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Issue 26 – Summer 2011

A Quarterly Perspective from NCB

Features

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Wealth Management

Issue 26 – Summer 2011 *A Quarterly Perspective from NCB*

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Trust Becoming a Real Differentiator



Greg Dilger,
Head of NCB Wealth Management

The recent collapse of Southern Cross – the UK's biggest nursing home operator – raises some very interesting questions for businesses in general.

The privatisation of the nursing home sector in the UK naturally led to intense competition among private and voluntary providers for government contracts. Unfortunately though, that competition was almost exclusively based on price. At the same time, it appears that the regulation and oversight of the industry wasn't sufficiently strong to clearly identify which providers are good and which are not so good. The unintended consequence of this, was that it effectively removed the incentive to compete on the basis of quality of service. In a low-margin business where the biggest cost (over 50% of

revenue) is staff, lower prices almost always convert into lower quality patient care. And we thought that competition was supposed to be good for the customer!

There's a lot of talk these days about the whole issue of trust in business. Much of this has centred on banks, financial and professional services firms. And that's fair enough. Many of them have not covered themselves in glory. But as organisations continue to be driven by profitability and shareholder demands for higher returns, how can customers of such firms be sure that their best interests are being catered for, and that they are not simply pawns in a money making racket for service providers?

Being or becoming trustworthy cannot simply be reduced down to pure mechanical behaviours. Actions are driven by beliefs, and beliefs are driven by fundamental values or principles. Trustworthy behaviour is much too complex to consistently fake without real beliefs and values underpinning them. If your values don't drive you to behave in a trustworthy manner all of the time, then it's a racing certainty that when the financial pressure comes on, customers will suffer.

is clearly not a satisfactory outcome for either party. It cannot be all about the client – nor indeed can it be all about the service provider either. A healthy balance must be struck.

We are all too aware of cliches like “client-focus,” or “customer-centric.” There is hardly a business anywhere that doesn't describe itself in such glowing terms in their corporate brochures or websites. Sadly though, these are terms all-too-often framed in terms of economic benefit to themselves rather than their customers.

Over promising and under delivering is one sure fire way of damaging trust. And yet it's all too common. Perhaps it's the pressure of making the sale or winning the contract that's the root cause of the overpromise at the point of sale, but a good professional salesperson working for a quality organisation should never have to resort to this to win business. A good sales person can sell the reality.

How an organisation deals with problems and complaints also tells an awful lot about them. Companies who seek out customer concerns proactively make those customers feel very comfortable. Service providers cannot afford to see problems or complaints as a chore. Problems are just part of the deal, and, if approached and handled in the right spirit, are opportunities to improve a relationship. Those who avoid facing up to problems miss out on that opportunity. This was an old hobby horse of Feargal Quinn – the founder of Superquinn – in his heyday. It is every bit as valid today as it was then.

It also goes without saying that companies who are committed to this must be willing to go the extra mile in identifying, hiring and developing people with the right “stuff”. Just like the nursing home business, wealth management is a people business that fundamentally depends on the quality of staff and their ability to form and maintain relationships with clients. Without them, it will be an uphill – if not an impossible task.

Greg Dilger

“The only sure way to build and maintain trust is firstly, to have good principles and secondly, to act consistently on them.”

The only sure way to build and maintain trust is firstly, to have good principles and secondly, to act consistently on them.

There has to be a genuine commitment to this issue right from the top of any organisation – by management (and indeed shareholders too!) – because at times, the sort of behaviour required to maintain and build customer trust, may actually reduce short term profitability rather than increase it. But there's little doubt that over the longer term, the impact of such behaviour on profitability will only be positive.

There must be a genuine focus on the customer or client for their sake, not just as a means to one's own end. It's quite obvious that if a business focuses on its customers to such an extent that it cannot provide adequate reward for itself and its own employees, then that business model will fail and will not be around to continue to service those customers. So that

Describing yourself as customer centric is one thing. But behaving in a genuinely customer centric way day in day out, is a much taller order.

There must also be a collaborative approach to customer relationships. (i.e. give and take). Collaboration means a willingness to work together, creating both joint goals and joint approaches to getting there. A medium to long term relationship perspective, not a short-term transactional focus.

A relentless focus on relationships will undoubtedly nurture transactions; but a relentless focus on transactions will almost certainly damage relationships.

Transparency, particularly in relation to fees/charges, is another vital component to trust building. Unexpected rabbits jumping out of hats and unpleasant surprises (such as hidden charges) that were conveniently overlooked in the sales process do untold damage.

Michael Chadwick

– The End of an Era ... But Some Era



In any business over an extended period of time the figures don't lie. So by any standards, Michael Chadwick's time at the top of Grafton Group plc has been an extraordinary one. Taking over a business which at the time had a turnover of c.€60m and growing this to €2bn during his 26 years at the helm, while also achieving a 16% compound annual growth rate in the share price is some achievement. However, despite this success Michael Chadwick remains one of Ireland's most understated and modest business leaders, and he is now embarking on a new chapter in his life as he prepares to hand over the reins to the company that he has been leading for over a quarter of a century. We recently sat down with Michael to discuss his time with the company as well as his views on corporate life and his plans for the future.

Q: Retiring CEO's are often judged on whether they leave a company in better shape than when they arrived. How do you feel on that score?

Michael Chadwick (MC): When I took over 26 years ago it was a very different company to what it is now. It was mainly an Irish Builders merchants business with just 14 branches and in the middle of an extremely bad recession. We learnt the lessons of not being exposed to one economy when we emerged from this recession and decided to diversify, and so began our expansion into the UK. We also built a new management team, starting with bringing in Norman Kilroy, Colm O'Nuallain and Charles Rinn. I'd like to think that it is now a much stronger diversified company than we were back then. It is far better managed and I think this strength in management will be continued

with our new man at the helm, Gavin Slark. While our markets continue to be tough I think we can look to the future with a good degree of confidence.

Q: What skills do you feel the new CEO Gavin Slark brings to company?

MC: Firstly, I think he brings with him a lot of experience. His background was initially in electrical retailing in the UK and he then moved onto distribution for the rest of his career. He joined and grew one of our main rivals BSS extremely successfully for 10 years and left as they were taken over by Travis Perkins. He's very much a hands on operations guy and came to be running a fairly sizeable public company at the age of 40 which is a fantastic achievement. We feel lucky to have him.

Q: Looking back on your Grafton career is there anything in particular that you are most proud of? What gave you the most satisfaction?

MC: I'd preface anything in this area that I am very conscious that the share price has fallen significantly during the recession and this will have disappointed investors. During my time at the business the share price has grown from 7c to where it is today at c.€3.50 along with paying dividends along the way, so financially it has been quite a reasonable performance for the long term investors in our company. I think we've built up the business for which there is a fair degree of respect and have an extremely competent and successful team. We've also successfully grown from being completely reliant on Ireland to ultimately deriving the majority of our earnings from outside the country. I'm proud of some smaller deals that have given us fantastic returns. Where ultimately due to small owners having to fend off banks etc., and who were still happy just to get out

rather than being too fussy about the terms, put us in an extremely strong position. It also gives me a degree of pride that we have grown some of our main business completely organically, for example, our Woodie's business in Ireland and in the UK, our Selco and silo mortar businesses.

“I think we've built up the business for which there is a fair degree of respect and have an extremely competent and successful team around us that would be regarded as being up there with the best in their field.”

Q: The pros and cons of being a quoted company. Do you think you would you have done things much differently if Grafton was a private company and did you ever consider taking Grafton private during the worst of the downturn?

MC: Going back in time to when I took over as CEO, Grafton simultaneously was both a family company (myself, my father & uncle were all on the board), a public company and a subsidiary of a multinational in that we were over 50% owned by a UK plc in Marley Group. When Marley wanted to sell out and tighten up their own operations and concentrate on manufacturing, I was then in a relatively strong position to decide what to do with their shares. We considered the merits of taking the company private at that stage, however, we felt that if we were going to develop the quote was going to be of use. Over the period we have doubled our share capital, primarily through rights issues to fund acquisitions etc, and I don't think we would have grown as much without the quote. I think it also

reassured our bankers at various stages along the way that we are a plc and knowing that as a last resort we could issue equity, although as it transpired we were the only one of our major peers in the industry in recent years that didn't have a rights issue during these tough years.

We took the view that this period was temporary. Our gearing peaked in 2005 and we've been paying down debt since then. If anything the discipline of being a plc was probably good for us.

Q: Did you ever consider branching out and diversifying into Europe during your time at the helm?

MC: Well, we recently announced a JV in Belgium which is small but it is a start. I would see the company continuing to grow as the new management settles in and we would see limited opportunities in UK and Ireland. We are members of a Europe wide buying group which has given us information on various companies and we have looked at individual businesses in the past, however for various reasons decided that they weren't quite right for what we were looking for at the time. I always felt reluctant to try and compete in the US. I spent some time working there when I was younger with Lowe's

and I think to compete with the big players, you need a strong competitive edge which I wasn't sure we would have over there. However, in Europe we would be dealing with many of the same suppliers that we deal with in the UK/Ireland, so we do have some level of competitive leverage in this area.

Q: Every CEO has a “management style”. Describe your own if you can? Do you think this style has changed appreciably over the years?

MC: It was very hands on in the beginning when we were much smaller. However, as the group has grown I gradually became more hands off and didn't get too closely involved in the operations of individual businesses. I also think that since Leo Martin joined in 2006 he's done an extremely good job in managing the operations and I suppose I've probably taken more of a strategic role. Leo has integrated the management teams of our merchanting businesses which has made us far more streamlined than previously.

Q: If you could roll the clock back to 5/6 years before the Irish economic downturn – apart from possibly selling Grafton at a very high valuation, is there anything you would've done differently? Did you ever have any fears of the Irish property market overheating during the latter years?

MC: We at Grafton had been saying for a number of years prior to the peak that the number of houses and apartments being built in Ireland was going to fall. However, we kept getting it wrong for a long time. In early 2007 I also believed that the world financial system was getting overheated. I read a number of market commentators, one in particular used to be the late Ian Rushbrook who managed a well known fund in the UK, Personal Assets Trust,

for many years. He used to bring out quarterly commentary notes saying for years that things were going to go wrong with the way we were going. I sometimes distributed his notes to our board to keep us in check, however I never envisaged at all that things would get to the level they are now.

If I knew what we know now I probably would've tightened the purse strings earlier than we did at the time.

Q: You have a keen interest in investing yourself. Any particular sectors or specific investments interest you at the moment?

MC: I think it could be worth keeping an eye on CRH. At current levels I think they could look good value. They have their operating business and also c.20 tonnes of aggregate reserves backing each share which I think are in the books at 1980 valuations. This equates to roughly €2.70 per share and stripping that away makes them look even more compelling in my view. The current P/E is high. However I would have confidence that the earnings will recover.

Q: Are there other Companies / Business Figures you particularly admire? (Either Irish/International)?

MC: Firstly, I would like to pay tribute to everyone who has been responsible for Grafton's growth over the last two decades. In terms of international figures, Warren Buffett has done incredibly well in his investments but he's also done what he has done in a very honourable way. He's now over 80 and may be coming to the end of his era, however, it's been some era. Closer to home, I think Michael O'Leary has done some job building up Ryanair to where it is now and I also think the people who built up CRH and Kerry, the Liam O'Mahonys and the Denis Brosnans, have done a fine job.

Q: What have you found is the view towards Ireland currently in your dealings with both international investors and your business dealings abroad?

MC: I've found that the number of international investors interested in investing in Ireland is pretty limited at the moment. But generally speaking our international shareholders have been with us for a long time. 30% of our shares are held in North America and they are long term investors who have been with us for years so that while we haven't seen much selling, we are only seeing limited new buying interest in the shares. It's a bit like the early to mid 80's when we saw very little interest then. If you look at Grafton shares, we have tended to peak in 9 year cycles. We last peaked in 2007 so hopefully we are half way through the next cycle. Fingers crossed!

Q: To finish, Michael, apart from remaining as non executive Chairman of Grafton Group, what are your plans for the future..... remain heavily involved within business or take time out to relax?

MC: Well I have a number of investments that will ensure I'm not idle. I concentrated over the last year on issues connected with the handover, so I haven't thought much about what I'm going to be doing after that. But I certainly won't be idle. I wouldn't have any interest in going down the non executive director route. I've enjoyed my time running Grafton. I had a great opportunity and tried to make the best of it.

Many thanks to Michael for taking the time to talk to NCB and we wish him the very best for the future.

Investment Overview:

H1 A difficult boat to navigate

Nigel Poynton,
Director, NCB Wealth Management

IGN DEBT DEBT CEILING
CHINA SLOWDOWN
QE2
RISING OIL PRICES

So far, it has been a tricky year for investors as the world begins to digest a change in the pace of macroeconomic growth, the probable onset of more normalised monetary policy (end of QE2) and the sharp unwind of some over-extended positions in commodity markets.

The transition from a market environment dominated by the intertwined effects of a weaker dollar, strong commodity prices and high risk appetite to an outlook that is less straightforward and perhaps less robust, has produced somewhat indecisive market behavior.

Indeed the “wall of worry” perceived by most investors appears to have grown and evolved to a significant extent since late 2010: Middle East unrest; rising oil prices; the effects on the global economy of the Japanese earthquake and tsunami; the EU sovereign debt crisis; a ‘hard landing’ in China; the end of QE2; the debt ceiling ‘dance’ in the US and, most recently, the return of ‘double-dip’ fears in the US. Mixed sentiment indicators and low trading volumes reflect these concerns and have re-confirmed our generally more cautious tactical view since the beginning of 2011.

Equities, in particular, are down over the past two months now (i.e. S&P c.-7% from recent high 2nd May) driven by concerns surrounding higher

oil prices, weaker economic data, ongoing Eurozone debt worries and greater geopolitical turmoil. There are also legitimate concerns around the end of QE2 in June, softening business confidence (from near record levels) and government deficits that have to be tamed.

Indeed this period of consolidation / retrenchment is closely mirroring last year’s four-month correction that also started late April. So far, both equities and bonds have corrected only half as much as then, but in only two months are tracking a similar pace. Momentum and news flow suggest as yet no end to the current correction (although this can change quickly). At issue is whether this year’s correction will be shorter and shallower, similar, or longer and deeper, turning into a bear market. We firmly believe it will be shorter and shallower.

What is the risk of a much longer and deeper correction, turning into a bear market for risk assets? This risk can never be ignored, however, at this point we believe the more likely trigger of such a bear market would come from a much faster rise in oil prices that would both depress consumer demand and raise inflation fears, pushing monetary authorities into interest rate tightening modes. An exposure to oil or oil related securities could be the best hedge here.

We firmly believe the global economic recovery is set to continue, generating robust corporate profitability while continuing high unemployment will keep labour costs under control in the developed world. This is even as monetary authorities begin to shift toward more normal monetary policies, whilst continuing to provide plenty of liquidity, as Bernanke and his “peers” will not risk taking the blame for any renewal of the most recent global economic crisis.

Could the bear market be brought on by faster deleveraging by US and UK consumers, combined with running out of ammunition by their policy makers? US and UK longer-term weakness would be negatives for world growth, but are already generally factored into world growth expectations and thus probably not enough to derail the world economy (at this stage).

In essence, near-term equity market performance still largely rests on expectations for the same themes as at the start of the year: US economic growth, Emerging Markets growth and inflation (especially China), and Eurozone peripheral debt.

We suspect equity markets may remain somewhat range bound during a summer lull, as “bearish” forces have not yet weakened in

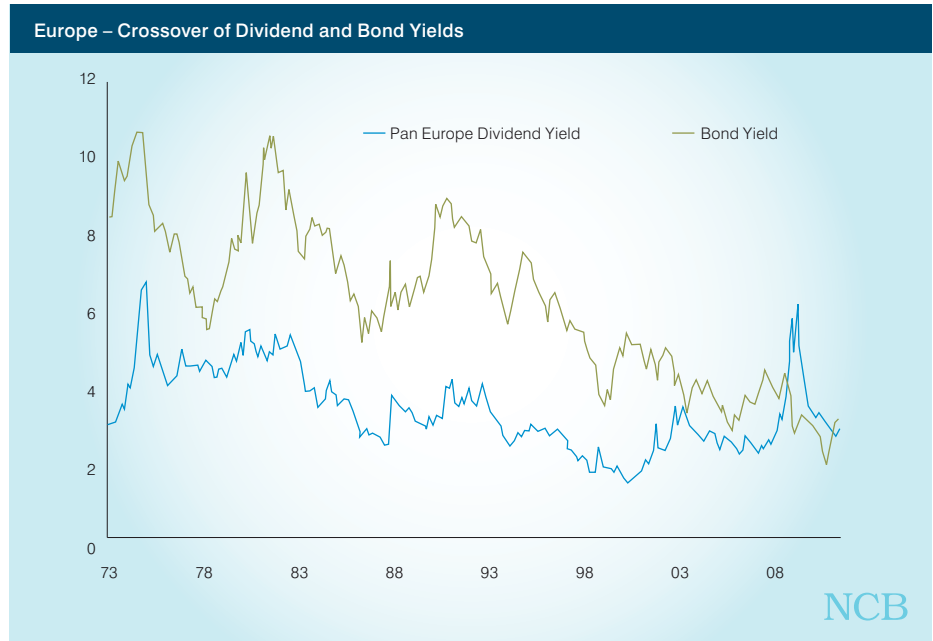
aggregate. However, any bottoming out of risks and fears over the next month or so, combined with signs of either a turnaround in industrial activity or some temporary solution to Greece or good Q2 US earnings or an uneventful end to QE2, should provide a bottom for risk markets and probable resumption of the upward trend as a “double-dip” recessionary scenario fails to unfold. Therefore, any significant pullbacks that may occur in the meantime should therefore be viewed as buying opportunities for investors, who are not already appropriately invested in equities.

Why do we feel so confident that global growth can reaccelerate soon?

Firstly, because the softening in growth is hardly unusual for this stage of the cycle and is the normal evolution of economic recovery, during which the initial phase of sharp snapback in growth is succeeded by a natural slowing to a more sustainable rate of expansion for the longer-term. Economic growth is still comfortably positive in major economies, aside from Japan.

Secondly, we believe we are in the early-to-mid stage of the economic cycle (especially in Europe) where business confidence indicators start to reach all-time highs, and corporate investment starts to rebound. Corporates hold large amounts of cash, encouraging them to spend on jobs and investment, while emerging market consumers remain robust. Thirdly, it is due to the stimulus from very low interest rates in most developed countries, which are generally well below the rate of inflation and set to stay so for at least another year (even in the Eurozone, where rates are rising slowly but inflation has risen faster).

A resumption of corporate investment usually translates into a pick-up in M&A activity which should also be driven by a) the low cost of funding with corporate credit spreads / interest



Source: Datastream and Citi Investment Research & Analysis

rates quite low relative to history; b) the gradual relaxation of loan requirements; and c) strong liquidity / solvency positions of many corporates. Indeed, it appears that the deleveraging cycle could be approaching an end. Furthermore, with sizeable sums of cash earning near-zero interest rates lying under-utilised on the larger company balance sheets, and the above-normal rate of margin expansion expected to slow down, there exists ample motivation to acquire growth externally.

We also take comfort from the fact that our proprietary fundamental valuation model concludes that European equity markets are trading below “long-term fair value”, coupled with European dividend yields back above European bond yields. This suggests reasonable valuation support for equities in the face of rising risk aversion, providing a fresh recession and earnings collapse are not around the corner.

What about peripheral Europe?

It is of ongoing concern but we believe the chance of it becoming a major systemic global risk is fairly low, unless global economic growth significantly rolls over. Despite ongoing political posturing, we believe that Core Europe realises that the cost of not bailing out peripheral Europe is greater than the cost of bailing it out.

According to figures from Credit Suisse, if the Euro is allowed to collapse, then the \$800bn of assets that core Europe holds in peripheral Europe would have about a 50% haircut, and moreover there would be a haircut on the ECB’s holding of European government bonds. Combining these direct costs could easily add up to around \$500bn. The cost of bailing out peripheral Europe (i.e. to get government debt to GDP down to 100% of GDP) is approximately €200bn.

Secondly, in aggregate, balance sheets and the external position in Europe are healthy. The combined budget deficit is below that of the US, Japan or UK and the current account is in a small surplus, with leverage close to that of the US. The problem is all about the distribution of debt as opposed to the amount of debt.

Thirdly, we also believe that the ECB will end up pursuing a more dovish monetary policy than is generally thought and that rates will rise only very modestly, despite the ECB's 'strong vigilance' statement.

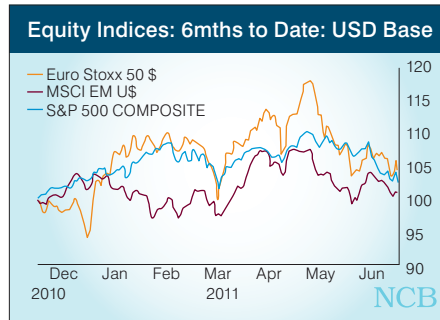
These figures certainly help focus the mind and we believe the risk of an actual Euro break-up or even the exit of one or more countries seems very low, given the hugely negative fallout this would have for the EU project and for financial stability.

However, we (and our clients) are increasingly conscious of "black swan" or "tail risk" events, so if you do not agree with our analysis of the peripheral debt situation and remain highly skeptical about the feasibility of the Euro project, NCB have plenty of resources and options for the management of personal or company cash, which we can work through with you on a one-to-one basis.

So What Portfolio Positioning Should I Be Looking At?

An area of increasing importance for globally orientated investors is their exposure to Emerging Markets (EM) and without getting into a detailed diatribe about the "pros and cons" of EM, we simply pose the question of whether a possible re-run of Summer 2010 provides an attractive entry point for investors who are "underweight" at this point in time.

Of course, history tends never to repeat itself exactly, but could the same thing happen again? During Summer 2010 EM outperformed Developed Markets by circa 10% as investors worried about the pace of US economic growth. Could EM outperform developed markets over



Source: Thompson Reuters Datastream

this summer due to worries over US growth? If we are correct in assuming that the current "soft patch" in US economic data may just be that, a "mid-cycle slowdown", are we being provided with an interesting EM entry point?

Although we can't provide a definitive answer we do expect EM relative performance to improve over the coming months supported by solid earnings growth (even if momentum is slowing); low cost of capital and valuations that are below long-term averages. Most importantly, as all these global 'worries' swirl around, there are now clear signs that inflation – the key worry within the EM asset class itself – is peaking in major emerging markets such as China and Brazil.

Could this not be more like a re-run of 2007?

We disagree with the analogy being drawn by some commentators towards this period. The alleged similarities are that commodity prices are too high and about to crash, a recession is coming and a new financial crisis is imminent. Moreover, valuation provides some support, for example, emerging markets are currently trading around 30% cheaper than at the end of the bull market in October 2007 (a forward P/E ratio of c.10x v c.14x in 2007 and a P/BV ratio of c.2x v c.3x). More importantly, by late-2007, the global economic recovery, which began in late-

2001 had lasted six years and was becoming very mature. Therefore, if this is 2007, the current recovery in the global economy (which began in mid-2009) will only last two years – and should be labeled a 'double-dip'. As discussed here, this is not our central thesis.

In summary, temporary patches of weak economic data especially during a relatively tepid recovery are not an uncommon phenomenon. Any sort of extension of monetary policy, coupled with a rebound in Q3 numbers, could provide further support to equities (in addition to existing valuation levels). However, in the short term, we believe prevailing macro economic uncertainty could lead to periods of volatility, and hamper any consistent strong moves to the upside. Similar to the previous economic cycle and from May-August 2010, we could see a period where equity markets flat-line for the next couple of months before rallying towards the end of the year.

If you would like to discuss anything discussed in this article please contact your account manager on 01 611 5611 | nigel.poynton@ncb.ie

Innovation and Entrepreneurship

– A refreshing tonic in the current economic climate



Despite the difficult domestic economic conditions, the relative strength of the Irish technology sector continues to grow, and with a focus on exports rather than the domestic market, Irish firms are continuing to expand and create jobs. This was the common message emanating from a recent NCB event, where a number of exciting early stage companies which NCB Ventures has invested in, presented directly to investors and fellow entrepreneurs. The showcase event gave the opportunity for people to hear directly from those entrepreneurs who are attempting to lead Ireland's economic recovery, and to hear their thoughts on some positive developments in the economy around innovation and technology.

NCB Ventures and the €75m Ulster Bank Diageo Venture Fund

NCB Ventures manages a €75m venture capital fund, the Ulster Bank Diageo Venture Fund, which invests between €1m – €5m in high growth start ups with global potential and SME's looking for acquisition and development capital. The fund is looking to build a balanced portfolio of companies with exceptional growth prospects. To date, the Fund has invested in

nine companies as shown below. Typically, the Fund acquires a strategic minority stake and appoints a nominee to the Board.

NCB Ventures Portfolio

At the event, Michael Murphy, managing partner at NCB Ventures, gave an update on the Fund's progress commenting "We are targeting around 20 companies in total for the fund and are now at nine since launching the Fund in late 2008. By investing early and getting into early-stage companies, we have sufficient time over the horizon of the fund to grow with and provide further support to these companies". The Fund is a ten year general fund which allows it to invest across sectors. Murphy said "the fund's technology focus to date was no coincidence as NCB believes technology will be one of the key growth areas in the economy".

The positive influence of having leading social networking companies like Facebook and LinkedIn based in Ireland, has helped foster the interest in and growth of innovative local companies operating in the same space such as HeyStaks (a recent university spin out combining search and social networking). Similarly, the confluence of art, technology and

science has seen Ireland develop as a leader in the digital media space. Combined, there is now a healthy mix of global internet leaders and innovative early stage indigenous companies all interfacing and developing a strong Irish presence in the global Internet market.

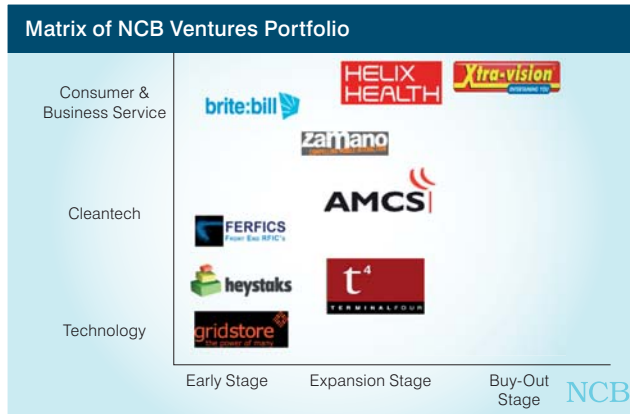
He also added "however the fund by its nature is a general fund. So, as the turnaround begins, we have opportunities to look at good Irish companies in other sectors".

The Fund is backed by a number of institutional investors including Enterprise Ireland, the National Pensions Reserve Fund, Ulster Bank, Diageo, FBD, NCB and a number of NCB's private clients.

Helix Health – the most recent investment

NCB Ventures most recent investment in Q2 2011 was a €5m investment in Helix Health.

Helix is a leading provider of software solutions to the healthcare sector. Their software products are currently used by over 10,000 healthcare professionals across Ireland and the United Kingdom. The company's systems are



currently used in 70% of pharmacies, 80% of GP offices, 85% of hospitals and 100% of chemotherapy treatment centres.

The funding will be used to strengthen Helix's investment in driving export sales and to facilitate further investment in R&D projects.

At the event, Howard Beggs, CEO of Helix Health, said: "This investment by The Ulster Bank Diageo Venture Fund is a very significant step in the growth story of Helix. It will facilitate further investment in our products to support local and international expansion. At the very core of the Helix Health agenda is the enhancement of patient care through technology, and delivering efficiencies to clinicians and healthcare providers. The funding and NCB Ventures commitment to the business will help us realise our ambition to bring Helix Health global, and it speaks to the potential for this business to grow through the delivery of the best-in-class technology solutions."

There is a global healthcare trend towards the co-ordinated provision of healthcare services at a primary care level between GPs, pharmacies and care homes. Shared information technology will be central to this trend and Helix is ideally placed in this regard.

Helix is continuing to grow its market share in the UK and its systems are currently used in twenty one centres for excellence in cancer

care, the largest online pharmacy in the UK, Pharmacy2U, and The Nuffield Private Hospital Group. "We have a very strong software offering and loyal customer base dating back over two decades. We have established ourselves in Britain. We are now looking at the next level" commented Beggs at the event. The company's global expansion programme also

includes two active partnerships in the United Arab Emirates and Kuwait as well as a cloud based offering in the US.

Beggs says Helix Health has a highly dedicated R&D team focused on incremental and transformational innovation within the healthcare sector. "We were for example the first healthcare company to bring robotics to the Irish pharmacy market and are currently developing cutting-edge cloud computing applications and piloting an Electronic Transfer of Prescriptions (E.T.P.) system in Ireland, which we look forward to rolling out in the near future."

HeyStaks and Terminal Four – some early stage examples

One of the early-stage firms that NCB Ventures has backed is social web search company, HeyStaks.

It received €1 million in backing last year to finance product development to the extent that it now has its software on the market. The firm's software extends the concepts of social networking to web searches. "It allows you to collaborate anonymously with friends and people of like-minded interest while you search" explained its chief executive Jonathan Dillon. "You get better, more relevant results, recommended by people you trust around topics that matter to you."

"You don't have to use a new browser or search engine. We just integrate our community curated content into your existing search engine results." Dillon said that the product was backed by sound data: one-in-four searches people carried out were for things they looked for in the past. Three in four of the searches were for things that people in their social network had searched for.

Heystaks employs 17 people and has released applications for the Firefox and Google Chrome browsers, in addition to apps for the iPhone and Android phones. It has user numbers in the thousands and the company is getting a strong level of interest from mobile phone networks and device manufacturers who want to include it on the phones they sell.

Another firm in the portfolio is content management software firm Terminal Four. It received €1.6 million in backing from the fund in January last year and used the money to fuel international expansion.

"We were quite lucky in that it came at a time when a lot of our competitors couldn't afford to put money into research and development" said Terminal Four chief executive Piero Tintori. "We put most of it into R&D and, as a result, we overtook a lot of them."

Terminal Four has won a string of deals with US universities over the past year and 40 per cent of its income now comes from the US. The firm is also undertaking a number of big projects in Europe and Asia. "It is really coming together at the moment" Tintori said. "All of our growth is coming from overseas."

Further Investments

NCB Ventures is actively looking for new investment opportunities with less than 50% of the Fund invested to date. The Fund invests across a number of sectors including ICT & media, healthcare, cleantech & renewable energy and business support services. In evaluating any

NCB Ventures Portfolio – 9 investments to date

proposition, a key criteria is the potential for the business to scale in a material manner, typically globally.

Backing the right management teams is central to NCB's investment policy. To date, they have supported MBOs/MBIs, management teams implementing acquisition strategies as well as organic growth expansion and spin outs.



From left to right: Howard Beggs, CEO, Helix Health; Michael Murphy, Managing Partner, NCB Ventures; Conor O'Kelly, CEO, NCB Group; Jonathan Dillon, CEO, HeyStaks at the NCB Ventures event in the Four Seasons

In addition to providing direct financial support, the Fund also co-invests with both strategic and financial investors.

Within NCB, the Ventures team works closely with our Corporate Finance Department for companies looking to access capital markets for further funding and our Wealth Management division with access to private clients with industry knowledge and financial support.

To find out more about NCB Ventures and our investment criteria, please visit www.ncb-ventures.com.

AMCS, a Limerick based CleanTech company employing 57 people, develops information systems for waste operators that enable them to charge on a pay-by-weight basis. The product solutions identify customer bins and their location, record the weight of the waste collected and transmits this data to software controlling customer billing and route optimisation.

HeyStaks, a spin-out from the Clarity Centre in UCD, develops web search and social network technologies. Based in NovaUCD and employing 13 people, the Company has developed a desktop browser and mobile solution that combines Web Search and Social Networking. This enables users to collaboratively search the Web and to access the right information at the right time, across popular search engines including Google, Yahoo and Bing.

Ferfics is a fabless semiconductor company based in Cork. The Company develops components (radio frequency switches) that improve the battery life of mobile phones and other wireless devices. The components, which control the flow of radio signals to and from mobile phones, can be manufactured cost efficiently by using existing semiconductor infrastructure.

Gridstore has developed a new generation of low cost data storage for small-to-mid-sized businesses that bridges the gap between the high cost of enterprise storage systems and the performance, scaling and reliability limitations of fixed capacity storage. Gridstore's technology is a unique grid storage platform that allows companies to grow their storage capacity efficiently.

Xtra-vision employs c. 1,200 people and is a leading player in the movie rental business, and the broader consumer entertainment market, commanding significant market shares in sectors such as games, mobile phones, music CD's and electronic goods. Xtra-vision has a national presence with 184 stores located throughout the Republic of Ireland (141) and Northern Ireland (43).

Helix is the market leader of software solutions to GP offices, retail and hospital pharmacists and private consultants in Ireland. The company also provides hardware and automated dispensing machines to the pharmacy sector. The solutions helps professionals in all areas of the primary healthcare sector deliver efficient, safe and cost effective patient services.

Terminal Four employs 49 people and is a leading developer of web content management software that is used by customers as an efficiency and automation tool, in the higher education, public sector and commercial markets. The funding is being used to develop partner networks, expand the sales force and for on-going research and development.

Brite:bill software enables organisations to deliver a fully interactive and personalized e-billing experience for their customer base. Postal, telecommunications and utility companies are using the software to create new opportunities in online communications.

Zamano, which employs 35 people, is a mobile data service provider that provides content, interactive services and applications to mobile devices. The company sells its content direct to consumers by advertising it on market channels such as online and mobile portals, and to a lesser extent through placing adverts on TV and in print media.

Looking Beyond the Euro

Aengus Wilson,
Director, NCB Wealth Management

Recent developments surrounding the sovereign debt crisis in the Eurozone and the aggressive monetary policies in the US and UK have brought currency movements to the forefront in investors minds. It is no surprise that major currencies that traditionally enjoyed safe haven status are beginning to lose their appeal.

As many western economies are in a phase of economic re-adjustment following a period of debt fueled growth, it would appear that we have entered a period of competitive devaluation, as each country would prefer to have a weaker currency to help offset their slower domestic growth. As many Irish people are aware, the British pound effectively devalued at the height of the financial crisis in 2008. Given that it is our largest trading partner, the British Pound is probably the closest watched currency in this country, although it is decreasing in significance in recent years. When one considers that during the period November 2003 to November 2007 the Euro GBP exchange rate never really moved out of the 67p to 70p range – recent movements (up to 96p in late 2009) are truly staggering.

As we are all aware, this effective devaluation of the British Pound had an adverse effect on many sectors of the Irish economy. Of the quoted Irish companies, many have over 50% of their earnings coming from Britain which clearly impacted the translation of their earnings.



Source: Bloomberg

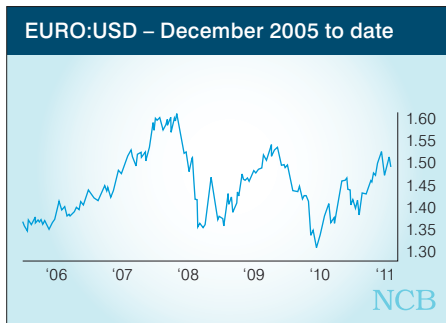
Many commentators now believe that the Pound represents good value. As recently as May of this year, Goldman Sachs believed that Sterling was attractive versus Euro, citing a discount to fair value. Partly as a response to the higher than expected inflation figures reported

recently, the Bank of England is poised to raise interest rates possibly in the fourth quarter which should be positive for the Pound.

There is widely held view that the Euro is weathering the sovereign debt crisis well and is remarkably resilient. This is understandable when it is compared to the US Dollar or British Pound but when compared to other currencies a truer picture of its waning attractiveness is revealed. The viability of the single currency is being questioned by some economists and there are structural issues that need to be addressed, specifically issues in peripheral states and in particular Greece. Despite these headwinds, the 'core' of Europe continues to thrive. As an example, it is worth noting that Germany enjoys many benefits of being in the Euro. 60% of all German exports are to Euro-zone neighbours, and has arguably gained most from the stable Euro exchange rate. Their Finance Minister, Wolfgang Schauble said recently "the Euro is the guarantor of Germanys continued success". If Germany were to leave the Euro, its currency would likely appreciate, significantly making the

economy far less competitive than the status it enjoys at this moment in time (2nd largest exporter in the world).

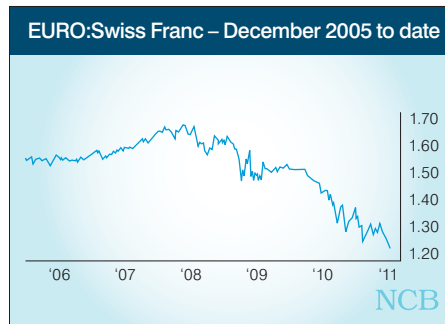
Whilst the issues facing the Euro are significant, other currencies have their own particular issues. As recently as last month, the World Bank stated that it expected the US dollar to lose its dominance in the global economy 'sometime before 2025' as a new 'multi-currency monetary system' will occur. The shift from the dollar will be driven by the increasingly important BRIC (Brazil, Russia, India & China) and other emerging markets. The report also stated that the Euro is the most credible alternative, with the obvious caveat of being able to overcome the sovereign debt issues faced by several of its member countries. Bill Gross of PIMCO has continued to warn investors of the risks of the US Dollar because of US policies (Quantitative Easing) and their debt burden. Investors, in PIMCO's view, should look further afield than the US and invest in nations that maintain firmer fiscal and monetary policies. Gross in his January Investment Outlook implied that Europe is taking the right approach where the US is heading in the wrong direction.



Source: Bloomberg

Historically, three currencies vied for safe haven status – the US Dollar, the Japanese Yen and the Swiss Franc. Given the extremely loose policies in the US, and the threat of further Japa-

nese Central Bank intervention, the Swiss franc in recent times has been the most favoured 'safe' currency. As the graph below shows, the Swiss Franc has touched all time highs against the Euro since the onset of the credit crisis and by 8% since the start of April of this year alone. Some commentators have suggested that parity between the two currencies is a real possibility in the coming months.



Source: Bloomberg

Despite this strength, recent data would suggest that the Swiss economy is still expanding (Purchasing Managers Surveys, Retail sales ahead of expectations), mainly due to its close ties to a thriving Germany. Consensus opinion suggests that the Swiss National Bank will raise interest rates (from very low rates), soon adding further strength to the Swiss Franc. It is hard to disagree that such strength is bound to ultimately hurt Swiss exporters and make them less competitive. However, it is likely that economic data or monetary policy will not be the main reasons for movements in the Euro Swiss exchange rate, rather events in Greece and other peripheral countries being the major driver in the months ahead.

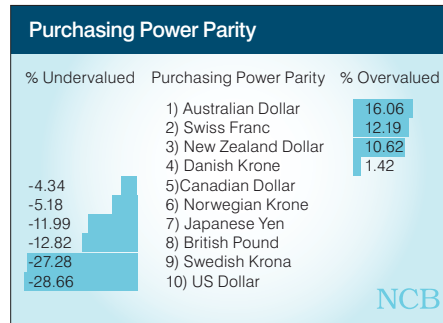
Given that the Swiss Franc has moved so aggressively in recent times, it is not surprising that it is expensive on a Purchasing Power Parity basis. As the graph over demonstrates,

other currencies appear better 'value' when compared to the Euro. The Nordic countries are often overlooked and they mostly have the benefit of stronger economic growth and higher interest rate support. As an example, the Norwegian Krone, since the dollar based fear rally of 2008 when virtually all currencies except the dollar were sold, has been strengthening. On closer inspection of their economy it is easy to see why it is attractive. Firstly, Norway is the only OECD country with both a current account surplus and budget account surplus. Secondly, it has low unemployment rates (3%). It also has the third largest sovereign wealth fund in the world and it has the lowest priced credit default spreads (CDS) on its government bonds. As one commentator recently stated "Norway is politically stable and its people have won the geographic lottery thanks to its proximity to rich oil deposits". However, if there was a sovereign default or geo-political event as in 2008, there could be a temporary flight back to the dollar. If the oil price was to collapse, this could also adversely affect the Krone, but this would most likely be driven by a world-wide recession and Norway with its huge reserves would be stronger than other OECD countries.

The Australian and Canadian Dollar are also benefitting from a prolonged period of strong demand for commodities. Whilst not as attractive as Norway, their government revenues and deficits are very low by international comparisons and also their interest rates are relatively high. However, the Australian dollar is expensive on a Purchasing Power Parity (PPP) basis. PPP is used as a tool to estimate the amount an exchange would have to adjust so that an identical good in two different countries has the same price when expressed in the same currency. It is often used in conjunction with the "Big Mac Index", which looks at the prices of the famous fast food burger in many countries and compares them to the price of a US Big Mac. As you can see from the PPP graph, the Australian

“Aside from the currencies listed above, it is widely perceived that over the medium to long-term, emerging market currencies are to continue to appreciate.”

dollar is particularly in demand, and the main risk associated with the Australian Dollar is that the interest rate tightening in China brings about a slump in demand for commodities and it loses some of its appeal.



Source: Bloomberg

Aside from the currencies listed above, it is widely perceived that over the medium to long-term, emerging market currencies are to continue to appreciate. They have the benefit of strong fundamentals and capital inflows. As mentioned in previous articles in this publication, emerging market economies already account for the majority of global GDP growth. The World Bank projects that over the next 15 years, emerging market economies will collectively grow by 4.7%, compared to 2.3% in the developed world. As a result of this strong growth, combined with fiscal prudence, debt levels across the developing world are generally falling. It also marks a significant reversal that none of the current sovereign debt crises involves an emerging market country. What is more amazing is that some emerging market economies (Mexico, Russia, and Brazil) that struggled with bankruptcy less than a decade ago now have investment-grade credit ratings! For the time being, the US Dollar, and to a lesser degree the Euro, reserve currency status is not under threat as there is no suitable alternative. However, it is likely that central banks and inves-

tors will continue to diversify their reserves away from the dollar and adopt a basket of currencies approach, which are likely to include gold and emerging market currencies.

Global economic tectonic plates are likely to continue to shift over the coming months and years and this will have important implications for future currency movements. Naturally, Euro based investors are likely to retain the bulk of their assets as cash in Euro denominated investments, as future liabilities will occur in Euros. However, a strong case can and should be made for diversifying a portfolio beyond national, or in this case, European borders. Admittedly, the solutions aren't always obvious so we believe investors should diversify a part of their wealth across a range of foreign assets. To date, we have invested through foreign held equities and bonds, and well managed currency and bond funds.

To discuss the various options available, please contact your account manager or Aengus Wilson on 01 611 5611 | aengus.wilson@ncb.ie

Belgian Property

– Opportunities exist in the heart of Europe

Bobby Hassett,
Director, NCB Wealth Management

While in Ireland the very mention of property at the moment causes most eyes to glaze over, certain locations internationally have extremely different fundamentals than those present in our own economy. Belgium is one of those areas which is worthy of outlining in further detail and we have asked Philip Walravens and Martin Neville of Tribeca Capital Partners, a leading boutique asset manager operating in the area for a number of years, to give us an overview of the attractive fundamentals that exist in the area currently.

The Belgian Property Market Today

How Belgium has weathered the Crisis

The North West European commercial property market has shown its resilience during the global financial crisis with Belgian property in particular performing well – showing positive returns of 4.1% p.a. over the past three years. These returns compare favourably to returns of 3.3% p.a. on German property for the same period. Unfortunately, from an Irish perspective, the comparative figures for the Irish market are showing a fall in values of 20.5% p.a. during this time (source – IPD). In Belgium the volume of activity for Q1 was €401m.

Who are active in the market?

Investors in Q1 have included local and international investors such as banks, insurance companies and high net worth individuals. Examples of transactions concluded recently are Swiss Life France buying the Renaissance building from CBRE Investors and Ethias bought a decentralized property from Besix. Many German Funds, especially, are now in buying mode including Deka, Union, HSH, Hansatic, CGI and RREEF.

How are the market fundamentals?

Yield

Taking the Belgian office market as an example – yields do not show a high volatility and the yield band is typically in the range of 5.5% to 7.5% depending on location and the quality and length of the covenant. During the financial crisis we have indeed seen the highest prices ever achieved in the commercial property market (for example a tower in Antwerp was sold at a yield of 5.4% and Dexia Insurance recently purchased a property in Bruges at sub 5%). Prime retail on best pitch city centre continues to be the most sought after because of lack of product and little or no vacancy because of the strong planning controls that continue to discourage out of town shopping centres.

Rents

Office rents have been stable and in some cases have shown small growth except in the European Area in Central Brussels where achievable rents have fallen from €250 pm² to where most transactions completed recently have been in the order of €200 pm². Other areas in or around Brussels and also in the regional cities like Ghent and Leuven have improved substantially because of a lack of good product and the decentralization of large organisations.

Funding

Financing is readily available in the market with ING, BNP Paribas, Dexia, KBC and Aareal Bank all active in the market. Its fair to say that LTV's have dropped somewhat to circa 65% for non-recourse facilities. Margins have also risen but business can be done in the range of 110 to 200 basis points depending on the product and the borrower.

How do Tribeca Capital Partners see the market developing

For office the coming 2 years will still be slow but after 2013 we see a significant shortage. Belgium has a land area of only 30,528 km² for 11 million inhabitants. Despite this density land values are significantly lower than neighbouring countries such as France, The Netherlands and

Germany. In particular we see a bright future for out of city offices or in city locations close to excellent public transport. Being close to good rail transport will be a key feature as fast train networks are being developed in most countries. Rental growth is forecast from 2013 onwards once the present development pipeline is absorbed and a real lack of grade-A space becomes an issue. Potential investors should consider buying 3-5 year leases today whilst capital values are low and offer good value. Renegotiating these breaks around 2013 has the potential to offer significant upside once rental growth kicks in.



Above: Teniers Building, Antwerp, Belgium

Where do they see the opportunities

Most people will think of the Brussels market when they think of Belgium, however, the opportunities extend beyond Brussels to Antwerp and the commuter towns. The main niche opportunities we see in the commercial market are:

- ➔ **offices:** flexible space out of city centre or in city centre but on public transport hub.
- ➔ **retail:** any property with a proven track record and preferably city centre.
- ➔ **nursing homes:** with a quickly ageing population and a highly regulated sector we see some niche opportunities in this sector.

- ➔ **long leases:** typically property in Belgium is on lease terms of 3/6/9 years. There also some properties with long leases and we believe that these are now attractive to investors.

Attraction of investing in Belgium

The Belgian property market has long held an attraction to investors due to its:

- ➔ Physical Location – huge population within 100km reaching 4 countries
- ➔ European Centre – the heart of European Union
- ➔ A friendly Legal System
- ➔ Ability to transact in “English”
- ➔ Low land values (“you cannot fall hard when you are low”) eg with lower office rents at similar yields one achieves lower capital values per m². Eg a Belgian property rented At 140 EUR/m² and a 7% yield equals a 2,000 EUR/m² capital value. If you know that construction costs (inc non recoupable VAT) equal easily 1,500 EUR/m² you know that you are not paying crazy prices for land in this country
- ➔ Opportunity to diversify property portfolio geographically

Additional specific attributes for Irish investors include:

- ➔ Good tax planning opportunity – generally transactions can be managed to be exposed to Irish CGT which can even be deferred for a long term investor.

- ➔ Financing readily available for good product on a non-recourse basis. Banks will take security by way of a charge on the property and over the shares in the SPV which holds the property. Almost all transactions in Belgium are by way of share transaction because of the level of registration duties on property transfers and because there is no Capital Gains Tax on share transactions of this nature in Belgium.

- ➔ Quality Investments available across all Sub – Markets (Large Office, Small Office, Retail High Street, Retail Warehousing, Government Buildings, Warehousing).

Politics in Belgium

Belgium politicians have been unable to form a government for nearly a year since the latest general elections. The reason is the inability of the politicians to agree on the level of authority to be devolved to the regions. There are strong governments in the regions of Flanders, Brussels and Wallonia and the country is at the heart of Europe. A split of the country as many foreign journalists might suggest is highly unlikely and a facilitation will be found between the various interested politicians.

Conclusion

Belgian property continues to prosper. The fundamentals remain positive. Yields are strong, Rents are indexed and predominantly rising and Funding is available.

Thanks to Philip Walravens & Martin Neville, of Tribeca Capital Partners, for their time in outlining to us the potential that exists in the country. To discuss any of the issues raised in this article, please contact Bobby at 01 611 5611 | email bobby.hassett@ncb.ie

Tesco – A Global Giant in Transition

Martin Cass,
Director, NCB Wealth Management

On 8th June 2010 Sir Terry Leahy announced his plans to step down as Tesco CEO, to be replaced by Philip Clarke, the then Head of International Operations and IT. Tesco shares promptly fell 3% – an indication of how highly regarded Leahy was and how tough an act he would be to follow.

Leahy's Impact

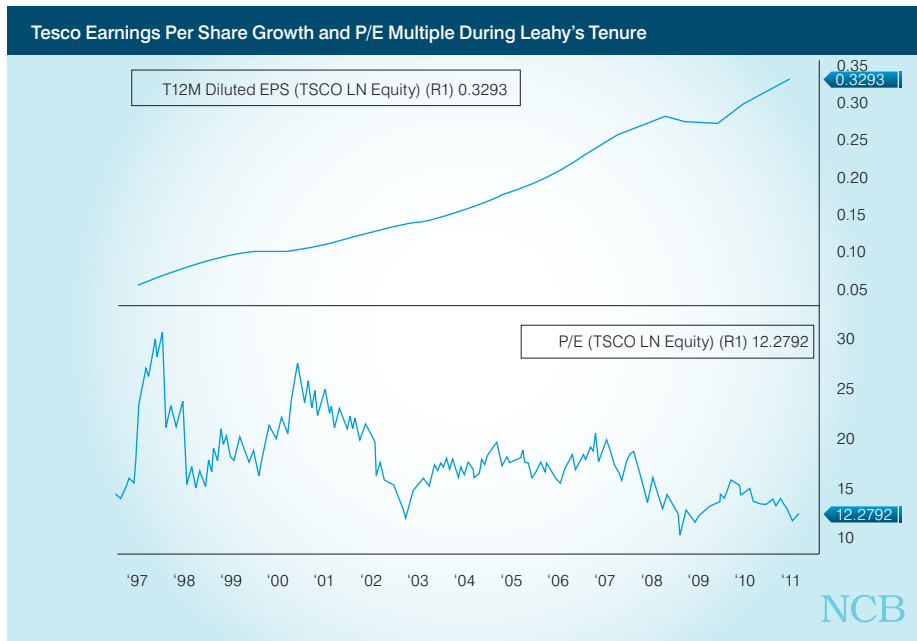
Leahy himself faced tough comparisons when he took over the reins from Ian (now Lord) MacLaurin in 1997. Under his tenure the retailer had been reinvented from a pure “pile ‘em high, sell cheap” merchant trailing in the wake of competitor Sainsbury, to becoming the UK’s number one grocery retailer through use of market knowledge and innovation. Leahy, in fact, had a major part to play in this reinvention, having championed the introduction of Tesco’s loyalty card “Clubcard” in 1995, which gave

the company invaluable insight into customers’ shopping habits. Today there are 15 million active Clubcard members across 7 countries.

If MacLaurin’s legacy was making Tesco number one in UK grocery, Leahy’s was twofold – 1. Building upon this to make it the UK’s biggest retailer overall through expansion into non-food and 2. Making Tesco into a major international player – it was the third largest global retailer by the time of his retirement. In both of these missions, Leahy demonstrated remarkable foresight in identifying nascent trends and capitalising on them.

The company had already dipped the toe into the emerging economies of Central and Eastern Europe after the iron curtain came down – establishing presences in Poland, Hungary, the Czech Republic and Slovakia between 1992 and 1996. Ireland was to come next. Having been in and out of the market in the early 1980’s, Tesco made a strong statement of intent

by purchasing the Quinnsworth supermarket chain in 1997. But the shrewdest move of all was perhaps the timing of their move into emerging Asia, that began with a foray into Thailand in 1998, with South Korea and Malaysia following soon after, then China in 2004. This expansion has been funded by the strong returns generated by the domestic UK businesses. Whilst not every single move has been successful (Japan is still loss making after 7 years), most have. And what has helped is the acknowledgment that every market is different and the “partnership” approach that they have therefore adopted. In some cases this has meant joint ventures, in others acquisitions, but even where Tesco has gone in on an organic standalone basis, they have always made sure to bring in locals at a senior level in order to ensure that they are in tune with native tastes and preferences. This



Source: Bloomberg Finance

tries outside of the UK, with access to 3 billion people (over half of the world's population). They are the world's largest online supermarket.

During his tenure, Leahy spearheaded a more than fourfold increase in turnover, profit and earnings per share and delivered a 400% total return for Tesco shareholders (versus 117% for the FTSE 100 and 151% for the FTSE Food & Drug Retailer sector over the same period).

A staggering performance by anyone's standards, and yet the current 12.3x multiple of last year's earnings that the stock is trading on is lower than when Leahy began (and well below the mid-teens to 20x P/E that it regularly traded on from 2003 to 2008). This contraction in valuation is clearly indicative of investors' doubts as to the sustainability of recent growth. However, whilst there are undoubtedly challenges ahead, Tesco looks very well placed to meet them and indeed capitalise on wider changes in the global retail landscape.

Clarke's Challenges

Whilst there can be no doubting that Sir Terry Leahy was the outstanding retailer of his generation, Philip Clarke hasn't inherited a business without challenges. The losses in Japan were mentioned above, but with that business comprising less than 1% of sales, it's insignificant in the grand scheme of things. More pressing is sorting out the company's struggling venture in the US – a pet project of Leahy – which began in 2007. As the world's largest retail market, it's been too tempting for many UK (and other) operators in the past to ignore. However, most have left with their tails between their legs. Nonetheless, Leahy thought that there was a gap in the market for convenience stores selling fresh food at cheap prices. For once, his timing was off, with the US economy battered by the sup prime crisis and credit crunch soon after Tesco's entry. But, as (an albeit slow) recovery takes hold, there are also question marks over the offering itself – specifi-

contrasts with the more prescriptive approach that competitor Wal-Mart has taken – and suffered as a result of.

Start of Diversification

The expansion beyond grocery began in earnest the year Leahy took on the top job, with the company entering into a joint venture with Royal Bank of Scotland to sell basic financial services such as insurance. They subsequently bought out RBS at the height of the credit crunch in 2008 and announced their intention to become a full service bank – something that now resides in Clarke's hands. There was a major push into clothing, with the Florence & Fred brand launched in 2001. And in 2004 came the stated target that non-food sales would be as big as food. The range was expanded to include home wares, gardening, DIY, entertainment and electronics, with standalone non grocery stores soon following.

However, most importantly, Tesco was also early to spot the potential of the Internet; having an online presence since 1994 and formally launching tesco.com in 2000, which quickly became the world's biggest web grocer (and was profitable into the bargain). In 2004 they became the first supermarket to venture into music downloads. And by the time of Leahy's departure, most of what was available in-store in the UK could be bought online.

Leahy's Legacy

Summarising Leahy's legacy is no easy feat. Since his arrival, Tesco's share of the UK grocery market doubled from approximately 15% to 30% (which is not far off double that of nearest rivals Asda and Sainsbury). From an almost standing start, they also became number one in non-food. All in all, £1 in every £8 spent in UK shops is now spent in Tesco. They operate in 13 coun-

cally whether the high dependence on private label fits with the American consumer's affinity with brands. After committing capital of £1.25bn and racking up losses in excess of £500m, one of Clarke's first big decisions will be to decide whether management's energies and the firm's balance sheet would be better directed elsewhere.

His second challenge is the domestic UK market, which many analysts fear is ex-growth and indeed carrying excess capacity in terms of the level of competition. Furthermore, Tesco's recent trading hasn't flattered relative to its peers. With already 30% of the grocery market, what more can be done? The growth baton may have been handed to the international markets, but with the UK still accounting for two-thirds of sales and operating profits, it cannot be ignored. Clarke's keynote address to the British Retail Consortium on 8th June made it very clear that he is doing anything but and has lots more ideas besides.

A New Era for Retailing

In his first speech as Tesco CEO, Clarke spoke about a new era for retailing built around the merging of online and offline channels. He said that new retailing was a result of the opening up of new markets and that the digital revolution had turbocharged globalisation and transformed how consumers and companies behaved. He sees Tesco's big opportunity as becoming an integrated multi-channel retailer – using shops to support online and vice versa (versus the silo mentality of the past). He spoke of the increased power of brands in the digital age due to their ability to engender trust and loyalty – and how successful retailers would be those who understood this.

In short, Clarke's platform for the next phase of growth at Tesco will come from a stepping up of its multi channel operations and the introduction of a range of brands. This will start in the UK, where the plan is to double the number of stores

Tesco Stock Performance Relative to FTSE 100 and UK Food & Drug Retail Sector During Leahy's Tenure



Source: Bloomberg Finance

offering "Click and Collect" (order online, collect in-store) non-food services to 600. Clothing and grocery are to be added to the range on offer. However, the aim is to be a multi-channel retailer wherever they operate. The new brands begin with ChokaBlok ice-cream, Lathams dog food and NutriCat cat food.

Having been on the Tesco board since 1998 and heading up Tesco's International Operations and IT, Clarke deserves to share the credit for the success that the company has already had overseas and online. His ascension to the top job is testimony to that, as well as pointing the future direction of Tesco. For a company to be successful over the long term, it must change with the times – to identify new customers, new tastes and new ways of doing business. In a fast-changing, globalised, digital world, this is the case more than ever. Tesco has demonstrated its ability to move with the times and capitalise on opportunities previously, and with Philip Clarke at the helm, looks set to continue to be a winner in the new era for retailing.

To discuss this topic in more detail please contact your account manager or Martin directly on martin.cass@ncb.ie | 01 611 5611

The Community Foundation for Ireland

– Philanthropy Overview



Tina Roche,
CEO of The Community Foundation for Ireland

Philanthropy has sometimes been described as 'where the soul meets a business plan'. Getting started can be remarkably easy and using a community foundation is one option. The model is in place worldwide and started in the USA in 1914.

Most people according to recent research by Philanthropy Ireland think that philanthropy is 'for someone else' and that you have to be giving at a very high level. "Not so", says Tina Roche, Chief Executive of The Community Foundation for Ireland – an expert donor services and grant-making organisation. "For some people, philanthropy is a gradual process, maybe they were involved in a charity, have given money to causes sporadically and the time has come where they can give more and want to put some structure on this to ensure impact. People can start with amounts in the low thousands – the key thing is that there is a plan and that is how we help – matching donors with great projects".

Despite everything, a small but growing number of families and individuals in Ireland are also engaging more in strategic giving or philanthropy. The question 'What do I want to achieve with my wealth?' may sound an obvious one,

but is probably more relevant than ever before. Once you have a clear set of goals, the journey ahead becomes easier. It might inspire other questions like:

1. Do I want to spend my income on myself and my family exclusively?
2. Will I pass on all my assets to them?
3. Do they need this and is it the best solution?
4. Will I continue to be an investor and if so how will I invest future gains?
5. Will I simply protect and accumulate the capital without an overall plan (in non-financial context)?
6. Do I want to put something back into society, and if so, how and what?
7. If I give, can I protect my anonymity?
8. How can I give to make the greatest impact?

Some triggers for budding philanthropists could include:

- ➔ A windfall event – a good year-end bonus, the sale of land, property or a business or a significant bequest, a higher than expected year end income. Some or all of the added liquidity may be surplus to requirements and could provide an opportunity to 'do something significant' – and could also reduce your CGT or income tax bill.
- ➔ After the passing of a loved one or a health scare people sometimes set up a memorial fund or support a charity / cause that they care deeply about.

Your family or personal situation is a huge factor. If you have children in their teens or early twenties, the chances are that they live a more privileged life than you did at their age. By setting up a family charitable fund you can help pass on a set of strong values. For those with a family business, the family fund is also a great 'training ground' for those who might join the business as key aspects are similar – project identification, analysis and review. While there are relatively few public philanthropy role models in Ireland, some case studies are available on the website of The Community Foundation – www.communityfoundation.ie in the Giving section. Whatever approach taken, most people say it is among the most rewarding things they have ever done.

Philanthropy Style

Passion, focus, leadership, collaboration, family, results, impact...These are all words used by UK philanthropist Marcelle Speller when describing her style of charitable giving. Marcelle is typical of many philanthropists, she sold her business, Europe's leading website for private holiday homes, Holiday-Rentals.com in 2005 and it provided her with a life changing

opportunity. Readers may also have seen her on Channel 4's 'Secret Millionaire' programme in recent months. Marcelle presented in May to an Irish audience at a Community Foundation event. She has inspired many people through her commitment to increasing online donations to small charities by setting up Localgiving.com. She also supports the Helen Bamber Foundation, which works with victims of torture.

Next Steps

Community foundations operate Donor Advised Funds. It is a simple charitable giving vehicle administered by a third party and created for the purpose of managing charitable donations on behalf of an organisation, family, or individual. Donor advised funds provide a quick and easy-to-establish, low cost, flexible vehicle for charitable giving as an alternative to direct giving or creating a private foundation or trust. Donors then enjoy administrative convenience, cost savings and tax advantages by conducting their grant-making through the fund. It is a bit like outsourcing the administration to The Community Foundation and suits people who are time poor and results driven.

The Community Foundation for Ireland has been helping people set up such funds since 2000. It has charitable status and you can set up a fund under their umbrella. It currently manages two type of Donor Advised Funds for families and individuals – those that are permanent (endowed – the interest being used for future grant-making) and those which are annual or for a shorter timeframe and where the donated amount is used for more immediate grant-making (flow-through). They currently manage over 50 funds and in 2010 made grants on behalf of donors of over €2.2million in Ireland and overseas ranging in scale from under €500 to €100,000 that year, covering everything from respite for carers to projects focussing on rural isolation and loneliness.

Permanent endowed funds currently range in scale from €15,000 into the millions of euros. Some people make a single lump-sum payment while others gradually build up their fund over time. A figure in the low thousands of Euro can get you started with a flow-through fund. Despite the downturn, Donor Advised Funds are being established – with donors increasingly looking at a mix of both of the above options.

For more information on this topic, log on to www.communityfoundation.ie. Thanks to Tina Roche and her colleagues for taking the time to update us with their activities.

Pensions Corner

– The Beatings Will Continue Until Morale Improves



Joe Hanrahan,
Director, NCB Wealth Management

In the last NCB WM Quarterly, we expressed a view that those who advise on pensions must really feel that the “outgoing” government had something against us.

Such were the draconian changes either proposed or just enacted at the time of going to press, that it would have been hard to argue with this assessment. Most of these changes were set out in that article.

Our new government has now been in office for about 100 days. It has decided too that beatings must continue until morale improves and has made a few pension changes of its own.

Most notable of these has been the introduction of a temporary Pensions Levy. Section 4 of Finance Bill (No.2) 2011 has just been through the committee stage in the Dail and you will see the first impact of the levy in September 2011.

So what are the main provisions?

An annual 0.6% levy payable on the 25th of September for the four years 2011 to 2014 inclusive by reference to the value of the relevant pension schemes assets at the previous 30th June will be applied.

The government hopes to raise €450 million per annum (€1.8 Bn in total) to fund a jobs initiative by compelling those who are both funding their own pension or those drawing income from private Defined Benefit pensions to give up a portion of their capital annually.

The levy does not apply to Public Sector (pay as you go) pensions, annuities which have been secured from an Insurance company, Approved Retirement Funds (ARFs) or “vested PRSAs” (A ‘Vested PRSA’ is a pension contract where the tax free lump sum entitlement has already been taken but the balance of the pension has not yet been converted to an annuity, ARF or cash).

So who does it affect and how?

The levy will apply to the following revenue approved pension schemes:

- ➔ Personal Pension Plans (typically for Self Employed).
- ➔ Personal Retirement Savings Plans (available to everyone).

- ➔ Personal Retirement Bonds (typically for those leaving employment and who wish to leave their former employer scheme).

Private Occupational Pension Schemes established by employers to provide pension benefits for employees (typically these are either Defined Benefit or Defined Contribution, but both are being hit by the levy). Responsibility for deducting and assessing the appropriate value of the assets to which the levy is applicable rests with the trustees of pension schemes and/or insurers and administrators of the assets of these schemes.

Despite opposition expressed by commentators in this area and suggestions that members (especially of one person schemes) should not expressly allow payment by trustees/administrators, the drafted legislation provides enormous protection for those with responsibility for the levy and they are allowed the option to reduce members benefits to the extent of the amount of levy recovered from the schemes assets.....

“Notwithstanding any provision of the Pensions Act 1990, or any other enactment, or any rule of law, or anything contained in the rules of a scheme, or the terms and conditions of any contract”!!!

As these schemes are subject to the levy, and in light of their already precarious funding position, this presents an additional burden on the resources of these schemes and weakens their funding positions even further.

“The recent attacks on pensions is very definitely linked to our weak public finances and who therefore could rule out a higher rate of levy in future, or a levy which extends beyond 4 years.”

Pretty solid ground for trustees and administrators I'd say!!

Failure to pay the levy on time will result in interest and penalties being applied. The penalty will be at the rate of €380 per day.

For Defined Contribution pension schemes, Personal Pensions, Retirement Bonds and PRSAs, the collection of the levy is relatively straightforward (asset valuation excepted!!).

However, in the case of Defined Benefit Pensions, it's a bit more complicated and in the case of “pensions in payment” from a DB scheme, it could be argued, relatively unfair!!

Very often, rather than securing members pensions by purchasing annuities in the open market (from Insurance companies typically), pension payments are disbursed from the scheme itself.

It will likely therefore lead to a reduction in pension payments to retired members of these schemes. Even that will be difficult to administer as it means attributing to each scheme member a proportion of the scheme assets and then ensuring that any reduced benefits, because of the levy, don't exceed the notional value of assets to which the member would be entitled.

When you consider that ARFs (post retirement investment funds) and purchased annuities are NOT subject to the levy, you could understand why this provision has been seen as grossly unfair on retired members in these arrangements. It will undoubtedly force trustees to consider annuity purchase in future which presents its own potential risks for members.

And is that the end of it?

It's hard to know. The recent attacks on pensions is very definitely linked to our weak public finances and who therefore could rule out a higher rate of levy in future, or a levy which extends beyond 4 years.

Indeed, whilst the levy may be seen as a relatively better option than reducing tax relief on pension contributions, would you rule out a reduction in tax relief too? Or some other new taxation provision which further weakens confidence in this area?

What is very clear is that short term financial considerations prevail over the long term “pensions time bomb” difficulties which we already knew about, and for which employees were being encouraged by previous governments to plan for personally.

It will certainly discourage pension provision in the short term and may contribute to an even greater potential pensions problem in the future.

On a more practical note, and so that we end with something a little more positive and of potential value to you, the first levy payment due on the 25th of September will be based off a valuation of assets at 30th of June.

If you are therefore considering retiring, do it before the 30th of June and you will avoid the levy!!

Equally, if you plan to make a discretionary pension contribution, do it after the 30th of June 2011. This will avoid the 2011 levy on this contribution.

Straws in the wind perhaps, but they might give someone out there some respite from the beatings and raise the morale!!

If you wish to discuss any of the issues raised in this article please contact Joe Hanrahan on 01 611 5611 | joe.hanrahan@ncb.ie

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

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