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Independent & International

Teamwork the Key to Better
Client Service

Venture Capital from the Inside

The Psychology of Investing

Property Assets of Leading Irish Companies

Don't Leave it to the Children

Tax treatment of
Contracts for Difference

The Case for Irish Financials

Immigrants to Ireland

Pensions Corner

Wealth Management

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Teamwork the Key to Better Client Service.

Greg Dilger - Head of Wealth Management



Historically, it seemed that to become a private client stockbroker, one needed a decent education, a reasonable appearance and a bit of personality and charm. A bright young graduate could hope to join a reputable firm straight out of college and be teamed-up with a more experienced broker who would, perhaps, over the following three to five years, show them the ropes, and help them to create their own network of clients and referrals. Ultimately it was widely accepted that dealing with fussy wealthy individuals wasn't easy, and one needed time to establish trust and a personal rapport. At the end of that initiation period, a young graduate would then be considered able to fly solo and become a fully-fledged broker.

How times have changed! The world is moving much faster now. Everyone is in a hurry. In a hurry to grow revenue, profits, to acquire clients, to build relationships. Shareholders of stockbroking and wealth management businesses, just like any other shareholders, are demanding more. Indeed, nowadays, five-year strategies, if they still exist, probably get reviewed every six months.

Private client stockbroking businesses of today bear little or no resemblance to the "one trick ponies" they used to be. Product ranges and offerings have broadened immensely and this has placed big demands on account managers - particularly those dealing with

more sophisticated and demanding clients. Today's account managers need to be much more rounded operators - not only in their professional competence and investment expertise - but also in their softer people skills and judgements. There's a lot of subtlety to managing these multi-faceted relationships effectively, and what we all know as "cop on" is probably as important as anything.

As if this wasn't challenging enough, the regulatory and compliance demands are becoming increasingly onerous. Ironically, while all of this is designed to help clients, the vast majority of them don't particularly appreciate the seemingly endless form filling

and bureaucracy that goes with it. Worse still, it also makes doing business more expensive. The number of players servicing the wealth management space has also multiplied - many perhaps coming from different starting points like private banking, property, tax, fund management etc - but all ultimately wanting the same thing - i.e. a bigger share of wealthy peoples' investment business. The increased competition has resulted in some benefits for customers, but it has also undoubtedly brought with it some confusion and product fatigue.

Many wealth management organisations have been unable to escape these trends and have considerably shortened their

perspectives on everything. Historically, a new graduate hire might take three to five years to become a meaningful revenue earner. Today, many are expected to be making a revenue contribution within months. This is probably one of the main reasons why the market has become so product oriented. Packaged products of various forms are simply much easier to sell - particularly by relatively inexperienced staff - and the results are also much more visible and easier for management to control, measure and reward.

So what does all this mean for the industry? All reports and analyses agree that the number of wealthy individuals is increasing, and that's obviously a positive. However, it's probably fair to say that remuneration policy (within the industry generally) still has a tendency to incentivise short term over longer term and individual efforts over teamwork. In such environments it's hardly surprising that the critical "on-the-job" training, skills sharing and knowledge transfer, often gets secondary attention. While this is somewhat understandable, it is also very narrow-minded and definitely weakens the longer term customer proposition.

In NCB Wealth Management we are acutely aware of all these challenges. Of course we know that products have to be sold as part of any strong customer offering, but we also know that if our business is reduced to a series of back to back "product drives", then we are certainly not doing what we are supposed to be doing. We know well

that forming good commercial relationships and building trust takes time and cannot be short-circuited. That's an old fashioned concept that will never change. The type of characters we hire, and the way we initiate them into the organisation is fully consistent with this belief. The traditional model of an individual account manager "owning" and personally servicing his or her own bunch of clients every need, is not one we subscribe to. We see each account manager as being responsible for bringing the very best the whole firm has to offer to clients. In that sense, clients should benefit from a whole range of different skills and specialist expertises that no single account manager, no matter how accomplished, can have. Indeed clients should ideally be interacting with a number of different NCB personnel depending on what the specific need is at any particular time.

Our people actually enjoy working together as part of a team, and fully accept and understand that their own personal remuneration will be strongly linked to team success. This not only makes a lot of sense for us as an organisation, but, more importantly, it ensures clients will get a much better and more consistent service.

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Greg Dilger - Head of Wealth Management

Venture Capital from the Inside

Alan Foy - Executive, NCB Wealth Management



Venture Capital has developed a certain mystique and legendary status. It intrigues but is seldom understood. With this in mind, I took the opportunity to have a discussion with Michael Murphy (CEO of NCB Ventures) to help dispel the myths and to gain a rare, insider's perspective into the world of Venture Capital...

Understanding Venture Capital

Venture Capital refers to "equity investments for the launch, early development or expansion of a business", Michael explains. VC is in the business of building businesses. Typically, a VC fund manager seeks to generate a strong deal flow and to build a portfolio of investments in private companies over a 5-year investment period - the VC backs a team of people who have the capability of delivering on their business plan. As minority investors, NCB typically take a seat on the Board of investee companies in order "to add value by offering an outside view, contributing to strategy formulation, adding to the financial expertise available and bringing a network of contacts to the business".

The VC community has developed well in Ireland since the mid 1990's through a combination of government initiatives, a strong education system, and significant flows of direct inward investment leading to regional clusters of excellence. Over the last 8 years

alone, about 20 VC fund managers raised €1 billion for investment. Now, with practically all VC's fully invested, managers are raising new funds. But while typical investors in VC funds include banks, pension funds, fund of funds and government agencies, there is increasing participation by private individuals (accounting for 9% of funds raised in the last 8 years). What's driving their interest?

Pursuing a balanced portfolio

Michael believes that individuals are acting no differently to sophisticated asset managers and pension trustees who are making allocations to Venture Capital; "it improves diversification and reduces volatility in investment portfolios that comprise equities, bonds and property". In the long run, he highlights that returns from Venture Capital are higher than quoted stocks. Since 1980, the top quartile VC funds have reported returns of 17% compound per annum (source: Thomson Financial/EVCA). Large Irish pension funds typically allocate 1% of their assets to alternative classes such

as Venture Capital/Private Equity although these levels of allocation are below those witnessed in the UK (2.6%) and in the US (which is as high as 8%). That said, The National Pensions Reserve Fund, managed by the NTMA, is allocating 8% of its portfolio to Private Equity in line with this international trend. It could be quite likely that we will see significant increases in allocations to Private Equity and VC in the future.

Where are the VC investment opportunities?

NCB has managed VC funds targeted at the Irish market for 10 years adopting a balanced general investment strategy, which Michael believes "to be appropriate to the Irish market". Although 60% of VC investments were made to the ICT sector (information and communications technology), there are increasing allocations into sectors including healthcare, medical technologies, life sciences and "CleanTech" (such as low carbon emission technologies, renewables, bio-energy, waste water treatment etc.).

Ireland's strong GDP growth, in part helped by increased female participation in the workforce and the recent levels of net immigration, is fuelling domestic demand for goods and services. This presents significant opportunities in sectors such as prepared foods, childcare services, leisure and fitness and other support services. In addition, Michael adds that there are niche opportunities in the engineering and instrumentation segments where expansion capital is required.

There is good potential for investment opportunities "north and south of the border", according to Michael. NCB invests on an all-island basis and sees an acceleration in the level of entrepreneurial activity arising from the strong economic growth, the peace dividend in Northern Ireland and promotional/research programmes of Enterprise Ireland, Invest NI and Science Foundation Ireland.

Success Stories

There have been many successful (and familiar) Irish VC-backed companies, which were subsequently floated including Kingspan, Barlo, McInerney, Paddy Power, Heitons, AGI Therapeutics, Norkom, Zamano etc. But many successful exits are by way of trade-sale/management-buy-out and may not have received the level of publicity of their quoted peers, Michael comments. Examples include Aldiscon, Alphyra, Cablelink, Celtic Utilities, C3 Imaging, Eurologic, Hoermann Electronics, Lifestyle Sports, Senator Windows, and Today FM.

NCB's own recent fund exits have included the trade sales of National Linen,

Phonecard Warehouse, KCC and Newcourt which successfully listed on AIM.

How can investors access VC?

The main ways an investor can invest in Venture Capital is:

- 1) through a VC fund where the investor makes a commitment to a particular fund which then invests directly in a portfolio of unquoted companies,
- 2) through a fund-of-funds where the investor invests in the fund which in turn invests in a range of VC funds and
- 3) by way of direct investment in an unquoted company.

Michael notes that he sees more activity by "Family Offices" in the VC space - a number of which have invested directly in private companies and also acquired portfolio investments from VC's that fit their criteria. He suggests that these family offices will be increasingly attracted to direct investments in VC funds. Given the spread of its interests in other asset classes (and the growth in overall funds under management), it will become difficult for the family office to dedicate its time disproportionately to one class of the portfolio at the expense of another. Michael suggests "the "win-win" scenario is for the family office to invest through a VC fund and to co-invest alongside the fund".

As we noted earlier, there's increased participation by private individuals in VC funds as they seek to protect and grow their assets and pension funds. The main benefit of investing through a fund is that the portfolio diversification and spread is

better, the risk of capital loss is minimised and the speciality skills of an investment team are available. Indeed, many investors who have strong, relevant commercial experience are getting involved with VC funds, perhaps by becoming a nominee director on the board of an investee company.

It's no surprise then that the investment opportunity in VC funds is increasingly attracting very high net worth individuals and family offices. These developments, combined with the domestic economic growth scene, clearly indicate that the VC market in Ireland is set to benefit in the years ahead.

NCB Ventures has successfully managed two investment funds and is currently raising a third €75 million fund targeted at the Irish market



Michael Murphy, CEO of NCB Ventures

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The Psychology of Investing

Martin Cass - Director, NCB Wealth Management



The concepts of ‘fear and greed’ and the ‘herd instinct’ are together seen as the main emotional motivators of stock market movements and business behaviour. They contradict (or at the very least moderate) the notion of “efficient” markets. But can an understanding of such psychological phenomena help investors make better trading decisions?

In the study of Finance, the efficient market hypothesis asserts that prices of stocks already reflect all known information and are unbiased in that they reflect the collective beliefs of all investors about future prospects. Furthermore, with future news being unknowable and appearing randomly, it states that investors cannot consistently outperform by using this information except by luck.

Such a hypothesis might work in a world where the stock price movements were decided in the vacuum of a textbook. However, there are a number of reasons for doubting it in the real world. Simplest and yet most powerful of all is the market’s reaction to surprise news events. Rather than an instantaneous adjustment, the effects can be sustained over a period that can range from hours to months. The occurrences of market bubbles and crashes is a further reason for doubt – in that if markets were efficient, rational investors would take advantage of the

artificially high or low prices at the expense of the irrational players and thus prevent such extremes from developing. Yet it took four years for Alan Greenspan’s warnings of “irrational exuberance” to be heeded. Dangerous, therefore, for investors with finite time and resources to rely exclusively on such ‘logic’. As John Maynard Keynes said “markets can remain irrational for longer than you or I can remain solvent”.

Acknowledging the shortcomings of the efficient market hypothesis is one thing, but are there ways in which investors can actually exploit these inefficiencies? The fields of ‘behavioural economics’ and ‘behavioural finance’ are derived from psychology, and study how both individual and collective, emotional or cognitive biases create anomalies in market prices and returns that cannot be explained by the efficient market hypothesis alone. They contradict the predictions of rational choice

and go against the basis of traditional economics. However, an understanding of the concepts behind them may help investors make better trading decisions.

For practical purposes, rather than going into a detailed explanation of the subject, I will focus on some of the concepts contained within the topics of ‘heuristics’ and ‘framing’ that will resonate strongest. This should act as sufficient food for thought, with detailed study recommended in order to gain a deeper understanding of the subject.

Heuristics, as it applies to behavioural finance, focuses on decisions that investors make on the basis of approximate rules of thumb, while framing is simply about how the way in which a decision is presented will affect how it’s acted upon. Some common observations within these topics include:

Loss aversion

- The notion that people strongly prefer avoiding losses to acquiring gains (some studies suggest up to twice as much)
- This can often cause investors to hang on to losing investments as they are reluctant to realise (often even admit to) the loss

Gambler’s fallacy

- A mistaken understanding of the law of averages
- An incorrect belief that the likelihood of a random event can be affected by other similarly random events
- An example of this would be where an investor rationalises the purchase of a stock on a particular day on the basis that it had fallen for, say, the three preceding days and therefore is more likely to rise than fall the following day

Self-serving bias

- When investors claim responsibility for successes and not failures
- Sometimes described as a form of “wishful thinking”
- Can make a financial advisor’s job very difficult!

Anchoring

- Human tendency to rely too heavily on one piece of information when making decisions
- Influences the way in which people assess probabilities – being biased by a reference point or ‘anchor’

Another concept worth mentioning is ‘commitment bias’ - a term often used in psychology and economics and another powerful human trait that impacts upon investor decision making. It captures aspects of all of the individual behaviours listed and essentially describes how investors make irrational decisions based upon rational decisions made in the past or to justify actions already taken. Commitment is generally regarded as a positive human trait – However this isn’t necessarily the case when it comes to managing your stock portfolio, as it can stop you from making difficult decisions or taking remedial action.

Clear-cut, practical application of behavioural economics and finance is difficult, in that, though we may acknowledge these outlined traits in ourselves, human nature makes it near impossible to just switch them off. However, an understanding of the issues can act as a useful touchstone when making investment decisions and may help us better recognise the symptoms and make more rational decisions in the future.

The notion of ‘re-buying’ your portfolio every day is an interesting one, and is a worthwhile test of discipline. It doesn’t advocate day-trading or churning and perhaps the idea of reviewing things every day is impractical except for the professional investor; however it makes suggestions and poses questions that are worthwhile exploring:

- Look at the portfolio of stocks that you currently own. If you had a blank page in front of you, would you buy each and every one of them again?
- If the answer is yes, perhaps it’s worth adding more to what you hold?
- If the answer is no, why continue to hold certain stocks? Should you not sell and focus your attention (and capital) on ideas that you prefer?
- In particular, take a look at the losers in your portfolio. Are you continuing to hold them because of a rational expectation that they will recover or is it simply a case wishful thinking?
- Do you spend more time looking for new ideas rather than focussing on the stocks that you already hold?
- If so, why? While it’s laudable to be open-minded and dedicate some time to seeking fresh ideas, in reality, how many stocks can you garner such an intimate knowledge of, that you are happy to invest in them? Be totally comfortable with what you already own before charging off into pastures new.

Consistently reviewing the stocks that you already own with the same vigour and discipline that you apply to new ideas is a solid starting point towards avoiding many of the psychological pitfalls of investing, which should hopefully help you make better trading decisions in the future.

If you would like to contact Martin to discuss the issues raised in this article, please contact him at 01 6115611 or email martin.cass@ncb.ie

Property Assets of Leading Irish Companies

Joe O'Kelly, Account Manager, NCB Wealth Management



There has been much discussion of late regarding residential property prices, the level of construction activity in Ireland, and the knock on effects for the Irish economy. However, the facts are that our fascination with, and demand for, property is as strong as ever. Last year's record €12bn spend on commercial property investments by Irish investors is forecast to be matched again this year, with the amount invested in Ireland falling from €3.3bn to circa €2.5bn purely because of a lack of suitable investment product.

Our increasing population (forecast to be 5m by 2015), booming economy (GDP growing at double the EU average) and improved wealth (GDP per capita ~\$46,000) means that there is a need for residential, office, retail and industrial property and for supporting infrastructure such as roads and rail networks, schools, community services, etc, like never before. All of this has resulted in greater demand for the one thing that is becoming more and more scarce – land.

Recent Developments

In their search for land near large urban centres, some of Ireland's leading property developers have now turned their attention to the property assets of companies listed on the Irish Stock Exchange.

For example, one prominent property developer recently appeared on the share

register of Readymix, which has several very valuable properties from which they may relocate in the foreseeable future. The Group's sites include a 7 Ha site at Maudlins, Naas which is worth in the region of €25m, a 0.25 hectare site on Newtownpark Avenue, Blackrock worth circa €8m, as well as other valuable sites at Killeen Road, Dublin 12; Walshestown, Naas; Dunmore, Kilkenny; and others. We believe that these sites are worth far in excess of the €67.5m NBV on the balance sheet for freehold land and building and mineral reserves as at 31/12/06.

Greencore

Another well-known developer has built up a stake of just under 30% in Greencore. Since exiting the sugar producing business Greencore has significant property assets that are surplus to requirements and its stated intention is to maximise the value of

these for the benefit of shareholders. The Group has in the region of two dozen sites throughout Ireland and a total land bank of almost 400 Ha. The most valuable of these are the former sugar factories in Carlow and Cork, which we believe to be worth in excess of €300m, compared to a net book value for Greencore's entire land and buildings in September 2006 of €169m.

Several companies have also woken up to the realisation that their properties are now very valuable; much more so than they are valued on their balance sheets, and in some cases significant value can be unlocked from relocating existing businesses to new locations.

IAWS

One such company is IAWS, which recently completed a deal with a developer for the redevelopment of their Cuisine de France

property in Tallaght, whereby IAWS will receive an upfront fee of €48m together with 50% of the redevelopment profits. The Group has also transferred a large proportion of its property assets to a newly created subsidiary called Origin Enterprises. One of the aims of Origin is to add value to these properties over time in order to maximise their potential. Currently valued at €164m, we consider this valuation for Origin's property assets as conservative and believe that its properties are worth in excess of €300m, with potential for further value to be added upon rezoning/planning permission on sites such as Cork Marina and Newhall, Naas.

Unearthing Value in the Property Assets of ISEQ Companies

Apart from the companies mentioned above, we have examined the property assets of many of the other leading Irish publicly quoted companies and our research suggests that, in many cases, their property assets are worth significantly more than the values recorded on their balance sheets.

Grafton Group

One such company is Grafton Group, a significant property owner in both Ireland and the UK. Grafton currently holds circa 170 freehold and 300 leasehold sites and its property assets, which have not been revalued since 1998 in the case of Grafton and April 2004 in the case of Heiton, are likely to possess considerable potential upside. In 2006 Grafton sold its 0.8 Ha Atlantic Homecare site in Sandyford for circa €35m. The Group has another valuable site (~0.6 Ha) on nearby Ravensrock Road which is worth in the region

of €20m. In Lucan, Grafton has a circa 14 Ha site worth in the region of €90m, while at Thomas Street, Dublin and Bishopstown, Cork the Group has valuable sites worth in excess of €100m. The most valuable site in Grafton's portfolio is probably the 14 Ha site at the Red Cow roundabout which is worth in the region of €125m. We estimate that Grafton's property freehold assets could well be worth in excess of €1bn, but are recorded on the group balance sheet at €422m.

CRH

Another company with very considerable property assets is CRH, which has over 2,700 locations in 25 countries. In Ireland the Group has acquired its 122 sites since the 1930's, many are within reach of large urban areas, making them extremely valuable from both an operational and future use perspective. The most important of these include the Group's quarries at Belgard (~300 Ha) and Feltrim (~45 Ha), cement works near Drogheda (~600 Ha) and Limerick city (~900 Ha) and sand pits at Blessington (~250 Ha). We estimate that these properties, which have not been revalued since 1980, could be worth several billion Euro. We estimate that profits released from the Irish property portfolio would equate to circa 20% of market capitalisation and would increase shareholders funds by over €7 a share.

Moreover, with many analysts believing that the current CRH share price undervalues the company, there has been speculation that the Group is a potential takeover target. If the company was to be taken over, a

disposal of the Irish assets could be on the agenda; with less than 6% of Group trading profits expected to come from Ireland in 2008, it could take many years for CRH to earn from continuing operations in Ireland the profits it could release in the medium term from its Irish property portfolio.

Other companies with significant property assets, which we believe are undervalued include DCC which has valuable properties on Broomhill Road and Cookstown in Tallaght, and Cloverhill Clondalkin, ICON which may have valuable surplus property after completing the construction of new offices at Leopardstown, IL&P which has a very substantial and valuable HQ on Saint Stephens Green. Donegal which has several valuable properties in Letterkenny and An Grianan, FBD which has several valuable hotels, and AIB and Bol both of which have sold and leased back properties in the last year but which still have valuable remaining properties in their portfolio's.

With demand for well located property/land in urban areas set to remain strong, it is no wonder that property developers are setting their sights on the undervalued assets of publicly quoted companies. We believe this trend will continue until such time that the balance sheets and share prices of these companies reflect the value of their property assets – or they are taken private by the aforementioned property developers!

If you would like to discuss the property assets of ISEQ companies, please contact Joe at 01 6115611 or email joe.okelly@ncb.ie

Don't Leave it to the Children

An Interview with Alan Crosbie, Chairman of Thomas Crosbie Holdings Ltd



Thomas Crosbie Holdings (TCH) is one of the most successful private companies in the country. With over 17 newspaper titles under its stewardship, including the Irish Examiner and the Sunday Business Post, it is a fine example of a family business success story. As Chief Executive of the Examiner and then subsequently as Chairman of TCH, Alan Crosbie is the fifth generation of his family to run the business. Working in the newspaper industry since 1972, Alan has led his family business through a period of rapid growth and development. Now a keen author and lecturer on the family business theme, Alan took some time out to discuss his experience, outline the challenges involved and reflect on some words of wisdom for families in business.

AF: Alan, please tell us a little about your own family business background...

AC: I'm the fifth generation of our family to run the newspaper. I was born into a family business with a long history dating back to 1841 which formed part of our family's identity. It was always assumed from a very young age that I would enter the business; there was never a discussion one way or the other. So when I was five years of age and my friends wanted to be firemen or ambulance drivers, I knew I was going into The Examiner.

Not only did I know that I was going to work in the business, I pretty much knew what area I'd

be working in. My dad was commercial director in charge of advertising, newspaper sales etc – the revenue generating side. My uncle Donal was in charge of the editorial side of things and my father's cousin, Ted was in charge of all the production. It was assumed that the eldest son from each of the families would go into the business in the same departments that their fathers were in. But while these were pre-determined paths and everything was just assumed, I don't regret it, I never rebelled against it and it was a great opportunity for me.

AF: Family business is very much part of your heritage. What prompted you to write a book on the area?

AC: A number of factors prompted me to write a book. Firstly, I think every 6 or 7 years one should take stock of oneself, we do this with just about everything else but we don't do it with ourselves often enough. We should try and sit down over a couple of days to reflect on our objectives, where we are, where we want to go and so on.

When I took over as CEO of the Examiner and the Echo in 1993, it was recommended to me that I do the OPM (Owner-President Management) course in Harvard University. One of the many things I learnt in Harvard was that if you make a success of something, quit while you're ahead and always leave the stage with people wanting more. So, I had planned that by 2001, I would spring free from the day-to-

day executive life at the Examiner once we'd achieved all we set out to achieve. This allowed me to get involved in a lot of other things and it formed part of a whole reassessment of myself - that's where the book came about. I knew in Sept 2000, when I published the book, that in March 2001 I would be stepping down as Chief Executive of the Examiner.

AF: Once you achieved what you needed to with the business, you planned to step aside. But how did you make it all happen?

AC: I took over the business at a time of recession - it wasn't in great shape. In 1993, the year I took over we had a profit the previous year of £200,000 and borrowings and debts of £5.5m. In 1996, we were debt free and made a profit of £2m. Later, in 2000, we made a profit of €6m. Anthony Dinan (our Finance Director at the time) and I decided that we would make the place financially secure and then build from there. And we did just that.

In 1994, we started slowly buying other newspapers, we bought the Western People and we accelerated our expansion. To date, this buy and build strategy has worked. We knew that the industry was going to consolidate over the next 20 years. The first thing we wanted to do was to make sure that we would be one of the 4/5 large newspaper groups still in business in years to come. Thankfully, we now have 19 titles and a couple of radio stations and we're still expanding. It's been a successful strategy.

I was also determined to ensure that the line of a Crosbie having to run the business would be broken. Confining it to family members limits your options in terms of the talent you can get to run your business. It's better to break the mould, let family own the business and hire in the best talent available, worldwide if necessary. This implies you have a much better chance of maintaining ownership and for the business to be successful.

So in the year 2001, the opportunity arose to break that mould. I took over as non-executive chairman and we appointed Anthony as Managing Director of the holding company of Thomas Crosbie Holdings (TCH). The whole idea was that we would elevate TCH to a holding company - this became where the action is. And the Examiner and the Echo (where the big job was previously) would become a subsidiary essentially.

All of these elements, allowed me to step aside from the executive lifestyle. The family have taken much more of a back seat. We're still on the board of directors and we decide on strategy etc. But when it comes to running the business, we leave that to the professionals, Anthony Dinan and his team. The whole approach has worked very well for us. Now, TCH has 800 people employed, turnover of circa €100 million and profitability of around 15/16%. It's that sort of size.

AF: Given your experience, what is the biggest challenge for family businesses?

AC: One of the biggest problems is when the business is successful. That's a challenge. Try and make sure that family members who aren't necessarily involved won't starve but make sure that they generate their own living as well. Rich Lists don't help of course - the sums they outline are often astronomical and raise questions among family members. The idea is to look after your family members as much as possible, we don't spoil ourselves.

75% of family businesses don't make it to the 2nd generation and a big reason for that is jealousy among family members. Try your best to avoid that problem.

AF: What about succession?

AC: All the family business conferences talk about letting go and succession but while it's very important, I frankly think it's been beaten to death. Succession you can plan for. I think the more serious issues with family businesses are the one's you can't plan for or even anticipate like sudden death, marriage, partners clashing, jealousy, emotion etc. So, while succession is a very important issue, I think there are loads of others that these family business conferences don't actually address. This I hope, we'll be able to achieve in the Family Business Network in UCC, run by Joan Buckley. This National Centre for Family Business will look at bringing essential "family business" courses into the executive education and MBA programmes. Professional managers need to realise that things happen in family businesses that don't happen in others! Unless he/she is prepared for that and has studied something about it, they could be tied up in knots. Emotion is involved at all stages - that's why it's such a good subject. It's about family, emotion, blood sweat and tears. It's all tied in.

AF: Any words of advice you would offer families in business?

AC: There's one word. In the property business, it's "location, location, location" - in the family business it's "communication, communication, communication" - it's just so important that people, particularly other family members, understand what's going on with the business. It's important to disclose good and bad news.

In terms of issues surrounding jobs for family members and so on, our philosophy is that if a family member wants a job in here, they'll be interviewed like everybody else. If they are

the best person for the job, they shouldn't be discriminated against positively or negatively.

You need to try and strike the balance of what's good for the family and good for the business. If it comes to the crunch to make a choice, you nearly always have to do what's right for the business first because an awful lot of times without the business, there's no family either. It keeps families together.

I do a bit of consulting with family businesses and I always tell them, there's no magic formula, what works for my family business, may not work for yours. All I can do is give you the benefit of what we've done but don't take it as gospel, please.

AF: What's next for your own family business?

AC: Thomas Crosbie Holdings for the next couple of years will continue to expand. The opportunities are getting less and less to grow by acquisition in Ireland so we may start acquiring or expanding in the UK or on the continent of Europe or indeed we may start generating new businesses ourselves. Or both. We've work to do in the whole area of electronic media. I'm a great believer that one of the best ways to build a brand in electronic media is to use a newspaper's brand which is credible and trustworthy. There are opportunities for us.

We sit down as a family every three years to decide whether we want to continue owning this business or not. It's very valuable now. This was a subject we could never have discussed before. But now we've evolved as a board of directors to determine whether we'll stay involved or not. To date and for the foreseeable future, we will. We still think that the family is better off by owning the business and that the business is better off by the family having a shareholding in it. We still have something to offer/contribute to it. It's important for our CEO to know that his shareholders are committed to the business for the next number of years. And we are.

If you have any feedback or comments in relation to this interview please call Alan Foy at 01 611 5611 or email alan.foy@ncb.ie

Tax treatment of Contracts for Difference

Aoife Lavan, Executive, Personal Financial Services, NCB Wealth Management



For some time there has been no clarification or specific legislation regarding the tax treatment of CFDs. However an “e-brief” was issued by Revenue on Thursday 12th July 2007.

A CFD is an agreement between an investor and a CFD provider to pay the difference between the opening and closing price of an underlying security, typically a share or index. This allows the investor to profit or suffer a loss without ever actually owning the underlying asset.

CFDs are most often leveraged investments; it provides experienced investors access to gearing for stock market trades. Normally gearing of 5 times is available, and typically an initial outlay of circa 20% of principal is all that’s required at the outset. Whereas an investor may initially only post margin equivalent to say 20% of the value of the transaction it is important to note that the financial exposure is to the full amount of the underlying transaction.

The movement in the value of a CFD is affected by:

- 1) movement in the price of the underlying CFD asset/share,
- 2) funding costs linked to the geared exposure of the CFD
- 3) the income attributable to the underlying CFD asset e.g. Capital adjustment for dividends, etc.

There is a potential stamp duty benefit to CFD’s in that the underlying asset is not owned by the investor; resulting in a possible 0.5% and 1% saving on UK and Irish listed entities respectively.

In the e-brief, Revenue confirmed that CFD’s are capital assets and therefore fall within the scope of Capital Gains Tax (CGT). This CGT treatment applies to private individuals and not to those who hold CFDs in the course of their normal business/trade e.g. stockbrokers.

Interest earned (and actually received) on the funds placed on deposit is treated in the same way for tax purposes as normal deposit income under Schedule D Case III. This is separate and not to be confused with the “interest” incorporated within the CGT computation. As well as the difference in value of the asset from the beginning to the end of the contract period, flows such as interest

and dividends are taken into account when calculating the gain/loss.

Furthermore, the CGT computation differs for long and short CFD positions. Where the CFD is a long position, (i.e. the price is expected to rise). Interest is a deduction and dividend income is a gain in the CGT calculation. Where the contract is a short position, (i.e. the price is expected to fall). Interest is a gain and dividend income a deduction in the CGT calculation. A deduction for broker fees incurred is also allowed when calculating the CGT. The best way to describe this is to use an example:

CFD “Long Position”

Deposit 20% (exposure €500,000)	€100,000
Less interest (cost of funding 1.25% above “Euribor” on €500,000)	(€26,250)
Plus capital adjustment for “dividends”	€10,000
Plus increase in value of the shares **	€125,000
Less fees and commissions	(€2,500)
Final Balance	€206,250
Actual Gain (€206,250 - €100,000)	€106,250
Capital Gains Tax @ 20% *	€21,250

* Assume annual small gains exemption has already been used

** CFD opening position 25,000 shares @ €20 = €500,000
CFD closing position 25,000 shares @ €25 = €625,000

Actual gain can also be worked out as follows:

Increase in value of shares	€125,000
Plus capital adjustment for “dividends”	€10,000
Less interest charge	(€26,250)
Less fees and commissions	(€2,500)
Actual Gain	€106,250

CFD “Short Position”

Deposit 20% (exposure €500,000)	€100,000
Plus interest (“Euribor” less 0.5% on €500,000)	€17,500
Less capital adjustment for “dividends”	(€10,000)
Plus reduction in share price **	€125,000
Less fees and commissions	(€2,500)
Final Balance	€230,000
Actual Gain (€230,000 - €100,000)	€130,000
Capital Gains Tax @ 20% *	€26,000

* Assume annual small gains exemption has already been used

** CFD opening position 25,000 shares @ €20 = €500,000
CFD closing position 25,000 shares @ €15 = €375,000

Actual gain can also be worked out as follows:

Decrease share price	€125,000
Less capital adjustment for “dividends”	(€10,000)
Plus interest charge	€17,500
Less fees and commissions	(€2,500)
Actual Gain	€130,000

This e-brief was gladly received by investors as it removes the uncertainty regarding the tax treatment of CFDs. Please note that this is an interpretation of the Revenue’s e-brief but does not constitute tax advice and we would recommend that you consult your own tax advisor.

< Breaking News >

New Appointment

Joe O’Callaghan has recently joined our NCB Wealth Management team from IFG Financial Services where he spent almost 8 years. Joe previously worked with Ernst and Young, Grant Thornton and Mazars.

Joe is a qualified accountant (ACCA), tax advisor (AITI) and financial advisor (QFA) and will be responsible for advising clients on a broad range of investment opportunities, pension structures and approved retirement funds.

To contact Joe, please call 01 6115611 or email joe.ocallaghan@ncb.ie

Fund Focus 2007 - UPDATE

In January, we launched ‘Fund Focus 2007’ to highlight the investment funds which we believe have the potential to outperform and add value to your portfolio.

The highlights so far have been the Fidelity India China Fund and the Standard Life Pacific Basin Multi Manager funds which are up over 18% in the year to 20th July 07. These funds are not for the faint hearted and investors have had a bumpy ride. But while they are not for everyone, those brave enough to invest have been well rewarded. Other notable performers have been the UK Smaller Companies and the European Opportunities Fund which have returned a very respectable c. 12% return.

If you would like to learn more about our various Fund Focus picks or would like a copy of the Fund Focus 2007 booklet, please contact your account manager or Killian Nolan at 01 6115611

To contact Aoife to discuss the issues raised in this article, please call 01 611 5611 or email aoife.lavan@ncb.ie

The Case for Irish Financials

Aengus Wilson, Account Manager, NCB Wealth Management



Investors in Irish financials have had a poor time of late. The sector has significantly underperformed their European counterparts over the last six months. This is in contrast to 2006 where the Irish bank sector rose by 26% and comfortably outperformed the UK (+10%) and pan-European bank sector (+19%). In this article I will try to explain the reasons for the weakness and why, despite the dramatic falls in share prices, we believe that the continued sell off in the Irish Bank shares is overdone.

The majority of the weakness can be attributed to the perceived impact of a slowing Irish residential mortgage market (principally led by international institutional investors). While there is no doubt that the recent interest rate rises have clearly impacted affordability and this in turn has resulted in a definite reduction in mortgage activity this year, the effect of this on each of our financials is more modest than is commonly perceived. This article will examine the main players in the sector and explain why these concerns are overdone and the share price weakness has provided a buying opportunity for Irish banks.

Despite the slowdown in residential activity, the economic backdrop in Ireland remains very buoyant and GDP is forecast to continue to grow significantly above the European

average (NCB's forecast for Irish GDP growth is 6.7% for 2007). Unemployment levels remain at historically low levels and the structural drivers of economic growth remain unchanged. The unique demographic profile of Ireland, (immigration and growth in the over 25 population) will also underpin credit growth and provides a structural long-term demand for savings products.

Allied Irish Banks (€18.40) highlighted in their most recent trading statement on the 6th of June that it is comfortable with expectations. They noted that mortgage activity is slowing but at just 8% of total group profits a reduction in activity should not impact to any large degree.

Our year end target price for AIB is €26.70, offering almost 40% upside from current levels.

At these prices AIB trades on a very modest rating of just 7.95X 2008 Earnings. It is worth noting that AIB has market quoted interests in Poland (BZW Bank) and the US (M&T Bank). If these quoted assets were excluded, the market is currently valuing AIB's 'core' business i.e. the Irish and UK operations (25% of group profits) at just 6.5X 2008 Earnings.

Bank of Ireland (€13.80) also commands one of the lowest ratings in the sector, trading at just 7.4X 2008 Earnings. It's largely Irish (60% of group profits) and UK (29%) focused. The slowdown in their mortgage activities is set to be more than offset by strong momentum elsewhere within the Group. The domestic Life and Private Banking activities generated 12% of group profits at their last results. This is more significant than the bank's Irish mortgage

business (which contributes less than 10% of profits). The key attraction with Bank of Ireland is its extremely undemanding rating. This coupled with a 2008 forecasted dividend yield of 5.4% reinforces the investment case.

Irish Life & Permanent's (€17.40) rating has also come under significant pressure in recent times. The main divisions are Life Assurance (52%), Banking (38%) with other contributions in General Insurance. The Life Assurance division is at the core of the group's profitability. It is focused on the Irish long-term savings market. Given the extremely favourable backdrop, along with Ireland's demographic profile this business is set to benefit significantly in the years ahead. The ageing and growing population of Ireland will encourage people to save/provide for their old age.

The share price has also suffered in recent times having reached a high of €22.80 in late January, they are now trading at just €17.40. There is no doubting that Irish Life & Permanent has significant exposure to the Irish mortgage market, with the bulk of their loan growth in recent years in residential mortgages which now account for 88% of total loans (ROI 69% :

UK 19%). Other divisions such as Consumer Finance and Commercial Lending have also increased significantly but are relatively small in the context of overall lending.

However, the group recently raised company guidance for the full year, with a sharper than expected slowdown in the mortgage market being negated by the strong performance within the Life activities.

Anglo Irish Bank (€14.80) is a niche bank specialising in secured commercial lending. The company's loan book is all commercial lending, and has no direct exposure to the Irish mortgage market. The bank is on track to deliver significant growth from its core lending activities in Ireland, Britain, and the US. The loan book is split 57% in Ireland, 34% from the UK, and 9% from the USA. Coupled with this, there is a growing contribution from non-lending activities, such as wealth management. Fundamentally Anglo Irish Bank looks very cheap given management's confidence that they will double earnings in the next 4/5 years. Anglo Irish Bank is the cheapest "growth" stock in our European universe trading at a 25% discount to peers despite a

superior growth outlook. This discount looks excessively harsh and in our view represents an excellent entry point. It currently trades at 9.25X 2008 Earnings – this is the lowest it has ever been since January 2004. In 2004 and 2006 Anglo Irish rallied strongly in the last quarter – posting gains of 21% both times.

Overall, the medium-term prospects for the Irish Banks are still excellent; investor concerns about the consequences of a downturn in the Irish housing market seem overly pessimistic. The low ratings and high dividend yields should provide a catalyst for a turnaround in fortunes for the sector over the coming months. The Irish economy, which despite it being portrayed in various sections of the media as on the brink of a recession, is still the envy of most European economies.

Structured Product?

Investors may wish to invest in Irish Financials yet avoid the associated volatility. If you are interested in a structured product based on the underlying performance of either a basket or a single Irish Bank share with full or partial capital protection, please contact your account manager.

Company	Price	YTD Perf	YTD High	YTD Low	2008 P/E	2008 Div Yield	NCB Target	% Diff to Target
Allied Irish Banks	€18.40	-17.50%	€23.95	€18.24	7.94	4.60%	€26.70	46.00%
Bank of Ireland	€13.80	-18.88%	€18.65	€13.57	7.37	5.36%	€20.00	47.40%
Irish Life & Permanent	€17.40	-12.44%	€22.80	€17.00	8.28	4.09%	€26.30	49.40%
Anglo Irish Bank	€13.88	-9.73%	€17.53	€13.68	9.25	1.57%	€20.00	44.10%

If you would like to discuss any of the issues raised with Aengus, please call 01 611 5611 or email aengus.wilson@ncb.ie

Immigrants to Ireland: Numerous & Well Educated

Eunan King, Senior Economist, NCB Stockbrokers



The most recent volume of the 2006 census in Ireland provides useful support to the idea that education and immigration are two important planks in the economic growth story. We have pointed out that the educational attainment level of those retiring from the workforce is much lower than those entering it. This is borne out by the census numbers which show that the number of people leaving full-time education before the age of 16 fell from almost 50% in 1981 to just over 21% in 2006. This substantially boosted the educational content of the labour force and supports the view that productivity growth will be maintained by the rising educational level of new entrants to the workforce compared to those retiring.

About 60% of people aged over 70 had primary education only compared to only 7% aged 20-29. Those with primary education only in the population were 31.8% in 1996 and had fallen to 22.6% in 2006. Those who completed their education to third level were 29.1% in 2006 compared to 19% in 1996. The proportion of the labour force with primary education only fell from one in five in 1996 to one in eight by 2006. Those with third level rose from 25.4% in 1996 to 36.2% in 2006.

The non-Irish component of the labour force is now 13.6% compared to 7.1% in 2002.

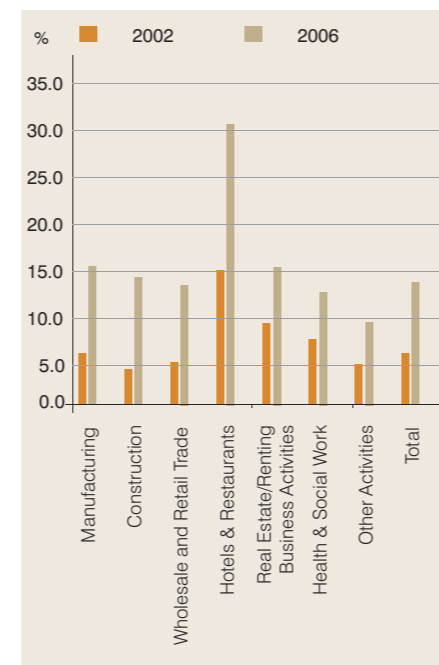
Immigrants now account for 11.2% of the population aged over 15 compared to 6.3% in 2002. Their presence as a percentage of the workforce has broadly doubled across a range of sectors in the economy. In construction it has gone from 4.7% in 2002 to 14.2% in 2006. Hotels and restaurants now have nearly 32% non-Irish employees. (Chart 1)

The educational attainment levels of the immigrant population continue to be higher than in the Irish population. In 2006 43.8% of the non-Irish population aged 25-44 had a third level qualification compared to 41.3% in the Irish population. In 2002 the comparative numbers were 45.3% and 34.3% respectively. In 2006 10.8% of immigrants aged 25-44 had primary education only compared to 11.8% in 2002. This indicates that the educational level of recent immigrants compares well to the earlier inflow.

The census confirms the view that educational attainment is the key to employment and, in a sense, competitiveness. Unemployment rates among those with primary education or lower secondary only were clearly much higher than among those with higher levels of educational attainment. The unemployment rate among those with primary education only was over 18% in 2006 compared to

only 4% among those with third level. In summary, the 2006 census does not change our view that the demographic influences on the Irish economy remain benign. The growth in the immigrant population is remarkably strong and the educational attainment levels of immigrants remain high. This would suggest that the immigration flows are adding to the productive potential of the economy.

Chart 1. Non-Irish Employees as a % of Total



Will We Stay Or Will We Leave?

David Lamac, NCB Wealth Management



The brain drain of the 1980's has now been rapidly replaced by positive flows of migration into Ireland. These migrant workers (of which I am one) have added to the labour force base, spurred housing demand and boosted domestic consumption of goods and services. As my colleague Eunan King highlights, we are adding to the productive potential of the Irish economy. But the question on everyone's lips is, will we stay or will we leave? I'd like to start that very healthy debate.

Why would migrant workers stay in Ireland?

There are excellent job market conditions across all sectors in Ireland. The good salaries and plentiful job opportunities are a key attraction for migrant workers from the EU accession countries. At home their salary expectations aren't being met, certainly not commensurate with their acquired skills and qualifications. Ireland benefits from an inflow of highly educated workers who will increasingly want to stay to put those skills to good productive use. In addition, Ireland's compelling personal tax rates are a powerful tool to attract and retain migrant workers. The low-tax, progressive approach integrates well-constructed reliefs (including pension contributions, rent, and public transport expenses) which are easy to understand.

The system here is transparent and user-friendly - a rarity in most parts of the world. Importantly, it's easy to settle here as the Irish are open, helpful and kind which is refreshing and attractive to immigrants. The social scene is as vibrant and energetic as any place worldwide, and the facilities are great for those of us who wish to pursue further education/study and hobbies. Personally, I think that the media campaigns to help ease the integration of immigrants, assist to create an anti-xenophobic environment which is essential for those who wish to settle here.

What factors would drive migrants away?

Many migrant workers would argue that Ireland is a relatively expensive country to live in. It goes without saying that the high real estate prices and rental prices are a real burden. Another problem is the cost of healthcare with excessive prices for check-ups & treatments, combined with extremely long waiting lists. As a result, many undergo medical treatments in their own home countries. Those who wish to start a family in Ireland are burdened with very high maternity and associated childcare costs; so raising a family in Ireland is increasingly costly and less favourable. Affordability and cost of living could become the real factors in their decision to stay or leave. Another major risk is that migrant workers

will leave Ireland as soon as they have accumulated enough wealth to develop plans at home. While this may seem surprising, it's a reason that I often hear as the primary objective for many coming here in the first place.

There's no doubt that the buoyant economic conditions and outstanding earning potential are attracting young people to Ireland. But what if the new EU accession economies "catch up"? Ireland may stay miles ahead in the years to come, but incomes in these accession countries could soon start to attract returning migrant workers who constantly monitor these changes. It's a point certainly worth noting.

So will migrant workers stay or leave?

Quite simply, there is no single answer and it depends on a mix of factors - both economic and social. While I would expect the levels of growth in immigration to fluctuate slightly as emerging economies play catch-up, I think Ireland will continue to attract and retain foreigners to live and work here. From my perspective, for the foreseeable future, net migration is a feature that's here to stay.

If you would like to discuss this article with David, please call him on 01 611 5611 or email david.lamac@ncb.ie

Pensions Corner

Approved Retirement Funds – Clarifications add to the confusion

Joe Hanrahan - Head of Personal Financial Services, NCB Wealth Management



Charlie McCreevy may have drafted the original ARF idea on the back of a cigarette box but subsequent modifications together with new legislation and requirements would do justice to 'War & Peace'.

Qualifying Fund Managers (QFM's) are gradually coming to grips with changes which have affected both the general structure as well as the underlying investments which populate ARF's themselves. Vigilance and robust systems to deal with these changes have become the order of the day!

Take for instance the introduction in the Finance Act 2006 of 'imputed distributions' which come into effect in December 2007.

You may recall from my previous article on this topic that distributions will be phased in up to 2009 as follows: 1% in 2007, 2% in 2008 and 3% in 2009 and every year thereafter.

This will be a percentage of the ARF value as at the 31st of December of each year. This will only affect ARF's (not AMRF's) and will only be relevant to ARF holders who attain age 60 for the whole of a tax year.

It is now worth considering some of the corollaries and implications for clients who will be affected by this.

The deduction which QFM's must make from relevant ARF's will not necessarily be the percentages outlined. The amount deducted will be the income tax and PRSI/ Health levy due on the % of the ARF value. Unless a client who is an ARF holder has received an

Example 1

2007 Tax Year – No Distributions to client before 31-12-07	
ARF value at 31/12/07	€1,000,000
1% (imputed) of ARF at 31/12/07	€10,000
Actual Distributions (Jan – Dec 07)	Nil
Income Tax / PRSI on imputed Distribution (Assuming 41% tax, 3% PRSI, 2% Health Levy)	€ 4,600
*Value at 01-01-08	€ 995,400
*Future withdrawals from this amount are fully liable for tax (Includes the €5,400 not actually withdrawn)	

Example 2

2007 Tax Year – Actual Distribution before 31-12-07	
ARF Value at 31-12-07	€ 1,000,000
1% of ARF Value	€ 10,000
Actual Distribution (Gross)	€ 10,000
Less Taxation (41% PAYE, 3% PRSI, 2% H.Levy.)	€ 4,600
Net payment to client	€ 5,400
Value of ARF at 01-01-08	€ 990,000

actual distribution or instructs us to withdraw up to the required mandatory percentage, he or she may face double taxation. This is because the funds not actually withdrawn by the ARF holder will be subject to tax again on a further withdrawal – complicated or what?

Let's use examples to explain:

In example 2, the client who took an actual distribution received €5,400 and paid tax of €4,600.

In example 2, the ARF value has been reduced to €990,000 compared to €995,400 in example 1. If the client subsequently decided to take the €5,400 difference, further tax of €2,484 would be levied resulting in this income being doubly taxed!

This shows the benefit of taking an income each year at least equal to the required imputed distribution percentage.

As if this wasn't bad enough, now look at the tax treatment that has to be applied by QFM's:

ARF Holder	Class	PRSI	Health Levy	*PAYE 41%
Age > 70	M	No	No	Yes
Age 66 to 69	K	No	Yes	Yes
Age 61 to 66	S	Yes	Yes	Yes

* Top rate tax is applied unless ARF holders can demonstrate that standard rate should apply

The PRSI issue has caused major confusion amongst Insurance companies and other QFM's. As we understand it, Insurance companies may not be deducting PRSI in certain cases – in effect they are treating ARF distributions in the same way as they treat pension (annuity) payments.

As we understand it, this is an incorrect interpretation as ARF payments are not regarded in legislation as being similar in

treatment to 'pension' payments. As such, this may leave clients exposed to a further 3% deduction for outstanding PRSI when filing their annual tax return.

Finally, and if you're not already reaching for the pills! What about clients who take distributions during the course of the year which equates to the imputed percentage of

his/her fund value. Revenue agreed earlier this year that if an individual received an actual distribution during the year (equivalent to the mandatory imputed distribution for that year), then no deemed distribution will arise even if timing differences mean that the amount received is less than the relevant percentage at 31st December that year. [Another example!](#)

During 2007

ARF Value at 01-07-07	€1,000,000
Actual distribution requested	€10,000
Income Tax/ PRSI/ Levy	€4,600
ARF value at 02-07-07	€990,000
ARF value at 31-12-07	€1,050,000
1% of value (31-12-07)	€10,500
Less previous distribution	€10,000
Imputed Distribution	€500
*Tax	€230

* This tax is not applicable

The result of this for clients is that they should consider the appropriate time at which they take an actual distribution during the year. This is particularly relevant if your expectation is for a significant uplift in the value of your ARF portfolio.

I did say it was getting more complicated (and we could go on with other issues!) Bigger cigarette boxes required.

If you would like to discuss any of the issues raised with Joe, please call him on 01 6115611 or email joe.hanrahan@ncb.ie

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NCB welcome any comments on this or future
issues of Wealth Management.
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