



GREEN JERSEY

Gary Keogh hit the news headlines in 2009 and 2011 when he threw eggs at the AIB and Bank of Ireland annual general meetings. He managed to hit AIB Chairman Dermot Gleeson but the other board members escaped the wrath of the disgruntled shareholder.

I have sympathy for Gary but I am not sure if he managed to hit the right person. Dermot Gleeson as Chairman was probably only guilty of an error of judgement and he is therefore not the biggest offender but unluckily for Dermot his high profile position put him in the line of fire.

I now find myself at a point where I want to see Gary throw some eggs at some new targets (I'm too much of a coward to do it myself!) but the only problem is that I'm not quite sure exactly who those targets should be because it appears to be quite a long list.

The source of my frustration is in relation to the investigation into Anglo Irish Bank. I believe that the legal process should be completed by now and yet it continues to drag on. If I knew the person(s) ultimately responsible for this delay I would love to see Gary Keogh give them a going over with his eggs.



Dermot Gleeson with egg on his suit!

The Office of the Director of Corporate Enforcement (ODCE) and the Garda Fraud Squad are involved in the investigation and they were in court last week looking for more time to complete their work. The Judge rightly pointed out that the last time they looked for more time they said that they were almost finished and yet here they were months later looking for more time. The justification for the delay was put down to certain witnesses being uncooperative. At this stage this excuse is just beginning to sound ridiculous. How many years does it take to work out whom did what and when? How many times do they need to interview Sean Fitzpatrick and Willie McAteer?

The cynic within me wonders whether there is a reason for the slow progress and there are plenty of other cynical people out there willing to speculate as to what is really going on.

As part of my research for this opinion piece I Googled Anglo Irish Bank and the Maple 10. If the blogosphere is to be believed there are some potentially scary allegations. The scariest scenario is one where the wearing of the “Green Jersey” resulted in politicians, regulators, central bankers, civil servants, auditors as well as the dreaded bankers all engaged in an illegal share support operation.

I also Googled Anglo Irish Bank and Irish Life deposits. Once more the “Green Jersey” story alleges that everybody knew that Anglo Irish Bank deposits were being artificially supported in order to make it appear that deposits were not leaving the bank. The Irish Times has reported that Denis Casey the former Chief Executive of Irish Life said that everybody knew:

Mr Casey said the transaction arose from a request by the chief executive of the regulator, Pat Neary, and Central Bank governor John Hurley who had asked ILP to participate in a “green jersey agenda

I remember listening to the Anglo Irish Bank results announcement in December 2008 and the way they were able to say that deposits had slightly increased from the previous results was definitely designed to portray a picture of stability. The fact that these deposits were artificially inflated by over €7bn was a blatant misrepresentation of the truth. If that does not breach the law well then my faith in the law is severely diminished.

Here is an excerpt from that Anglo preliminary results announcement in relation to deposits:

Customer funding

Customer deposits increased to €51.5 billion, an increase of €1.9 billion¹ (4%). Retail balances amount to €19.2 billion (37%) with non-retail customer deposits at €32.3 billion (63%). The Bank’s customer funding franchises span 16 funding locations across its core markets and will continue to represent the largest components of our total funding into the future.

The continued strong performance of our customer deposit business reflects consistently competitive rates, transparent products and a strong service ethos – a combination that results in high retention levels.

26. Approval

The Group financial statements were authorised for issue by the Board of Directors on 2 December 2008.

I particularly like the phrase “continued strong performance of our customer deposit business” because they had to know that this was a lie. The truth was far less rosy. Over 10% of deposits had gone and the wholesale market was closed. The “Green Jersey” was used to justify this sham.

Even if these lies did not break the law I still think from an ethical point of view this behaviour was plain and simply wrong.

Getting the facts out in the open will at least allow everybody to see the type of culture that existed at the time. (Whether that culture has changed is a debate to be had another day).

As an owner of shares in a number of Irish companies I believe that it will take a long time to get foreign investors to have confidence in Ireland Inc. Ultimately the main

way to see those share prices rise is by convincing foreigners to get involved. The longer the Anglo affair goes on the longer it takes to convince foreigners that we are prepared to do what is right.

It is interesting to contrast the Irish situation with the United States. I have read a number of articles making this comparison and it is therefore ironic that while writing this piece I noticed an article on the CNBC website that included the following:

US authorities are preparing to charge four former Credit Suisse employees with criminal and civil fraud related to write-downs on subprime mortgage derivatives at the height of the financial crisis, sources familiar with the matter said

I also noticed the following on another website:

In December, former CEO Jon Corzine testified before Congress that he had been assured by MF Global's back-office staff that a questionable \$200 million fund transfer had been properly executed. Edith O'Brien, an assistant treasurer at MF Global, disputed Corzine's testimony and is seeking immunity from prosecution in exchange for her cooperation. With MF Global's former chief risk officer scheduled to testify before Congress on Thursday and the investigative noose tightening, it appears likely that the responsible parties ultimately will be brought to justice.

These articles were like rubbing salt into a wound because once more it highlighted how slow things are progressing here.....does anyone have a phone number for Gary "egg thrower" Keogh!

PERFORMANCE 2011

I have mentioned that there are a number of companies in the portfolio (Linear Technology and ASM Pacific as examples) that benefit from periods of growth. In 2011 the European debt crisis created uncertainty over growth prospects and the portfolio suffered as a result.

I would go as far as saying that the portfolio is unusual for a "Value Investor" portfolio in that it contains a high percentage of cyclical names but I believe that these cyclical companies are franchise companies where the intrinsic value is higher than the current market price. The cyclical names in the portfolio also tend to be financially low risk with net cash (Linear Tech and ASM Pacific are both in a net cash position).

Many "Value Investors" stick to the less cyclical names (like the best performer in the portfolio Glaxo) but even here one or two of the companies that I thought might be more stable had a difficult year (for example DCC was down 22.5%).

	<u>Fund %</u>	<u>Index %</u>
2008	-41.2	-37.6
2009	47.4	25.9
2010	22.7	19.5
2011	-11.0	-2.3

Disappointed as I am at the result I believe that a performance track record should be at least five years before any sort of assessment can be made. Given that 2012 will be the fifth year of the journey I look forward to this time next year when I hope to report back with a track record that will have added some value. (Ironically January 12 has turned out to be the best month ever for the portfolio on an absolute and relative basis)