



COURTS SERVICE  
*An tSeirbhís Chúirteanna*



COURTS SERVICE  
*An tSeirbhís Chúirteanna*

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The Courts Service**  
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REPORT AND FINANCIAL STATEMENTS  
OF THE OFFICE OF THE ACCOUNTANT  
OF  
THE COURTS OF JUSTICE

2003-2004

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## INVESTMENT COMMITTEE AND OTHER INFORMATION

**INVESTMENT COMMITTEE** The Honourable Mr Justice Joseph Finnegan, *President of the High Court*  
Her Honour Judge Katherine Delahunt, *Judge of the Circuit Court*  
Judge David Anderson, *Judge of the District Court*  
Mr Sean Quigley, *The Accountant of the Courts of Justice and Director of Finance*  
Mr Noel D. Doherty, *The Registrar, Office of Wards of Court*  
Mr John Mahon, *The Senior Assistant Registrar, Office of Wards of Court*  
Mr Fintan Murphy, *County Registrar, County Mayo*  
Mr John Molloy, *Chief Clerk, Dublin Metropolitan District Court*  
Mr Jim Farrell, *Independent External Expert (formerly of National Treasury Management Agency)*

**REGISTERED OFFICE** Office of the Accountant of the Courts of Justice  
Phoenix House  
15 – 24 Phoenix Street North  
Smithfield  
Dublin 7.

**INVESTMENT MANAGERS** Bank of Ireland Asset Management  
40 Mespil Road  
Dublin 4.

State Street Global Advisors  
21 St. James Square  
London SW1Y 4SS  
United Kingdom.

**CUSTODIAN AND ADMINISTRATOR** JP Morgan Admin Services (Ireland) Ltd  
JP Morgan House  
IFSC  
Dublin 1.

*INVESTMENT COMMITTEE AND OTHER INFORMATION (CONTINUED)*

**INVESTMENT ADVISORS** Mercer Investment Consulting  
Charlotte House  
Charlemont Street  
Dublin 2.

**LEGAL ADVISORS** McCann Fitzgerald  
Solicitors  
2 Harbourmaster Place  
International Financial Services Centre  
Dublin 1.

**AUDITORS** Deloitte & Touche  
Chartered Accountants  
Deloitte & Touche House  
Earlsfort Terrace  
Dublin 2.

## FOREWORD BY THE CHAIRMAN OF THE INVESTMENT COMMITTEE

I am pleased to introduce the Annual Financial Statements of the Accountant of the Courts of Justice and Report in respect of the year ended September 2004. As you will see from the Financial Statements and Report very significant progress has been made in modernising the management and investment of court funds in recent years. Virtually all of the recommendations contained in the independent investment consultant's report which was approved by the Board of the Courts Service in early 2002 have been implemented. The combination of expert independent investment advice, customised investment strategies, modern funds accounting systems and robust governance structures ensures that court funds are managed in accordance with best practice. This is critically important as the funds being managed by the Accountants Office on behalf of Wards of Court and Minors are held by the courts in a fiduciary capacity. As these funds are held and managed on behalf of some of the most vulnerable members of our society there is an onerous responsibility to ensure that the arrangements have as their main focus the interest of the beneficiaries.

During the year under review significant progress has been made in transferring funds into the new investment funds established by Bank of Ireland Asset Management, which have been approved by the Irish Financial Services Regulatory Authority. Some €450m had been invested at the end of September 2004 and it is expected that the transfer of virtually all High Court funds managed by the Accountant will be completed before the end of September 2005.

As you will see from the financial statements and report of the Accountant investment performance in the new funds has been very satisfactory. With inflation running at just over 2% during the period all investment strategies generated a return in excess of the consumer price index.

The Investment Committee and all concerned with the management of court funds will continue working to ensure that the best interests of beneficiaries are served at all times.



**Joseph Finnegan**

*President of the High Court*

*Chairman of the Investment Committee*

**24th March 2005**

## REPORT OF THE ACCOUNTANT OF THE COURTS OF JUSTICE

This is the first annual audited financial statement produced by the Accountant of the Courts of Justice that complies with best accounting practice. It also represents the culmination of a major modernisation programme that has been taking place in recent years in which best practice in relation to all aspects of the management and investment of court funds has been the overriding objective.

To help readers understand firstly the background to court funds and secondly the changes that have taken place in recent years a brief overview is provided on pages 7 to 15.

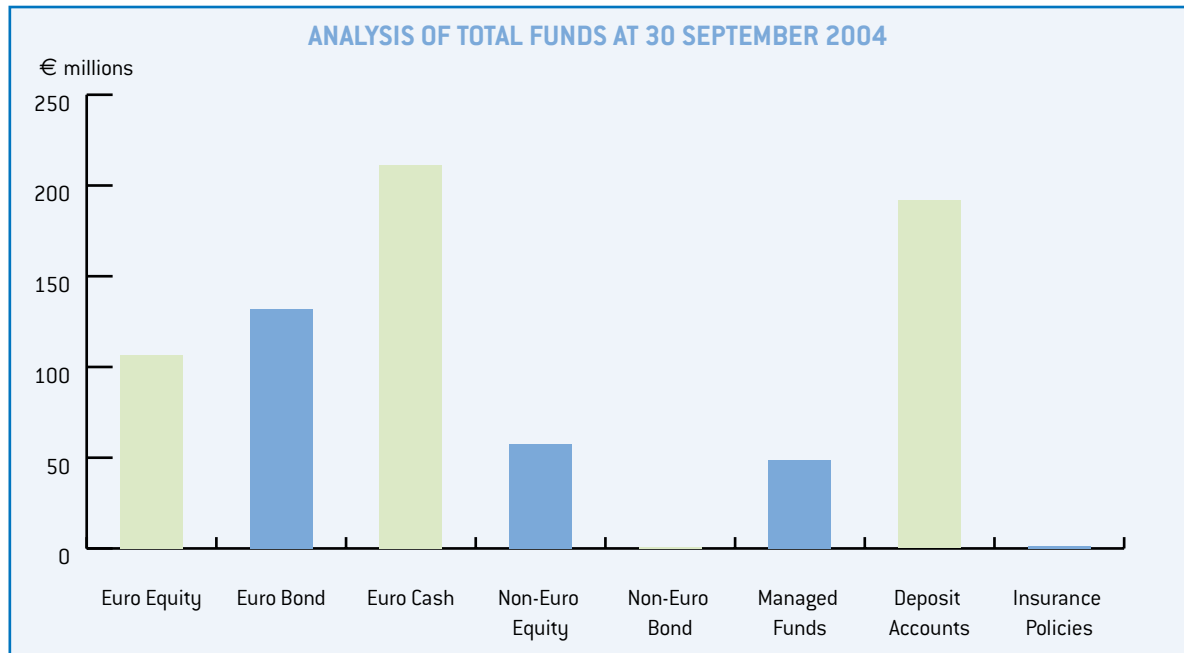
The year under review has seen the first investment of court funds in the new investment vehicles established to meet the specific requirements of the beneficiaries of court funds. These funds were established by Bank of Ireland Asset Management and have been approved by the Irish Financial Services Regulatory Authority. The task of transitioning funds in respect of almost 6,000 individual cases requires a lot of painstaking work including the profiling of all cases to ensure that the individual's requirements are matched to the appropriate investment strategy. Of the total amount of funds held by the Accountants Office, €755m at 30th September 2004, a total of €453m (60%) had been transferred to the new funds at 30th September 2004. It is expected that during the course of the year ending September 2005 this exercise will be completed.

Total funds managed by the Accountant increased from €710m in September 2003 to €755m at the end of September 2004. This increase of just over €45m resulted from a net increase in assets from operations of €28m and an increase from capital transactions of €17m. The increase from capital transactions reflects the difference between funds paid into court and funds paid out. The increase attributable to operations includes €18m of net unrealised gains on investments.

The composition of funds held by the Accountant at 30th September 2004 was:

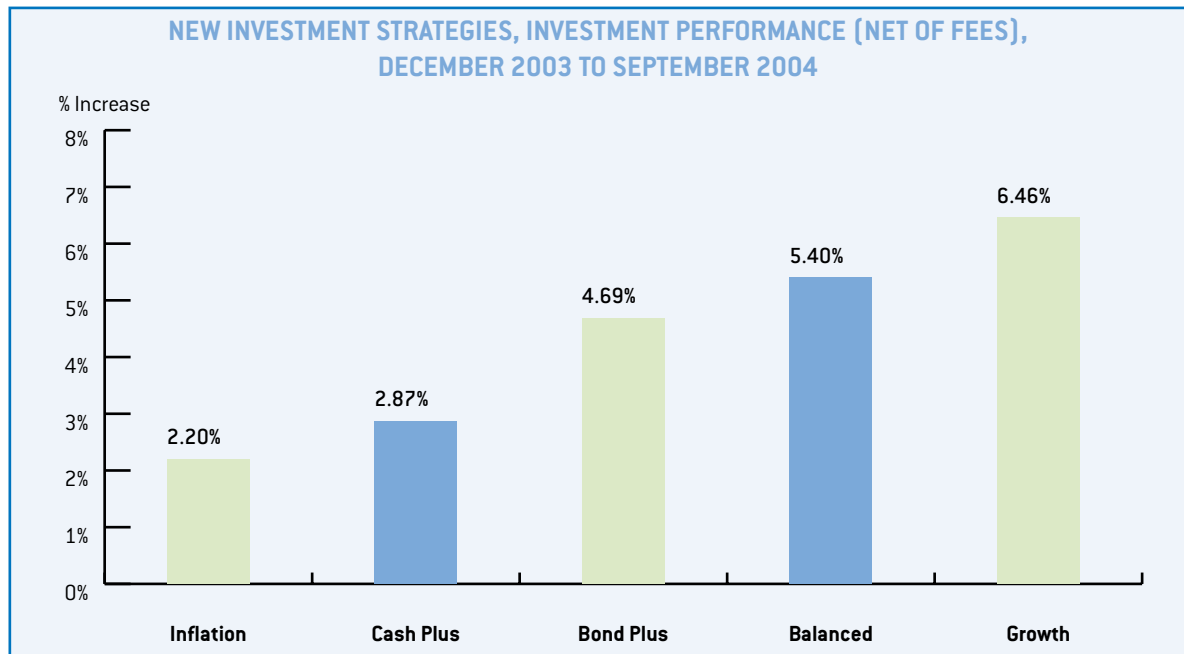
	€000
Euro Equity	106,802
Euro Bond	131,747
Euro Cash	211,511
Non-Euro Equity	57,465
Non-Euro Bond	607
Managed Funds	48,598
Deposit Accounts	191,736
Insurance Policies	1,386
Portfolio of Investments	<u>749,852</u>

REPORT OF THE ACCOUNTANT OF THE COURTS OF JUSTICE (CONTINUED)



**INVESTMENT PERFORMANCE**

Performance in the new funds has been very good ranging from just under 3% for the Cash Plus Fund to just under 7% for the Growth Fund. These returns, which are net of investment management fees, represent a period of just over 9 months and are summarised in the graph below. Price inflation over the same period was approximately 2.2%.



## BACKGROUND

### THE COURTS AND COURT FUNDS

The Courts have a custodial role in relation to funds that are lodged in court pursuant to Court Orders or in compliance with legislative requirements. The main primary and subordinate legislation governing the receipt, management and investment of court-controlled funds by the Accountant of the Courts of Justice are as follows:

The Trustee (Authorised Investments) Act 1958 and the Trustee (Authorised Investments) Order made pursuant thereunder

The Rules of the Superior Courts

The main categories of funds held by the Courts include, principally:

- (a) Wards of Court; the funds of persons taken into wardship are lodged in Court;
- (b) Minors; financial awards made by the Courts to persons under 18 will have their award lodged in Court until they reach the age of majority. Where a long-term care regime is considered necessary, a minor may be made a Ward of Court;
- (c) Lodgements by Parties to Court Proceedings; a party to civil court proceedings may lodge money in court with a view to satisfying the claim of another party to the proceedings.

### THE ROLE OF THE ACCOUNTANT OF THE COURTS OF JUSTICE

The Accountant's Office and the position of the Accountant of the Courts of Justice were established, shortly after the foundation of the State, under the Court Officers Act 1926. The Act stipulates that the Accountant shall perform such functions as shall be conferred on or assigned by statute or rule of court and in particular shall perform and fulfil in relation to the High Court, the Supreme Court and the Chief Justice all such duties and functions as were formerly performed and fulfilled by the Accountant General of the Supreme Court of Judicature in Ireland in relation to that Court and in relation to the Lord Chancellor for Ireland. Currently the Accountant has responsibility for the management and investment of funds amounting to €755m.

The funds managed by the Accountant are funds that are held under the control of the Courts and are managed in a fiduciary capacity on behalf of approximately 5,730 beneficiaries, who include various categories of litigant, persons who are Wards of Court and Minors who have been awarded damages by the Courts. Funds under the control of the Courts are required by law to be invested in accordance with the Trustee (Authorised Investments) Act 1958 and the orders made thereunder.



## THE ROLE OF THE OFFICE OF WARDS OF COURT:

Some two thirds (€508m) of the funds managed by the Accountant are funds held by the Courts on behalf of persons who are wards of court and whose affairs are dealt with by the Office of Wards of Courts. The following is a brief overview explaining how persons become wards of court and the role of the Office of Wards of Court.

There are many people who, due to illness or accident, lose the ability to make decisions for themselves; there are many others who are born with an intellectual disability and are never able to look after their own affairs. The Wards of Court system allows for substitute decision making so that the Court may make decisions necessary for the protection of both the person and the property of those who do not have full mental capacity. The principle underlying the Wardship jurisdiction is that the Court acts in the same way as a prudent parent would act regarding the welfare of a child.

The Wardship jurisdiction, although provided for by legislation and rules of court, is not limited by statute and is a jurisdiction exercised by the Court subject only to the provisions of the Constitution. Therefore, the Court has extremely wide powers and duties in relation to persons under disability. The jurisdiction is vested in the President of the High Court and, accordingly, he has the responsibility for the management of affairs of Wards of Court. The day to day management is delegated by him to the Registrar and staff of the Wards of Court Office. A Committee, usually a member of the Ward's family, is appointed by the Court and is asked to make recommendations in relation to matters such as the Ward's welfare, property and future residence.



Wardship usually arises in cases where a person with an intellectual disability has property that needs to be applied for his or her maintenance and benefit. For example, a house may have to be sold or funds may have to be withdrawn from a bank account to pay for nursing home care. Following a sale or closure of bank accounts, funds belonging to Wards are lodged in Court and held under the control of the Accountant of the Courts of Justice. The Accountant is responsible for the receipt and custody of the funds, and he invests same and makes payments out as directed by the Registrar of Wards of Court. The Registrar directs that the funds are to be invested in one of the four investment strategies approved by the Investment Committee. The strategy is chosen by the Registrar having regard to the assets of the Ward and his or her ongoing financial needs. The funds are invested so that, where possible, they will provide for those needs for the remainder of the Ward's lifetime.

Minors, persons under eighteen years of age, are sometimes taken into Wardship. This may happen where a minor is entitled to a substantial amount of money arising from a Court award or from an inheritance. Again, the funds are invested at the direction of the Registrar in one of the four strategies. Regular payments are made to the parents or guardians of the minor. Upon reaching eighteen and unless there is medical evidence to show mental incapacity, the minor is entitled to have the balance of the funds paid out.

## MODERNISING THE FRAMEWORK FOR THE INVESTMENT OF COURT FUNDS

### INVESTMENT OF COURT FUNDS

When deciding where and how to invest court funds, the overriding objective is to take no more risk than is necessary in order to meet each beneficiary's expected future cash-flow needs. In order to achieve this, the Courts Service established four funds with varying risk and return expectations. This range of funds allows the Court or Court Officer to allocate each beneficiary to the appropriate fund and ensures that no beneficiary takes an inappropriate level of investment risk given their own particular circumstances.

Court funds are required to be invested in accordance with the terms of the Trustee (Authorised Investments) Act, 1958 and the Orders made thereunder.

Shortly after its establishment the Courts Service, in early 2000, embarked on a wide ranging modernisation programme. This was in response to a number of factors including the recommendations contained in the Working Group on a Courts Commission chaired by Supreme Court Judge the Honourable Mrs. Susan Denham, changes in the investment climate and changes to the Trustee Authorised Investment Regime, many of which were instigated by the Courts Service. This had been necessary to protect the interests of beneficiaries. The Service believes that the new policy now being implemented is in keeping with best investment practice and will allow us to take advantage of the broader range of authorised investments.

The National Treasury Management Agency (NTMA) was requested by the Courts Service in early 2000 to undertake a review of its fund management arrangements and systems. The NTMA recommended that a new Central Investment Unit be established and that fund management institutions be invited to tender proposals for a suite of funds in which funds held in Court on behalf of beneficiaries would be invested.

Mercer Investment Consulting, a firm of independent investment advisors, were subsequently appointed by the Courts Service to advise on the most appropriate arrangements for the management and investment of funds in Court. Investment strategies have been specifically designed to meet the needs of the range of beneficiaries. In January 2002 the Board of the Courts Service approved the recommendations in the Mercer Report, virtually all of which have now been implemented.

Following a detailed review with support from Mercer Investment Consulting, new investment arrangements were devised. The Courts Service believes that these arrangements are sufficiently flexible to cater for the needs of the different groups of Court beneficiaries. As a result beneficiary funds are being invested in unitised funds, comprising a mix of the following investment assets:

MODERNISING THE FRAMEWORK FOR THE INVESTMENT OF COURT FUNDS (CONTINUED)

Equities (shares in publicly quoted companies)

Bonds (issued by Governments and Government backed entities)

Cash deposits

The objectives of the Mercer recommendations were the achievement of the following benefits:

To provide a tailored investment approach for all beneficiaries reflecting their own particular circumstances

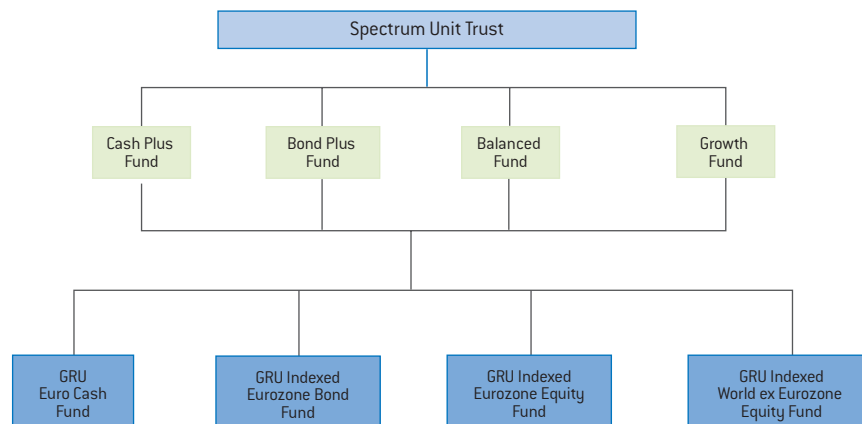
To provide a consistent investment approach for similar cohorts of beneficiaries

To establish a facility to monitor and process court funds to maximum efficiency and in line with best practice

To maximise cost effectiveness gained through economies of scale

Each beneficiary holds units in a large pool of assets rather than holding a small amount of the individual assets themselves. There are benefits to this pooling arrangement including a significant reduction in investment manager fees.

Bank of Ireland Asset Management and State Street Global Advisors have been appointed as joint investment fund managers. These two institutions are leading investment managers and have a proven track record for managing this size of fund. The fund managers report to the Courts Service Investment Committee. BIAM in response to the investment requirements for court funds and with the approval of the Irish Financial Services Regulatory Authority established the following investment structure:

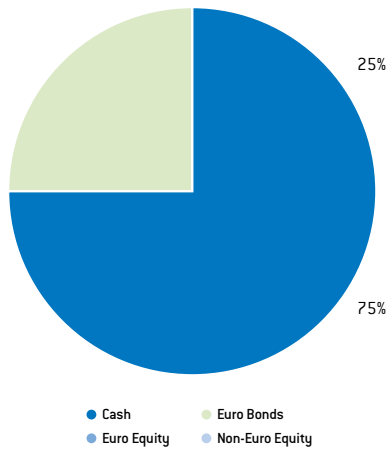


In the structure above, the beneficiaries invest in the spectrum funds (highlighted in green). These funds subsequently invest in the underlying market specific funds (highlighted in blue) in the proportions outlined on page 11

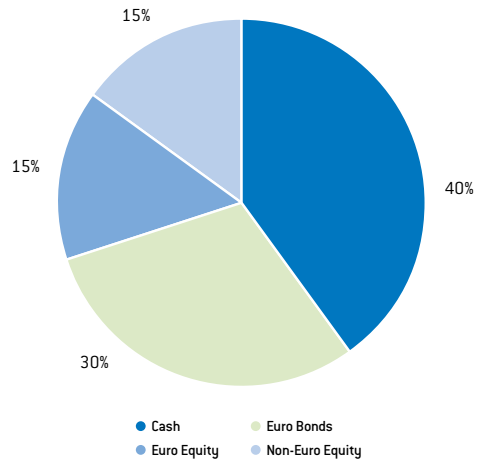
MODERNISING THE FRAMEWORK FOR THE INVESTMENT OF COURT FUNDS (CONTINUED)

ASSET DISTRIBUTION OF SPECTRUM FUNDS

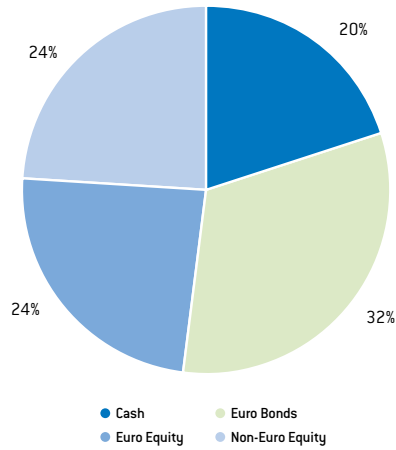
*Spectrum Cash Plus Fund*



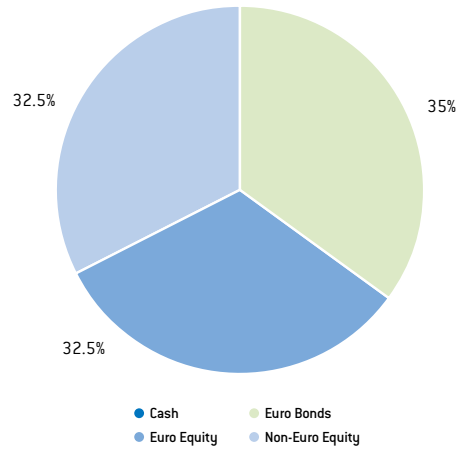
*Spectrum Bond Plus Fund*



*Spectrum Balanced Fund*



*Spectrum Growth Fund*



*MODERNISING THE FRAMEWORK FOR THE INVESTMENT OF COURT FUNDS (CONTINUED)*

The following is a brief description of the investment objectives of each strategy.

*Cash Plus Fund*

The Cash Plus Fund is a low risk strategy with an investment objective primarily to maintain capital value and also to generate capital appreciation while maintaining a high level of risk control.

*Bond Plus Fund*

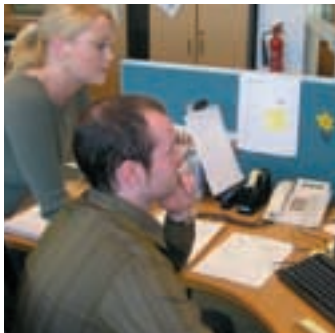
The investment objective of the Bond Plus Fund is primarily to maintain capital value and also to generate a moderate level of income for the beneficiary.

*Balanced Fund*

The Balanced Fund is designed to achieve a combination of reasonable income and sound capital growth over the medium to long term. This fund has 48% equity content and returns may be subject to market variations and there is a risk that the value may fall, particularly over short-term periods.

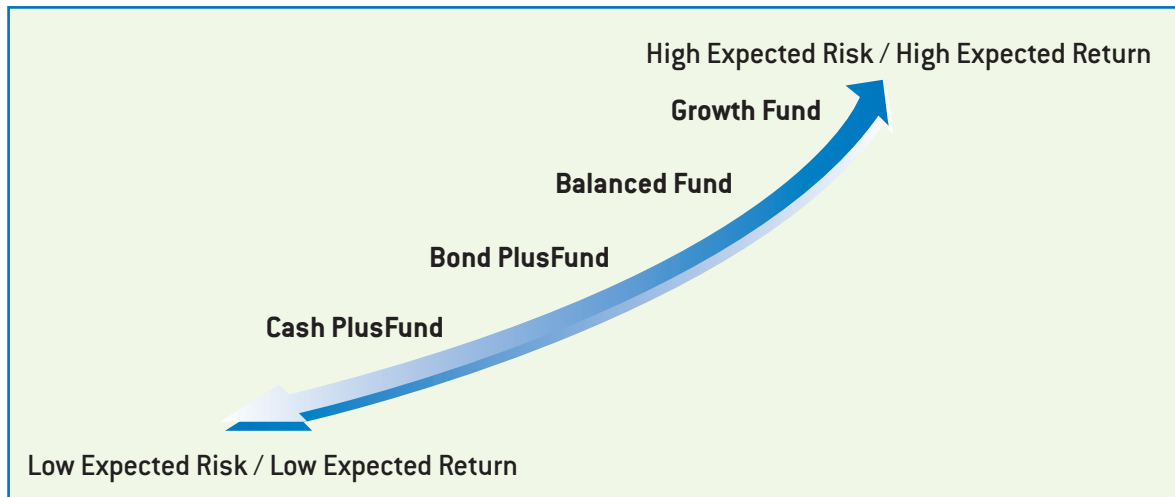
*Growth Fund*

The Growth Fund is primarily designed to generate capital appreciation while maintaining a high level of risk control. This fund has a 65% equity content and returns may be subject to market variations, particularly over short-term periods. Accordingly funds would only be invested in this fund where there is a reasonably long investment time horizon.



*MODERNISING THE FRAMEWORK FOR THE INVESTMENT OF COURT FUNDS (CONTINUED)*

The graph below illustrates how the four investment funds differ according to expected risk and return:



Mercer Investment Consulting created a projection/modeling tool for the Courts Service in order to allow us to allocate each beneficiary's funds to one of the above strategies, based on that beneficiary's particular circumstances. The chosen strategy will broadly depend on:

- the age of the beneficiary
- the sum to be invested and
- the level of anticipated annual expenditure

All cases will be reviewed periodically, and if the beneficiary's circumstances change, the strategy may be varied accordingly.



MODERNISING THE FRAMEWORK FOR THE INVESTMENT OF COURT FUNDS (CONTINUED)

## INVESTMENT COMMITTEE

The Investment Committee comprises members of the judiciary, court officers with investment decision making responsibilities, the Director of Finance and an independent expert. The Committee is chaired by the President of the High Court. Its role is advisory and its main function is to devise investment policy for Court funds and to oversee the implementation of the recommendations in the Mercer report and to ensure compliance with best practice in the management of court funds. Judge Catherine Delahunty replaced Judge Sean O'Leary who was promoted during the year to the High Court.

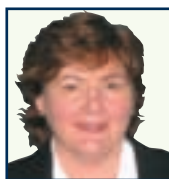
The Committee meets on a quarterly basis and its membership is as follows:

### NAME AND BASIS FOR MEMBERSHIP



The Honourable Mr Justice  
**Joseph Finnegan**

*President of High Court or a Judge  
of the High Court Nominated  
by the President*



Her Honour Judge  
**Katherine Delahunty**

*President of Circuit Court or a Judge  
of the Circuit Court Nominated  
by the President*



Judge  
**David Anderson**

*President of District Court or a Judge  
of the District Court Nominated  
by the President*



**Mr Sean Quigley**

*The Accountant of the Courts of  
Justice /  
The Director of Finance  
of the Courts Service*



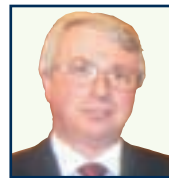
**Mr Noel D. Doherty**

*The Registrar, Office of Wards  
of Court*



**Mr John Mahon**

*The Senior Assistant Registrar,  
Office of Wards of Court*



**Mr Fintan Murphy**

*A County Registrar nominated  
by the Chief Executive Officer in  
consultation with the President  
of the Circuit Court*



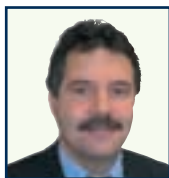
**Mr John Molloy**

*A Chief Clerk from the District Court  
nominated by the Chief Executive  
Officer in consultation with the  
President of the District Court*



**Mr Jim Farrell**

*Independent External Expert,  
formerly of the National Treasury  
Management Agency*



**Mr Paddy O'Neill**

*Secretary*

*MODERNISING THE FRAMEWORK FOR THE INVESTMENT OF COURT FUNDS (CONTINUED)*

## IMPLEMENTING CHANGE

Very significant progress has been made since the establishment of the Courts Service in bringing about ground breaking changes in the management and investment of court funds. In addition to the matters dealt with above a modern funds accounting system went live in July 2003. The work undertaken by the project team in implementing this new system was extensive and included:

The data conversion and reconciliation of data from manual ledgers to a computerised system. This process involved some 6,000 individual accounts.

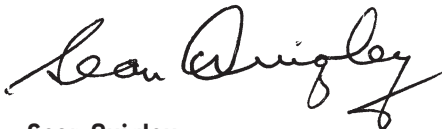
The restructuring of processes and procedures in the Accountants Office to reflect modern-day requirements and practices

The introduction of a new computerised funds accounting system into a previously totally manual operation

The challenges faced by the project team were enormous but were completed successfully and on time.

## LEGISLATIVE REFORM

The Courts Service has been proactive in identifying legislative provisions that impeded the most effective, efficient and economical investment management of court funds and sought to have them changed. Proposals submitted to the Department of Finance for modifications to the Trustee Authorised Investment regime and certain proposals in relation to the taxation of court funds have been successful over the past two years.



**Sean Quigley**  
*Accountant of the Courts of Justice*  
**24th March 2005**

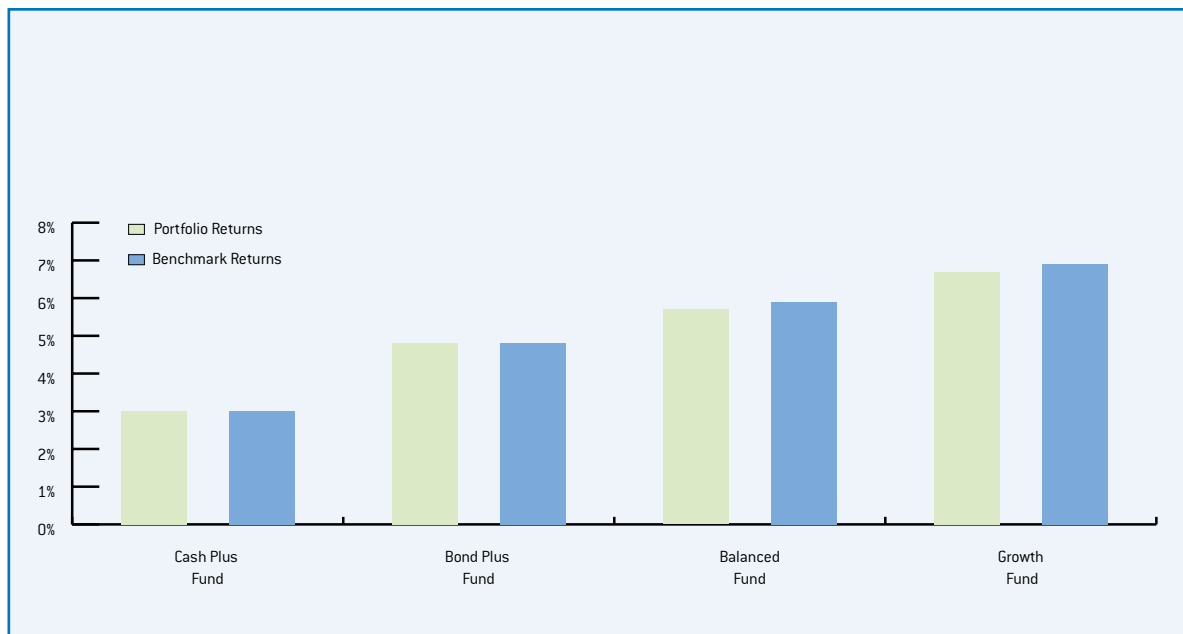


## INVESTMENT MANAGER'S REPORT

### FOR THE YEAR ENDED 30 SEPTEMBER 2004

As noted in the Report of the Accountant of the Courts of Justice, a significant proportion of the total funds under administration was placed under the management of Bank of Ireland Asset Management (BIAM) during the year under review. These investments were made through the medium of the BIAM Spectrum Unit Trust and the BIAM Gross Roll Up Unit Trust. At year end an amount of €453m, representing 60.4% of the total funds under administration amounting to €755m was managed by BIAM.

BIAM have prepared the following Investment Managers Report in respect of their management of these funds in the year under review.



**Notes:** The FTSE benchmarks for the BIAM GRU Indexed Eurozone Equity Fund and the BIAM GRU Indexed World ex Eurozone Fund have been adjusted for irrecoverable dividend withholding tax.

There is a very small tracking error, which is within the performance objective of the fund, on the Balanced and Growth Funds which is attributable to the small fund size and broad index tracked by these funds.

The first unit price was calculated on 11th December 2003.

*INVESTMENT MANAGER'S REPORT FOR THE YEAR ENDED 30 SEPTEMBER 2004 (CONTINUED)*

## CASH FUND

Short-term market interest rates were initially slow to move up at the start of the review period amid concerns that economic growth was not yet entrenched. Inflation also remained relatively low, making it less likely to prompt monetary policy decision-makers to increase their official rates. However, as we moved into the second quarter, expectations about rate increases changed considerably. That was particularly noticeable in the American economy as it illustrated sustained vigour and some inflationary pressures. A rise in oil prices to near 14-year highs also stoked worries about the rate of price increases. This change set the tone for many economies.

While not changing its key rate from 2%, the ECB said there was a number of upside risks to price stability. It pointed to global economic dynamism that could continue to exert upward pressure on commodity prices, including oil prices. By the end of September, the Bank of England had implemented five increases in the current cycle to take its benchmark interest rate to 4.75%. The US Federal Reserve joined the ranks of interest rate tighteners such as the Bank of England when it increased rates at three consecutive meetings in June, August and September. This took the federal funds rate up from a four-decade low of 1% to 1.75%.

By the end of the review period, markets had rowed back on the anticipated timetable for interest rate cuts as the price of oil soared to new highs, threatening to breach the \$50 per barrel level for some categories of crude and heralding some concern among central banks about the potential impact on economies.

Over the course of the period under review, the Merrill Lynch Libid 3-month Constant Maturity Index generated a return of 1.62%.

## EUROZONE BOND FUND

Bond markets were volatile through much of the review period amid ongoing geopolitical unrest and conflicting signals from economic releases. Although the improving economic backdrop would generally be viewed as unfavourable for bonds for fear of stoking inflation, bonds produced healthy returns. In the final months of the review period, bond yields started to fall as oil prices embarked on a sharply upward trajectory. Even with the rising oil price, recent inflationary data was softer than anticipated, suggesting that interest rates might not have to be increased at the pace previously envisaged.

Industrialised economies continued to expand in the last year overall despite some abatement in the second quarter. The Eurozone economy, amongst others, has been resilient in the face of the surge in crude oil and other commodity prices. Modestly renewed growth and higher oil prices have not sparked significant inflationary pressures. Higher input prices have not resulted to date in rising consumer prices given competitive forces and the relatively modest real (inflation-adjusted) price of oil. That

*INVESTMENT MANAGER'S REPORT FOR THE YEAR ENDED 30 SEPTEMBER 2004 (CONTINUED)*

makes it less likely central banks will need to quickly accelerate interest rate increases to head off potential inflationary concerns.

Even though economic growth in the euro area has probably been at a faster pace than was forecast at the beginning of the year, the paucity of domestic demand in some countries amid stubbornly high unemployment made the likelihood of the European Central Bank increasing rates in 2004 more remote. The Merrill Lynch Eurozone Government Bond (over 5 years) Index generated a return of 7.03% for the duration of the review period.

## WORLD EX EUROZONE EQUITY

Despite some headwinds, global equity markets generally produced strong returns for the twelve months under review. Broadly speaking, returns were stronger in the first months of the review period, with the second half of the period more volatile amid rising oil prices and concerns for the pace of economic growth. Corporate earnings tended to exceed analysts' forecasts, although the pace of growth is slowing. US earnings growth in Q1 was 26% followed by a 24% rise in the second quarter, on a year-on-year basis. The biggest earnings improvements tended to be in companies with a technology or cyclical bias, although there was healthy profit growth across most sectors. Towards the end of the review period there was some deterioration in the quality of earnings, and there was a number of high-profile companies issuing revised guidance for the remainder of the year. The FTSE Developed World ex Eurozone Index posted an adjusted return of 6.84% for the period under review\*.

The US equity market generally performed well, although it has experienced more volatility in recent months as the high price of oil preyed on the minds of investors. However, corporate earnings growth has been strong, growing by over 20% in each of the last four quarters. Steel, energy and homebuilding sectors were among the top performers while the influence of technology sectors on performance faded as the year progressed. Airlines were poor performers as the rising oil price put carriers under pressure, while semiconductor stocks also posted negative returns.

Many of the same themes running through the performance in global markets were apparent in the UK. Top performing sectors included steel, real estate and utilities while technology sectors generated poor returns. With house prices soaring until recently, real estate stocks have been popular with investors. The strength in steel prices helped this sector to a stellar return, while utilities enjoyed good support in 2004 as investors sought out reliable earnings streams.

Japan's stock market initially outperformed as previously downtrodden banks surged amid renewed optimism in the economy. The gains recorded in the sector have since fallen back amid concerns about the potential impact of a higher oil price on the economy. Exporters have also come under some pressure, particularly as China professed its intention to slow the pace of economic growth to contain inflationary pressures. The real estate sector was a top performer amid renewed optimism for the previously depressed property market, while the rise in commodity prices globally boosted the fortunes of steel, oil and coal sectors.

*INVESTMENT MANAGER'S REPORT FOR THE YEAR ENDED 30 SEPTEMBER 2004 (CONTINUED)*

## **EUROZONE EQUITY**

Eurozone equity markets were buoyed by the robust international economic environment. Driven by reinvigorated demand from the US and increasingly from China, leading Eurozone companies increased profits despite sometimes-lacklustre demand in domestic economies. European corporate earnings have picked up significantly in the past year as the global economic revival increased overall demand. This improved the attractiveness of many equities despite the relatively slow economic growth in some European countries. The FTSE World Eurobloc Index registered an adjusted return of 6.32% from inception to 30th September\*. In Germany, the Dax Index gained ground with utility, basic resources and media sectors producing healthy returns. After initially performing well, technology sectors recorded relatively poor returns. The French CAC-40 Index also generated a positive return, driven by utilities and resources stocks.

The economy of the Eurozone region maintained its modest progress in the second quarter, with expansion of 0.5% building on the 0.6% recorded in the previous three months. Through much of the region, the recovery appears to be gaining traction although exports remained a significant contributor to growth. While the pace of growth may not draw sweeping accolades, it is still better than anticipated at the beginning of the year. The European Central Bank did not follow the moves taken by the U.S. Federal Reserve in increasing interest rates, maintaining the official rate at 2%. While the direction of oil prices has renewed its upward trajectory, inflation levels have remained relatively subdued although still above the 2% target.

\* The FTSE Developed World ex Eurozone and FTSE Eurobloc Index returns have been adjusted for irrecoverable dividend withholding tax.

### **Bank of Ireland Asset Management**

#### **Investment Manager**

## STATEMENT OF RESPONSIBILITIES AND REPORT OF THE ACCOUNTANT OF THE COURTS OF JUSTICE

### STATEMENT OF ACCOUNTANT'S RESPONSIBILITIES

The Office of the Accountant of the Courts of Justice and the position of Accountant was established under Sections 15 and 16 respectively of the Court Officers Act 1926. The Accountant is required by Order 77 Rule 96 of the Superior Court Rules to prepare an account on or before the 31st March showing the total amount of funds paid or transferred into and out of Court in the year ended on the 30th September in the preceding year. The account must also show the balance of funds in Court at the commencement and close of the year. Copies of the account are required to be forwarded to the Minister for Justice, Equality and Law Reform and the Minister for Finance. The basis of preparation and the accounting policies are set out on page 27.

### STATEMENT ON THE SYSTEM OF INTERNAL FINANCIAL CONTROL

The Accountant acknowledges his responsibility for ensuring that an effective system of internal financial control is maintained in relation to the operation of the Accountants Office.

The system can only provide reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded and that material errors or irregularities are either prevented or would be detected in a timely manner.

### KEY CONTROL PROCEDURES

I confirm that a control environment containing the following elements is in place:

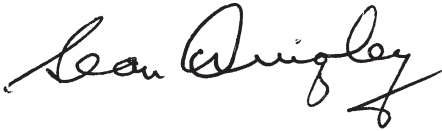
- formal procedures have been established for reporting significant control failures and ensuring appropriate corrective action
- there are clearly defined roles and responsibilities
- There are procedures for reporting significant control failures to the Investment Committee, Finance Committee and the Audit Committee and ensuring that corrective action is taken

Under the governance arrangements established by the Courts Service Board there is an internal audit function which operates in accordance within an approved charter. One of the key functions of the internal audit unit is to report on the adequacy and effectiveness of the system of internal control operated by the Accountants Office.

*STATEMENT OF RESPONSIBILITIES AND REPORT OF THE ACCOUNTANT OF THE COURTS OF JUSTICE*

During the year external consultants were engaged to carry out a high level review of the controls and procedures operated by our fund managers and custodian. Arising from this review improvements were made to the reporting arrangements that have provided the Accountant's Office with better quality information. Discussions are ongoing between the Accountant, Bank of Ireland Asset Management and our auditors Deloitte regarding further developments aimed at further enhancing the governance, reporting and control environment.

Immediately following the end of the period covered by this report the Courts Service commenced the establishment of a formal risk management framework. These measures will further strengthen the governance and control environment for the management of court funds. Also the Courts Service has undertaken a review of its information technology security and any recommendations that are required to be implemented to enhance the control environment in relation to the management of court funds will be implemented.



**Accountant of the Courts of Justice**

Date: 29th March 2005

## INDEPENDENT AUDITORS' REPORT TO THE ACCOUNTANT OF THE COURTS OF JUSTICE

We have audited the financial statements of The Office of the Accountant of the Courts of Justice for the year ended 30 September 2004 which comprise the Statement of Assets and Liabilities, the Statement of Operations and Statement of Changes in Net Assets and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Our audit work has been undertaken so that we might state to the Accountant those matters we are required to state to him in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Accountant for our audit work, for this report, or for the opinions we have formed.

### RESPECTIVE RESPONSIBILITIES OF THE ACCOUNTANT AND AUDITORS

The Accountant is responsible for preparing the Annual Report including, as set out in Statement of Accountants' Responsibilities, the preparation of the financial statements in accordance with the Rules of Superior Courts, Order 77, Rule 96. Our responsibilities, as independent auditors, are established in Ireland by auditing standards as promulgated by the Auditing Practices Board in Ireland and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Rules of Superior Courts, Order 77, Rule 96.

We read the other information contained in the Annual Report for the above year as described in the contents section and considered whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatement or material inconsistencies with the financial statements. Our responsibilities do not extend to other information.

### BASIS OF AUDIT OPINION

We conducted our audit in accordance with the auditing standards issued by the Auditing Practices Board and generally accepted in Ireland. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to The Office of the Accountant of the Courts of Justice's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we evaluated the overall adequacy of the presentation of information in the financial statements.

*INDEPENDENT AUDITORS' REPORT TO THE ACCOUNTANT OF THE COURTS OF JUSTICE*

## OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the The Office of the Accountant of the Courts of Justice as at 30 September 2004 and of its result for the year then ended and have been properly prepared in accordance with the Rules of Superior Courts, Order 77, Rule 96.

We have obtained all the information and explanations we considered necessary for the purpose of our audit. In our opinion proper books of account have been kept by the entity. The balance sheet and its statement of operations are in agreement with the books of account.

In our opinion the information given in the Accountant's Review of Operations is consistent with the financial statements.

Handwritten signature in black ink, appearing to read 'Deloitte Touche'.

**Deloitte & Touche**  
**Chartered Accountants and Registered Auditors**  
Dublin  
31 March 2005

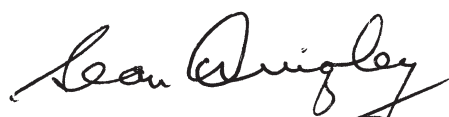


## STATEMENT OF ASSETS AND LIABILITIES

AT 30 SEPTEMBER 2004

	Notes	2004 €	2003 €
<b>INVESTMENT ASSETS</b>			
Investments	4	749,852,358	699,489,595
<b>CURRENT ASSETS</b>			
Debtors	5	5,907,298	7,581,527
Bank		-	2,821,429
<b>TOTAL ASSETS</b>		<b>755,759,656</b>	<b>709,892,551</b>
<b>CURRENT LIABILITIES</b>			
Creditors	6	40,086	273
Bank	6	427,065	-
<b>TOTAL LIABILITIES</b>		<b>467,151</b>	<b>273</b>
<b>NET CURRENT ASSETS</b>		<b>5,440,147</b>	<b>10,402,683</b>
<b>TOTAL NET ASSETS</b>		<b>755,292,505</b>	<b>709,892,278</b>
Represented by:			
Funds held for beneficiaries at year end	7	<u>755,292,505</u>	<u>709,892,278</u>

The financial statements were approved by the Accountant on 29th March 2005



**Accountant of the Courts of Justice**

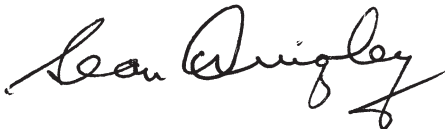
SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

## STATEMENT OF OPERATIONS

FOR THE YEAR ENDED 30 SEPTEMBER 2004

	Notes	2004 €
INVESTMENT INCOME	9	10,095,729
EXPENSES	10	(3,200,754)
NET INVESTMENT GAIN		6,894,975
<b>NET REALISED AND UNREALISED GAINS</b>		
Net realised gain on investments disposed of during the year		2,821,002
Net change in unrealised gain on investments		18,243,496
Gains realised on transfer out during the year		55,179
<b>NET REALISED AND UNREALISED GAINS</b>		<b>21,119,677</b>
<b>INCREASE IN NET ASSETS FROM OPERATIONS</b>		<b>28,014,652</b>

The financial statements were approved by the Accountant on 29th March 2005



**Accountant of the Courts of Justice**

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

## STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED 30 SEPTEMBER 2004

	2004 €
<b>INCREASE IN NET ASSETS RESULTING FROM OPERATIONS</b>	
Net investment gain	6,894,975
Net realised gain on investments	2,821,002
Net unrealised gain on investments	18,298,675
<b>NET INCREASE IN NET ASSETS FROM OPERATIONS</b>	<b>28,014,652</b>
<b>CAPITAL TRANSACTIONS</b>	
Payments in	154,620,676
Disbursements	(137,235,102)
<b>NET INCREASE IN NET ASSETS FROM CAPITAL TRANSACTIONS</b>	<b>17,385,574</b>
Increase in net assets in the year	45,400,226
Net assets at beginning of year	709,892,278
<b>NET ASSETS AT END OF YEAR</b>	<b>755,292,504</b>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 SEPTEMBER 2004

#### 1. GENERAL – LEGAL STATUS

The Fund is managed in a fiduciary capacity on behalf of beneficiaries by the Accountant of the Courts of Justice. The main primary and subordinate legislation governing the receipt, management and investment of Court controlled funds is as follows:

Court Officers Act 1926

The Trustee (Authorised Investments) Act, 1958 and the Trustee (Authorised Investments) orders made thereunder.

The Rules of the Superior Courts.

#### 2. ACCOUNTING POLICIES

(a) Basis of preparation

These financial statements have been prepared in accordance with accounting standards generally accepted in Ireland. Comparative figures for the previous year are not presented in the Statement of Operations and the Statement of Changes in Net Assets, as the required information is not readily available. This arises as a result of the major changes in systems completed in the year under review.

(b) Valuation of Investments

Listed investments and unitised funds are valued at their bid price where they are quoted on a recognised stock exchange. Insurance policies are valued at their surrender value as confirmed independently by the insurance companies. Other investments are valued at their deposit value including interest accrued at year-end.

(c) Income

Interest and dividend income is recorded on the accrual basis.

(d) Realised gains and losses

Investment transactions are recorded on a trade date basis. Realised gains or losses on sales of trading securities are calculated on a first in, first out basis. Realised gains or losses on sales of units of the Spectrum Fund are calculated on an average basis. Realised and unrealised gains or losses on investments are recorded in the statement of operations.

(e) Expenses

Expenses are accounted for on an accruals basis. Expenses are charged to the statement of operations, except for expenses incurred on the acquisition of an investment, which are included in the cost of that investment.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2004 (CONTINUED)

### 3. FEES AND EXPENSES

#### 3.1 Court Fees:

Significant resources are deployed, particularly in the Accountants Office and the Office of Wards of Court, in managing the affairs of persons who are wards of court and minors. In recent years significant investment has been made in modernising the arrangements for the management and investment of court funds held on behalf of wards of court and minors to bring them into line with best practice. As a contribution towards the costs of these operations court fees are applied to various transactions associated with the management and processing of court funds by the Accountants Office. These charges are approved by the Minister for Justice, Equality and Law Reform and the Minister for Finance and are contained in the Supreme and High Court Fees Orders. Charges amounting to €1.36m have been deducted as a result of transactions processed in the Accountant's Office during the year ended 30th September 2004. Charges amounting to €0.663m arose in respect of court percentages which are charged on funds held on behalf of Wards of Court. The amount charged in relation to court percentages in the period ended 30th September 2004 included an amount of €0.559m which represented the collection of arrears of these charges for the period from 1996 to 2002. Further information is provided on pages 5 to 15 regarding the modernisation programme implemented by the Courts Service in respect of the management and investment of court funds.

#### 3.2 Investment Management Fees:

A scale of investment management fees were agreed with Bank of Ireland Asset Management and State Street Global Advisors and incorporated in the Investment Management Agreement.

The average investment management fee on each of the funds in 2004 was as follows:

Cash Plus:	0.17% Net Asset Value calculated weekly
Bond Plus:	0.13% Net Asset Value calculated weekly
Balanced:	0.25% Net Asset Value calculated weekly
Growth:	0.25% Net Asset Value calculated weekly

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2004 (CONTINUED)

3.3 Administration and Custodian Fees:

These are transactional fees charged by JP Morgan

The administration and custodian fee on each of the funds in 2004 was as follows:

Cash Plus:	0.03% Anti-Dilution Levy calculated weekly
Bond Plus:	0.11% Anti-Dilution Levy calculated weekly
Balanced:	0.15% Anti-Dilution Levy calculated weekly
Growth:	0.20% Anti-Dilution Levy calculated weekly



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2004 (CONTINUED)

**4. INVESTMENTS**

	€
Euro Equity	105,802,014
Euro Bond	131,746,973
Euro Cash	211,511,545
Non-Euro Equity	57,464,868
Non-Euro Bond	606,756
Managed Funds	48,598,327
Deposit Accounts	191,735,938
Insurance Policies	1,385,937
<b>PORTFOLIO OF INVESTMENTS</b>	<u><u>749,852,358</u></u>

**5. DEBTORS**

	2004 €	2003 €
Court amounts awarded not yet received	<u><u>5,907,298</u></u>	<u><u>7,581,527</u></u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2004 (CONTINUED)

**6. CURRENT LIABILITIES**

	2004 €	2003 €
Exit tax payable	40,086	-
Bank overdraft (i)	427,065	-
Court fees	-	273
	<u>467,151</u>	<u>273</u>

(i) Bank overdraft arises when unpresented cheques are taken into account.

**7. FUNDS HELD FOR THIRD PARTIES**

	2004 €
Amounts held for wards of court	508,329,936
Amounts held for minors	149,672,829
Amounts held for pending further order cases	28,073,158
Amounts held for charitable bequests	25,389,530
Amounts held for lodgements with defence	19,636,097
Other	24,190,955
	<u>755,292,505</u>



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2004 (CONTINUED)

## 8. INVESTMENT RISKS

### *Investment Risks*

The investments managed by the Accountant's Office are managed by appointed professional managers adopting agreed investment strategies. Risk is inherent in any investment strategy, and the principal risks relevant to these strategies are as follows;

### *Market Price Risk*

Market price risk arises mainly from uncertainty about future prices of financial instruments held. It represents the potential loss which might be suffered through holding market positions in the face of price movements. The investments held are subject to normal market fluctuations and the risks inherent in investment in international securities markets. The investment managers consider the asset allocation of the funds in order to minimise the risk associated with particular countries or industry sectors whilst continuing to follow the investment objectives.

### *Credit Risk*

Foreign exchange, futures and other transactions involve counterparty credit risk and will expose the funds to unanticipated losses to the extent that counterparties are unable or unwilling to fulfil their contractual obligations. Available contractual remedies could be inadequate to the extent that the collateral or other assets available are insufficient to satisfy the obligations of the counterparty.

### *Foreign Currency Risk*

A proportion of the funds are invested in financial assets denominated in currencies other than the Euro (refer note 4). Adverse movements in currency exchange rates can result in a decrease in return and a loss of capital.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2004 (CONTINUED)

**9. INVESTMENT INCOME**

	2004 €
Deposit interest	4,533,395
Dividends	1,881,006
Shares in lieu of dividends	483,766
Interest on other investments	3,180,993
Other	16,569
	<u>10,095,729</u>

**10. EXPENSES**

	2004 €
Court fees (see Note 3.1 on pg 28)	2,027,251
Investment management fee (see Note 3.2 on pg 28)	421,121
Administration and custodian fees (see Note 3.3 on pg 29)	313,388
Miscellaneous managed funds fees (i)	305,797
Taxes	78,048
Brokers' fee	54,611
Bank charges	538
	<u>3,200,754</u>

(i) These fees include transaction charges, audit fees, safekeeping fees, other professional fees, trustee fees and bank interest.

*NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2004 (CONTINUED)*

**11. OTHER INCOME**

Other income is represented by inter alia, shares in lieu of dividends, interest on other investments and tax refunds.

**12. POST BALANCE SHEET EVENTS**

There were no material post balance sheet events, which would require revision of the figures in the financial statements.



THE OFFICE OF THE ACCOUNTANT OF THE COURTS OF JUSTICE  
REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2004