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**NORTHWOOD  
STEPHENS**  
PRIVATE COUNSEL INC.

Best Independent Family Office in Canada  
EUROMONEY Private Banking Survey 2007

# THE NORTHWOOD STEPHENS PERSPECTIVE

WINTER 2007

## President's Message



**Tom McCullough**  
President and CEO

Happy New Year to all our clients, colleagues, and friends.

Welcome to the third edition of the Northwood Stephens Perspective. Thanks for the great feedback we have received so far on our newsletter. Feel free to pass the newsletter on to others who you think might be interested.

With the New Year already in full swing, many of us have made New Year's resolutions. According to a popular US publication, some of the top resolutions for 2007 include: spending more time with family and friends, starting a regular fitness routine, quitting drinking or smoking, helping others and getting organized.

It is the last one that strikes a chord with us. One of the reasons clients come to us is to help them get their financial affairs organized. Since a family's financial affairs tend to overlap and intertwine with numerous aspects of their lives, making sure a comprehensive plan is in place—along with a team dedicated to executing that plan—can be quite beneficial.

A family office, like Northwood Stephens, can improve the overall financial welfare of a family and maximize the advantage of its net worth. There are many specific benefits of a multi-family office for successful families (and for foundations and endowments). Among them are:

- Effective management of clients' entire financial affairs
- Coordination and cooperation with clients' other advisors
- Customized, discrete advice and counsel and exceptional service
- Access to a wide range of unique and oftentimes difficult to access, investment managers, services and advisors
- Preferred pricing resulting from the 'buying power' of a number of wealthy families
- Consolidated reporting and detailed record keeping

We all know that many New Year's resolutions are not kept. One University of Maryland psychiatrist suggests sharing your resolutions with a friend who can gently nudge you in the right direction when you veer off course. So if your resolutions for the New Year include getting your financial life organized, perhaps a family office like Northwood Stephens can help nudge you down the path of making sure it happens in 2007.

All the best for a healthy, happy, and prosperous New Year.

**Tom McCullough**  
President and CEO

P.S. We are very excited about our recent ranking as the **#1 independent Family Office in Canada** by the prestigious *Euromoney* publication. Please see the article opposite this message for further details.

*Photograph courtesy of Frances Juriansz Photography*

## Northwood Stephens Rated #1 Independent Family Office in Canada

Northwood Stephens Private Counsel Inc. has been ranked as the best independent Family Office in Canada in *Euromoney* magazine's annual global private banking survey released in mid-January.



**We believe the family office is the best model for delivering comprehensive wealth management to successful families and we are delighted to be recognized as the best in the country in our field.**

*Tom McCullough, President & CEO*

This year's *Euromoney* survey was based on responses from private banks and wealth managers from around the world, representing \$3.34 trillion of assets under management and \$66.2 billion of global annual revenue. Participants in each country nominated their peers whom they felt were leaders in their respective fields.

Northwood Stephens also ranked prominently amongst independent firms in Canada in the following categories:

- #1** for providing inheritance and succession planning
- #1** for providing philanthropic planning
- #2** for providing tax guidance
- #2** for providing equity portfolio management services
- #4** for providing fixed income portfolio management services

**Our clients value the integration of estate, tax and philanthropic planning along with access to, and oversight of, the best investment managers in the world.**

*Scott Hayman, Executive Vice President  
and Head of Client Services*

*Euromoney* is an authority on trends and developments in international banking and capital markets. This was the first year the survey ranked independent providers in the family office field.

**NORTHWOOD STEPHENS PRIVATE COUNSEL INC.**  
IS A MULTIFAMILY OFFICE PROVIDING COMPREHENSIVE  
NET WORTH MANAGEMENT™ TO WEALTHY FAMILIES  
AND FOUNDATIONS.

## A Lasting Legacy: The Importance of Updating Your Estate Plan

Scott Hayman, CA, CFP

Executive Vice President and Head of Client Service, Northwood Stephens Private Counsel Inc.



In our busy lives, it's easy to put off updating and reviewing our estate plans. But the time we take to make sure our wishes are properly documented could be one of the best gifts we leave to our family and friends. There are many components to a well developed estate plan, but regularly reviewing and updating two of the main components—your will and beneficiary designations—can protect your net worth and create a lasting legacy.

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Many of our clients come to us with wills that are out of date and don't properly reflect their wishes. It is generally recommended that you review your will:

- at least every two years,
- any time a significant event has taken place in your life, and/or
- when there have been changes to applicable laws and tax regulations.

Examples of significant events in your life that could impact your will can range from the sale of a business, a marriage in the family, the birth of children or grandchildren, or the death of a current beneficiary of your estate.

When it comes to updating your will, there are two basic choices, and professional assistance is recommended for both: (i) you can prepare and properly execute a new will that revokes the earlier will, or (ii) you can prepare and properly execute a codicil to the will. A codicil is a separate document that adds to and/or replaces one or more provisions in an existing will. Although your intentions may be good, writing in the margins, or crossing out words, lines, or sections of the original will invites confusion, potential ambiguity, and the possibility of unpleasant and protracted will contests.

Ensuring your wishes are properly reflected in your will is often only one part of your estate strategy. Large portions of your estate may also be held in assets such as life insurance policies, RRSP's or



RRIF's which can be distributed outside of your will. Canadian tax laws allow some assets to flow directly through to beneficiaries named in the policies and accounts, thus avoiding probate and deferring taxes. If instead, the estate is named as the beneficiary of such assets, your estate might be faced with an otherwise avoidable tax and/or probate payment. When updating your estate plan, it is important to review the beneficiaries of all of your assets that will be distributed outside your will.

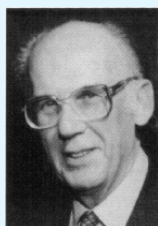
As you start the New Year, take the time to ensure your wishes and desires are captured in your will and asset beneficiary designations. These are two important pieces of an up-to-date estate plan, but there are also a variety of other factors to consider to ensure you have a comprehensive and effective plan in place. These will be discussed in future newsletters.

Leaving an up-to-date and well-documented estate can ensure a lasting legacy for generations to come while ensuring your wishes are carried out in the manner you desire.

*Please contact us for more information on estate planning, or to address your specific situation.*

### Wolfe Goodman (1925-2006)

*On Friday, November 24, 2006, Wolfe Goodman passed away. Wolfe was a dear friend to Northwood Stephens and worked with many of our clients on their tax and estate planning issues.*



*Wolfe D. Goodman, Q.C., LSM, S.J.D., was a founding partner of the Toronto law firm of Goodman and Carr and was among Canada's best known and most highly regarded tax and estate planning lawyers. He practiced law for over forty years, lectured and wrote extensively and enjoyed an international reputation for his work in cross-border estate planning. He will be missed.*

### A Generational Shift: Entrepreneurs to Sell Businesses in Record Numbers

- There are more than 2.5 million owners of small/medium-sized businesses in Canada
  - 20% are planning to retire by 2010
  - Another 30% are planning to retire by 2020
- By 2010, an estimated **\$1.2 trillion** in business assets are poised to change hands – the largest turnover of economic control in generations
  - Only 15% have definite succession plans to sell/transfer the business to a family member
  - 40% plan to sell their businesses to outside interests

Source: CIBC small business report as provided by Crosbie & Company Inc.

**CROSBIE**  
A SPECIALTY INVESTMENT BANKING FIRM



## Managing Managers

Brian Ginsler, MBA, CFA

Vice President, Northwood Stephens Private Counsel Inc.



Many successful families tell us that their current portfolio of investments is a collection of random individual investments, funds, and products, bought through multiple advisors over the years, with little ongoing oversight and no identifiable strategy guiding the investment decisions and makeup of the ultimate portfolio.

One of the key roles a family office plays is helping to develop a clear set of objectives and principles upon which a prudent and coordinated investment strategy can be built. This investment strategy would, of course, be created in the context of each family's individual situation including tax status, estate objectives, holding company structure, and considering the family's other non-liquid assets.

**By combining investment managers with different styles, along with different asset classes, we are able to help reduce risk and provide more consistent returns through all kinds of market environments.**

At Northwood Stephens, we design each of our client's portfolios to meet their particular family goals. We then create customized portfolios using some of the best professional investment managers in the world, ensuring the portfolios are well diversified by security, geography, asset class and manager style.

Combining investment managers with different styles and approaches, along with different asset classes, helps to reduce risk and provide more consistent returns through all kinds of market environments. Once chosen, we monitor managers carefully to ensure that clients' portfolios remain consistent with their objectives and that the professional money managers we hire for clients continue to do the job they were engaged to do.



In actually building customized portfolios for clients, we select from a broad range of managers from around the world, each specializing in a particular style of investment management. We use the resources of an independent investment consultant to help us uncover the best managers available and we use our own internal Investment Strategy Committee to make the final investment manager selection decisions as to which managers we will engage on behalf of clients.

We select only those managers who have achieved long term success and who exhibit high levels of expertise, consistency and

commitment to their particular approach. Many of these managers are difficult for individual investors to access themselves but can be accessed by clients of Northwood Stephens. We also ensure that there is a good fit between each client and the approach and 'personality' of the managers chosen for them.

### The Four P's

When evaluating managers, we focus on the four P's: People, Philosophy, Process and, of course, Performance. A snapshot of the "Four P's" is provided below.

#### The "Four P's" of Selecting Professional Money Managers:

- **People** – Look for firms with trustworthy, experienced and competent professionals who have a strong history of consistent investment management, and a high degree of stability and limited changes in staff.
- **Philosophy** – Choose investment managers with a sound investment philosophy that remains consistent over time and in changing market environments. For example, we would monitor a "value" manager to look for deviations from its philosophy during times of unusual "growth" in the market (such as the tech bubble of the late 1990's/early 2000's). If we see evidence of such "style drift", we would replace the manager.
- **Process** – Seek out managers with an investment process that is sensible, disciplined and repeatable. We speak to the actual portfolio managers (as opposed to "client service" managers) to get a direct understanding of how they implement the investment process.
- **Performance** – Look for managers who have demonstrated consistent, solid investment results over a long period of time in their area of expertise. Because our clients are long term investors, we place much higher emphasis on long-term results as opposed to short term highs and lows.

We believe that investment performance that is likely to consistently meet client objectives comes from employing a strong, stable team of managers who adhere to a sound investment philosophy and demonstrate a rigorous investment process. But, of course, things change, so we diligently monitor each manager to be certain that all four "P's" are still in place. If we believe a significant component has deteriorated markedly, we will remove that manager and replace them with another that better meets the portfolio objectives.

We have modeled our investment manager selection and monitoring approach on those employed by some of the largest and most successful institutional and private pools of capital in the world. They, and we, find that it provides a clear, sensible, objective way to manage liquid assets in tune with net worth, better manages risk and substantially improves the probability of achieving long term objectives.

*Please contact us for more information on selecting professional money managers. Also look for profiles of a number of our managers in future newsletters.*

## Income Trusts: Our Two Cents

Ian Dalrymple, MA, FCIA, MAAA, FSA

Chairman and Chief Investment Officer, Northwood Stephens Private Counsel Inc.

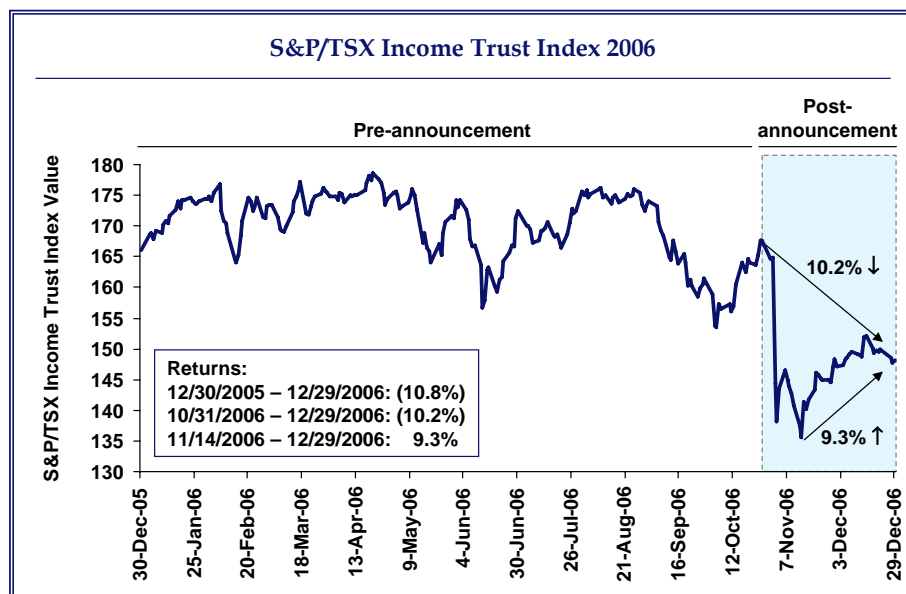


The announcement last Fall by Minister of Finance Jim Flaherty regarding proposed changes to taxes on income trusts will permanently change Canadian capital markets. Income trusts were widely held in Canada, not only in individual accounts, including RRSP's, but especially in numerous mutual funds and pension funds. When we first started following income trusts seven years ago there were only a handful of income trusts available. Over the years, more and more companies saw the trust structure as a great way to realize value for its shareholders. In a world where investors were seeking yield, particularly after the collapse of the technology bubble, trusts were the place to be.

What happens now? Some analysts see it as a buying opportunity, leveraged by the fact that others believe we will witness private-equity funds descend on the sector.

We believe the higher quality trusts may seek out different structures, such as the one used by TimberWest Forest Corp. (which we hold in our Enhanced Income portfolio). It pays regular

cash distributions (with a current cash yield of 7.4%) and minimizes its corporate tax payments just like a trust but in a corporate form. Unlike most trusts, TimberWest was actually up in trading following the announcement.



Whether trusts will become buyout targets, change into other hybrid-type structures or just convert back to regular corporations is unknown. For the near term, we continue to seek high quality income trusts which are more insulated to drops in the market while still offering attractive yields. For example, while the Income Trust Index declined significantly after Flaherty's announcement, our income trust portfolio held up substantially better. Of course, homework and research are critical. Trusts based on viable businesses in stable industries will

continue to be a good component of a yield-seeking portfolio. And some high quality trusts may have reached oversold levels and now offer value worth owning.

Please contact us for more information on income trusts or our Enhanced Income portfolio.



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