily include:

- 'Loans'
- 'Acquisition of certain types of property'
- 'Acquisition of shares in a close company'
- 'Acquisition of tangible moveable property' (cars, art, jewellery).

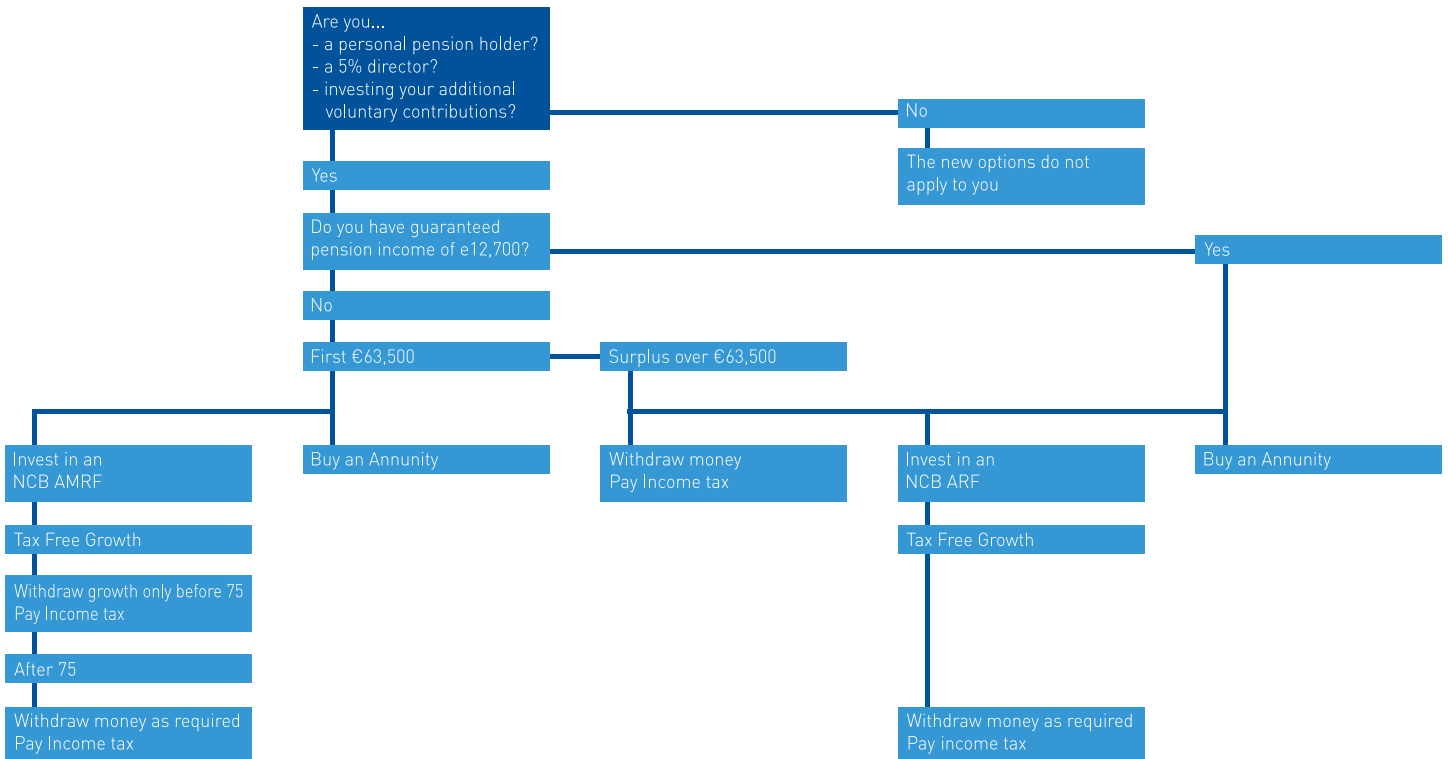
Most NCB clients, will, therefore, use ARF funds to invest in more conventional directly quoted equities, bonds or cash instruments but can also include other items such as private equity investments and property.

Significantly, ARF's cannot borrow directly. This provision would, naturally, inhibit potential property investment directly.

Investors can also have as many or as few separate ARF's as they wish.

There is no doubt in my mind (and the flow of business in this area confirms this) that many impending retirees are availing of this new option with their retirement funds and metaphorically, at least, opening up a whole new world.

For more information on ARFs please call Joe on 01 611 5611 or email [joe.hanrahan@ncb.ie](mailto:joe.hanrahan@ncb.ie)



# SHOPPING FOR VALUE AND QUALITY IN THE WORLD OF RETAIL

## Background

There are few sectors, if any, that influence all our lives more than Retail. The contact – be it the weekly grocery shop or a Saturday stroll down Grafton Street is more ‘direct’ than any other. And yet, when it comes to picking investment winners and losers, no other sector is as much of a minefield.

It’s not a sector with a secular growth dynamic to bail you out (it’s cyclical – being broadly dependent on employment and personal income growth and it’s seasonal – with the Christmas period the most critical time of year).

And it’s not as simple as having a good read on the relevant economic statistics and projecting the ‘lie of the land’ for the sector in general. A ‘rising tide’ will not necessarily lift all boats in this sector. Consumers are fickle and their demands are ever-changing.

As for the Internet – It can be friend or foe depending on how a company embraces it.

In short, investing in Retail is essentially a ‘zero-sum game’, with the gap between the winners and losers more pronounced than possibly any other sector.

## Current Issues / Themes

One of the key supports to the global economic recovery has been the continued strength of consumer spending. However, some cracks appeared late last year, and early evidence suggested that shoppers were slower to open their wallets at Christmas..

There are a number of factors driving this dynamic. Firstly, interest rate hikes in both the UK and US have made consumers pause and reflect upon the massive amounts of leverage (both mortgage and personal lending) built up in the falling interest rate environment of the previous years. Added to that, the rising oil prices of the last year have put the squeeze on the ‘blue collar’ consumer, whose marginal spending capacity is more affected than anyone else. Evidence of this can be seen in the underperformance of the mighty Wal-Mart since the summer, when CEO H Lee Scott specifically referred to it as a problem (Wal-Mart caters for the particularly value-conscious consumer).

So where does an investor look for safe harbour in this difficult environment?

## Picking Winners

While the recent troubles of established operators such as Marks & Spencer, Sainsburys and K-Mart would suggest that over time the characteristics for success in Retail change; the fact is that the same basic principle has always held true – namely that winners have been – and always will be – those who can best cater for and adapt to consumers’ ever-changing desires. And while the ‘pile ‘em high, sell ‘em cheap’ approach doesn’t work in every segment, the concept of ‘value’ holds true all of the time – even when someone is purchasing a ‘luxury’ item.

So which companies best embody these principles and look most attractive to investors in the current volatile economic environment?

Well, no article on Retail would be complete without referring to the mighty Wal-Mart – founded by enigmatic Sam Walton in that well-known corporate nexus of Bentonville, Arkansas. Wal-Mart has always prided itself on offering the lowest prices across the vast range of goods that it offers (these days anything from groceries, to clothes, to lawnmowers, to sports equipment). And this formula has certainly served investors well. – Floated on the New York Stock Exchange in October 1970, a purchase of 100 shares would have cost you \$1,650 and would be worth an astonishing \$10m today. However, the shares have stalled in the last year, as the impact of higher oil prices hit hard at Wal-Mart’s core ‘blue-collar’ shopper base (as referred to above). Also, while the company’s ‘core’ North American operations have continued to perform consistently, their overseas divisions have failed to sparkle to the same extent. Even their hitherto successful UK division, ASDA, seems to be struggling somewhat in recent times. Nonetheless, Wal-Mart’s track record would suggest that it will recover from its current wobbles and continue to reward investors in the future.

One must also acknowledge the speculative prospects in the sector: The most obvious names that spring to mind are Marks & Spencer (which has recently rebuffed Philip Green’s advances for a second time) and Sainsbury (where rumours continue to swirl about a possible takeover). While it would be dangerous to dismiss these possibilities (considering the vast amounts of ‘private equity’ money seeking a home), we would prefer to stick to more quantifiable prospects when looking for investment ideas. And one name stands out head and shoulders above the rest – Tesco.

# Tesco

A dull and worn-out name in the 1980's, Tesco went through a decade of reconstructive surgery, which eventually saw it overtake Sainsbury as the UK's No.1 grocer in 1995.

And since then the company has built upon these solid foundations:

1 Benefiting from management's superior property / site purchases that have enabled them to expand their UK estate and support the current drive into clothing and other non-food items.

2 Cementing a virtuous circle: Where scale gives buying power, which facilitates lower prices to consumers (while maintaining / expanding margins).

3 Creating an offering that appeals across the full demographic spectrum.

4 Engendering customer loyalty and accessing valuable shopper data through what has proven the most successful loyalty card in the UK.

5 Developing a profitable internet offering, which serves a customer base of more than one million, and which is expected to grow sales by c30% this year.

6 Extending into relevant, complementary services, such as 'Tesco Personal Finance' (a joint venture with Royal Bank of Scotland, which delivered £160m in pre-tax profit last year - half of which accrues to Tesco)

7 Investing in attractive overseas markets... which lays the foundations for further success in the years ahead ...

The sceptics among you will refer back to the earlier roll call of names of former darlings that have fallen from grace and question whether after a decade at the top Tesco might slip on a banana skin and suffer the same fate. However, while there is always a risk of such an event occurring, the evidence to the contrary is far more compelling:

1 A strong management team is possibly the most important factor in the success of any company, no matter what the sector. And, in Terry Leahy & co, Tesco not only have the most experienced and sharpest executive team in the industry, but one with an average age in their mid-40's which has many more good years in front of them.

2 The company is well positioned for continued domination in their core UK market in the coming years, as they continue to drive home their scale and cost advantages, while management at competitors such as Sainsbury and Morrison have to dedicate significant time and resources to their respective restructuring and integration issues.

3 The opportunity in Non-Food is immense. Tesco is already the UK's No. 4 player in clothing (with a c.6% market share and growing) - and is eating into the sales of traditional stalwarts such as Marks & Spencer. And increasing contributions are to be expected from items such as cds, dvds and electronics as the company extends floor space throughout its UK estate. Again, traditional operators in these segments are beginning to suffer - with Tesco's Christmas push into digital cameras expected to impact Dixons, for example. Even within the broad heading of 'grocery', the increasing prominence being given to cosmetics / healthcare is hurting the likes of Boots. It would seem as if nobody is safe from Tesco's continued broadening of its offering (incidentally, this is a very similar pattern to that witnessed in the US, with Wal-Mart the aggressor in that case).

4 The UK currently accounts for more than 80% of sales and an even greater percentage of profits. We expect overseas operations to contribute an increasing proportion of both over time (Tesco currently operates in twelve countries and is the market leader in five).

While Tesco shares outperformed the market in 2004 (rising nearly 25% versus 6.7% for the FTSE100 Index in local currency terms), we feel that this is fully justified and see further prospects for outperformance in the years ahead. Investors will find it hard to find a more stable share offering the prospect of double-digit earnings growth for the next three years.

Short-term, we would be looking towards the company's Christmas trading update later this month as the next possible catalyst for uplift. With investors worried about current trading patterns in Retail in general, Tesco shares have paused for breath of late. Evidence of continued resilience, would support upward earnings revisions.

Another point to ponder: At £3.18, Tesco shares (P/E '05 16.9x, '06 15.2x) deservedly trade on a premium to European peers and the 'recovered' earnings that are expected from Morrison and Sainsbury (in 2006). However, Wal-Mart shares trade on a multiple in excess of 20x. Anecdotal evidence suggests that Tesco is 'underowned' by the influential US institutional investor base (i.e. the stock is the 11th biggest listed in the FTSE 100, but US ownership is considerably less than its weighting within the index). This can only augur well for the stock's rating going forward.

All in all, the evidence suggests that Tesco should be top of every investor's shopping list this year.

For more information on the retail sector or other stock ideas please call Martin on 01 611 5611 or email [martin.cass@ncb.ie](mailto:martin.cass@ncb.ie)



## Wealth Management Services

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For more information on our wide range of services please contact us at:  
NCB Wealth Management, 3 George's Dock,  
International Financial Services Centre, Dublin 1, Ireland.  
Tel 353 1 611 5611 Fax 353 1 611 5988 Web [www.ncbdirect.com](http://www.ncbdirect.com)