

A word to the wise

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# Dispatch

The newsletter of N M Rothschild & Sons (CI) Limited  
Spring/Summer 2005

# A word to the wise

Rothschild Managing Director, Peter Rose, shares his thoughts.

## Delivering what the customer asks for

It sounds like a cliché doesn't it? But the phrase "If you build it ... they will come" works only in Hollywood. If you want your business to survive then don't just design products that you think will see demand, find out what customers want first, and then give them what they ask for. Keeping your ear to the ground is an important part of building success into a business.

Listening to what customers want and need are core values for our business development efforts. In the last year our Spanish Mortgage product was designed and implemented using exactly this principle, just as our DepositPlus product was in the year before that.

We can now offer you Spanish mortgage loans as a means to manage your (possibly unexpected) Spanish Inheritance Tax liabilities and the reason that our customers demanded it is amply explained in the cautionary tale later in this newsletter. We also made sure that the product did not expose customers to other unexpected risks by designing out as many of them as we thought necessary.

Many of you will also be familiar with our DepositPlus product and many of you saw the maximum returns achieved in the last tranche that matured at the end of March. DepositPlus was designed following concerns expressed that most of the enhanced yield deposit products required you to lock your money up for long periods of time, so DepositPlus is designed as a short-term deposit of up to one year.

We are always open to suggestion on new products so please get in touch if you think we might be able to help.

## EU Savings Tax Directive (EUSD)

The EUSD is finally set to come into force from July 2005. Although the Channel Islands are not part of the EU, they agreed along with all reputable offshore jurisdictions (including Switzerland) to co-operate with the EU and introduce "equivalent measures". The proposals only apply to individuals resident in an EU member state (and not to corporate or most trust accounts). If you are an EU resident, from 1st July 2005 we will deduct a 15% retention from interest paid to your account, and pay this across without disclosing your name, to the Guernsey tax authority, who will pass it on to your EU member state. An

alternative to the retention is that we can disclose the details to the Guernsey Tax Office who will again pass on this information to your EU member state.

All those customers who are potentially affected will have received a letter on the subject, but as ever, if you wish to know more, please contact your account officer.

## Support for the community

Rothschild has been a prominent business in the Channel Islands since 1967, and we take our corporate responsibilities to the community very seriously. We aim to support the local community in several ways.

This year we have supported both the Jersey Awards for Enterprise, and the Guernsey Awards for Achievement events. These events celebrate success and endeavour and form the centrepiece of both Islands' efforts to foster an entrepreneurial culture, and a hard work and community service ethic.

Once again, we are sponsoring the Guernsey Mini Soccer Festival in July, which encourages not only the development of youth football, but increasingly fosters and encourages links with the UK mainland, and tourism business for the Islands.

Later this year, we have also agreed to sponsor Guernsey's first international dance festival with much the same consequences.

For the pensioners, we have also recently sponsored the Liberation Tea Party, part of the 60th anniversary celebrations of the liberation of the Channel Islands at the end of the Second World War.

Finally, we have a programme of making donations to local charitable causes, and this year the Rothschild Group made donations amounting to £33,000 to 63 different Channel Islands based organisations and causes, including the local representative bodies of the Great Ormond Street Hospital Appeal, the Society for Cancer Relief, the Blind Association and the Samaritans.



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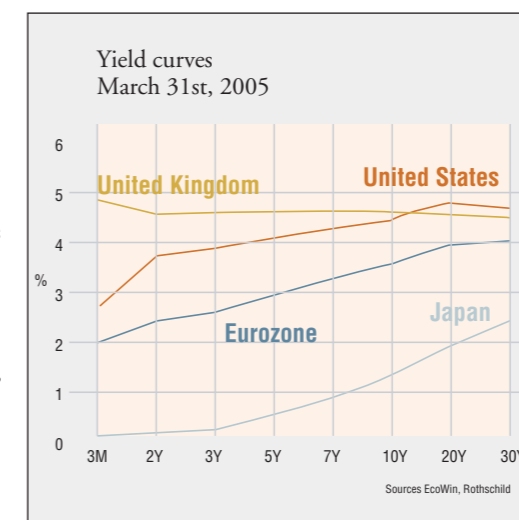
# Market watch

Peter Martin, Chief Investment Officer at Rothschild Private Management Limited, reflects on the year to date and assesses the economic and market outlook for the rest of 2005.

## Global Economic Outlook

World growth is expected to slow down from the exceptional pace reached last year. So far the activity has proven rather resilient to the renewed surge in oil prices, even raising inflationary worries and prompting more hawkish comments and increased vigilance from central banks. In the US, where households are extremely leveraged to low interest rates, the Federal Reserve's measured but continuous tightening should slow down the economy. Growth in the emerging economies remains strong, but will not be immune to a deceleration in US activity.

attractively priced at present and, with interest rates rising and corporate margins peaking, we maintain our cautious stance. While we believe the European equity markets offer better value, they have over-performed of late and, therefore, offer limited growth potential. We favour defensive markets, such as the UK, and are avoiding shares that are greatly sensitive to higher real interest rates.

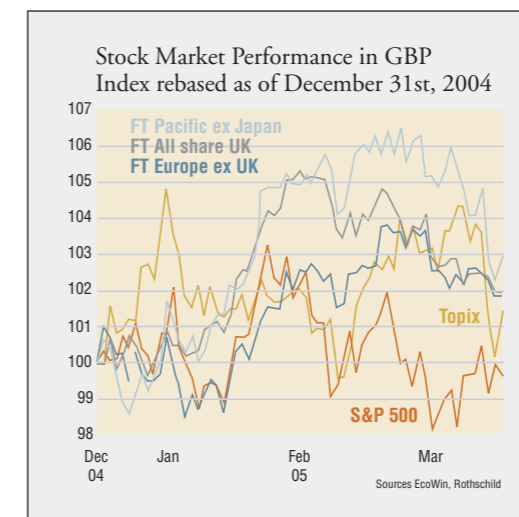


## Currencies

The shortage of private capital inflows to finance the massive US current account deficit remains structurally bearish for the dollar. However, the interest rate differential has turned positive and the dollar is now expected to trade sideways against most currencies. Higher than expected inflation in China has raised expectations that the People's Bank of China will soon allow a revaluation of the renminbi by widening its trading band and shifting to a basket of major currencies.

## Bond Markets

The weakness in the bond market could extend further as central banks take a tighter grip. Rising core inflation and the Federal Reserve's tightening should weigh on US Treasuries. Though still protected by poor economic fundamentals and the likelihood of the European Central Bank keeping interest rates at current levels, we feel that Eurozone yields now offer poor relative value. In the UK, demand for long-term bonds has been high, largely thanks to institutions holding them in pension funds, and this has meant that interest rates have decreased whilst bond prices have increased. Following France, the UK will issue 50-year gilts this fiscal year. After their recent rally, we remain cautious on Japanese bonds.



## Gold and Commodities

Structural forces such as supply shortages and mounting demand from emerging countries will support energy prices in the long run. Sentiment has become extreme, which calls for a short-term

correction as the pace of global growth is set to decelerate. Gold should not be immune from the tightening cycle, though its downside is limited since the price of gold continues to mirror movements in the US dollar.

## Equity Markets

With strong growth prospects, we continue to be overweight in Asian and emerging markets though, with deteriorating fundamentals, we have reduced our exposure in Japan. We feel that US stocks are not



**Peter Martin**  
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# A place in the sun

When buying property abroad, there are many things to consider. Making sure you don't get burnt by unexpected tax consequences is one of them as Peter Rose, Managing Director of N M Rothschild & Sons (CI) Limited, explains.

## The dream

Imagine Mr and Mrs X, a comfortably off, late middle aged couple whose children have now left home. Looking forward to retirement they visit the Costa Blanca and, encouraged by low cost airfares, think about buying a holiday home, which they may well spend more and more time in after retirement and which their children can also use for family holidays. They fall in love with one property in particular and decide to buy. They don't want the hassle of a mortgage and have enough savings to buy their dream home outright. Their Spanish lawyer tells them all about the annual wealth tax and other quirks of owning a place in Spain, but they don't ask all the questions they need to and it doesn't occur to them that some important tax laws are different to those in the UK.

## The nightmare

Unfortunately Mr X dies suddenly and, to her horror, Mrs X finds that she has a bill for inheritance tax of 34% of the share of the house that her husband has left to her. The figure can be much worse for a legacy left to a person with no marriage or blood relation which could be as much as 81.6%.

With an explosion in the past ten years of non-Spanish nationals buying property in Spain far too many expatriates find out the hard way that Inheritance Tax (IHT) does not work the same way in Spain as it does in their home country. And, to rub salt in the wound, there is no relief in the home country for Spanish tax suffered.

## The antidote

Can this be avoided or mitigated? The answer is, yes, with careful planning.

To go back to basics, Mr & Mrs X should try to minimise the amount of assets that are exposed to Spanish IHT. While they are non-resident in Spain (i.e. they spend less than 183 days there each year) this means only those assets located in Spain.

To start with, therefore, even though Mr & Mrs X might not want to buy their house with a mortgage, this is in fact a very effective way of reducing the total value of their Spanish estate exposed to IHT. What they could do is to buy the Spanish home using a mortgage and use the proceeds of the mortgage to buy an investment that is held outside of Spain. The investment held outside of Spain does not form part of their Spanish estate. The mortgage need only be for a proportion of the house value because the tax rate is tapered. The sort of investment they should buy will depend on their attitude to risk; some will wish for something very safe which pays a dividend or coupon that can be used to offset the mortgage interest, others may wish for something a bit riskier, the important thing is to get proper financial advice.

For those people who propose to live in Spain for more than 183 days each year, the position becomes much more complicated, because the whole of their estate, wherever it is in the world, is subject to Spanish IHT and possibly UK IHT as well, and these people definitely need to get tax advice.

So what if the holiday home was in France? Well a whole set of different issues arise here but space does not permit me even to start...



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# Meet the Private Banking and Treasury Team

Rothschild's Guernsey-based Private Banking and Treasury Team comprises the Bank's private client account officers, treasury dealers and marketing staff. Here, the team's director, Stephen Dewsnip, explains a little more about what the team does.

## Private Client Account Officers

Led by our Head of Private Clients, Sinead Ferguson, our account officers are responsible for managing all of our private client deposit relationships. We are extremely fortunate to have such experienced staff in Sarah Gallienne, Stuart Douglas, Alison Morgan, Pauline Workman, Nicola Torode and Karen Brown, and between them they look after clients ranging from private individuals to large groups of corporates and trusts, each with different day-to-day personal requirements.

Every client has a direct line to their personal account officer who is responsible for ensuring that all activity over the account, including making payments, rolling fixed deposits, undertaking foreign exchange trades, buying or selling stocks and shares, and ordering cheque books and Visa cards, are carried out efficiently and quickly. Furthermore, we work hard at maintaining regular contact with our clients by a combination of telephone conversations, correspondence and personal visits.

Our account officers also handle new business enquiries since we believe it is important that the same individuals who manage the initial account opening process should then continue to manage the client relationship in the same professional manner going forward.

You may have gathered from our various mailings to you over the past 18 months or so that we have invested considerable time and effort (not to mention expense!) in expanding the range of products that we offer to you. It is important for us to continue to do this in response to the changing financial needs of our clients and hence this programme of new product development will continue over the coming months and years.

Paula Gaudion manages this product development programme, which has included the various enhancements to our internet banking service ArrowOnline, the various tranches of our structured deposit service DepositPlus, and the current launch of our Visa charge cards. Paula also leads other important private client projects, such as the impact of the imminent introduction of the EU Savings Tax Directive.

## Treasury Dealers

Our three treasury dealers, Linda Boucher-Harris, Steve Moody and Andy Ozanne, are responsible for a variety of important functions including running the Bank's money market deposit books in all currencies, managing the Bank's liquidity, hedging interest rates for credit clients, running our fiduciary deposit service, and putting together structured deposits such as DepositPlus. They also carry out foreign exchange dealing for clients including spot, forward, options and margined FX dealing.

## Marketing & Business Development

As well as by myself, our marketing and business development efforts are looked after by Ross Bateman and ably supported by Tracy Lock. Ross is our Head of Intermediary Business Development and his role involves developing new and existing relationships with professional contacts such as trustees, lawyers, accountants and financial advisers. Our main business development areas currently include the Channel Islands, UK, Spain, South Africa and Hong Kong.

Tracy is my assistant and also provides administrative support to the rest of the Private Banking and Treasury Team.



**Stephen Dewsnip**  
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From left to right: Paula Gaudion, Steve Moody, Andy Ozanne, Linda Boucher-Harris, Ross Bateman, Sarah Gallienne, Pauline Workman, Nicky Torode, Karen Brown, Sinead Ferguson, Alison Morgan, Stuart Douglas, Tracy Lock.

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