SPRING 2012

NORTHWOOD FAMILY OFFICE

ALSO IN THIS ISSUE:

Chairman’s Message

Tom McCullough

Welcome to our Spring 2012 newsletter. As usual, the last three months have been busy at Northwood as we serve our existing families and add new ones.

As some of you may know, Northwood Family Office is a proud member of the Wigmore Association. This is a group of six family offices from around the world that meet twice a year to share investment views and other ideas that will benefit our clients. We discuss our respective investment approaches, asset mix and manager selections for our clients. (See the copy of our press release on the last page.)

This particular meeting was held in Melbourne, Australia and was graciously hosted by the Myer Family Office. The Myer family has a classic rags to riches story. Sidney Myer arrived in Australia penniless in 1899 and started a haberdashery business which grew into one of the largest retail empires in the country (Myer department stores). The Myer Family Office now serves multiple generations of Myer family members as well as other wealthy families in Australia.

We had private meetings with senior investment professionals, corporate directors and politicians who provided an excellent perspective on Australia, Asia and the world from an Australian perspective. I also met with other firms in the family office and investment industry in Melbourne and Sydney to further broaden our perspective.

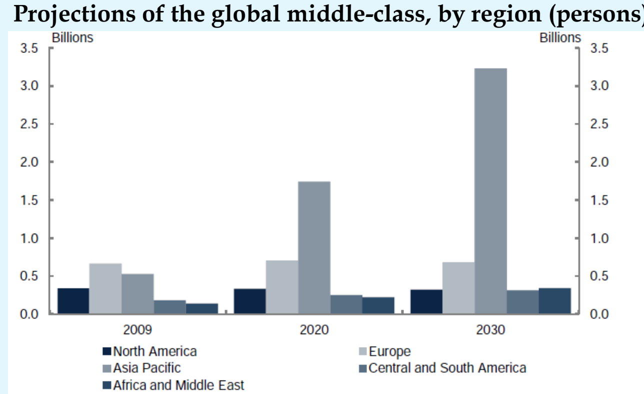
One of the invited guests aptly summarized the three main factors in the life of the Australian economy:

1. Resources;
2. China / Asia; and
3. Australian dollar.

The economy is benefiting from the global resource boom, both in terms of sales of commodities, but also in terms of infrastructure building in the mining industry. And there is good reason to expect it to continue given that the bulk of this resource growth is due to the middle class boom in China and India, both of which are on an inexorable track to become the largest economies in the world, although not without hiccups. In fact, by 2030, Asia will have two thirds of the middle class people in the world (displayed in the chart on the right). Growth in the middle class suggests a dramatic increase in the use of metals, animal protein and services, such as healthcare and education. Australia is poised to provide these goods and services to Asia as its middle class continues to grow.

With all this good news, including robust property prices, a relatively strong fiscal position and the best terms of trade in 140 years, it's no surprise that the Australian dollar is on a tear. The problem is that the high dollar is crushing local manufacturing industries by making exports more expensive and imports cheaper, a concern familiar to central Canadians. Australia also has a challenging political dynamic at the national level and, like Canada, has had a relatively poor productivity record. One of the big differences from Canada is Australia’s comparatively high level of interest rates (Australia 10 year government bonds yield about 4% vs. 2% in Canada).

Projections of the global middle-class, by region (persons)[1]



One final note: Regular readers of this newsletter will note that the title of this column has changed to Chairman's Message (from President's Message). We've made a few changes at Northwood to better reflect each of our roles and responsibilities. In that vein, my longtime and very skilled partner Scott Hayman will become President of Northwood and I will become Chairman and CEO. On a day to day basis, things will stay pretty much the same as they are now. We very much appreciate the confidence and trust our clients and professional colleagues place in us each day.

Tom

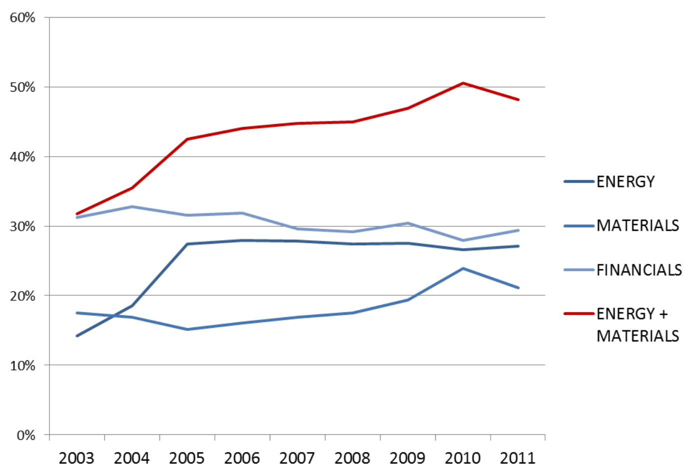
[1] *Source: H Kharas & G Gertz, ‘The New Global Middle Class: A Cross-over from West to East’, in C Lei (ed) China’s Emerging Middle Class: Beyond Economic Transformation, Brookings Institution (Washington DC, 2010)*

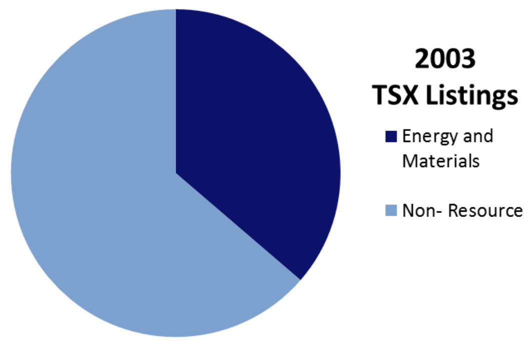
Canada has become even more ‘Resource-full’

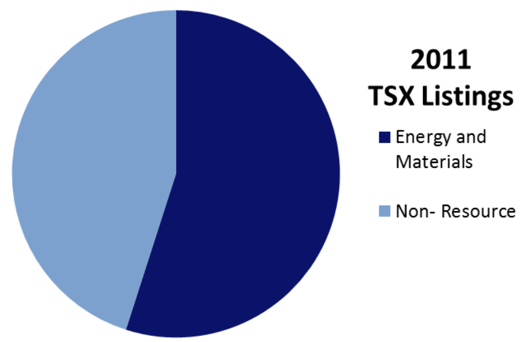
Eric Weir, CFA, CFP

Now, many years into a resources bull market, we decided to review the issue of stock market sector concentration and see how it has changed since the bull market began. We took a look at composition of the S&P TSX Composite Index (TSX) at the end of each year for the last nine years (which is approximately when the bull market for resources began), and measured the combined total of the energy and materials sector as compared to the overall index. This analysis yielded some interesting results as illustrated in the graph on the top of page 2. CONTINUED ON PAGE 2…

CON'T FROM PG 1 … CANADA HAS BECOME MORE 'RESOURCE-FULL'

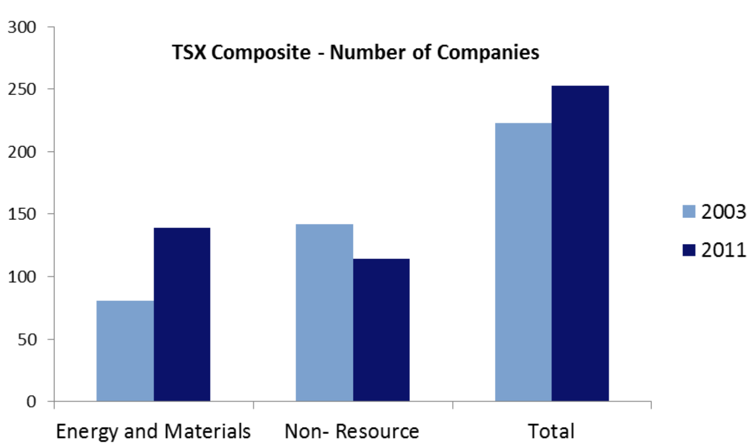






Over the past nine years, the natural resources bull market and the growth in these industries in Canada has led to significant changes in our domestic stock market. During the bull market run, each year the two sectors have come to compose approximately 2% more of the investment universe available to Canadians domestically, rising from 32% in 2003 to 48% at the end of 2011. While the change is no surprise to investors, the magnitude of the change may surprise some. Digging a little deeper into the data, and looking specifically at the gold and precious metals sector, in 2003 the sector composed approximately 6.9% of the TSX and at the end of 2011 this same figure was 13.7%.

Looking at the number of companies in the TSX also produces some interesting results. In 2003, there were 223 companies in the TSX and 81 (36%) of those companies were in the energy and materials sectors. Fast forward to the end of 2011 and there are now 253 companies in the TSX, of which 139 (55%) companies are in the energy and materials sector. From an absolute number perspective, we've seen energy and materials companies increase by over 70%, while the number of non-resource companies has decreased by about 20%.

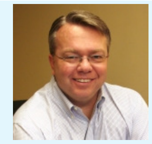


Other parts of the world have experienced similar advances in resource sectors, however, in most cases the composition of their stock exchange hasn't experienced the same dramatic shift. Looking at the US market and the S&P 500 in particular, the energy and materials sectors were a combined 8.9% at the end of 2003 and rose to 15.8% at the end of 2011. Although this is a significant increase for the two sectors, they still remain a relatively small portion of the overall index.

For those invested in the stock market over the past ten years, the Canadian market and especially the resource sector has been an exceptional place to invest when compared to most other developed markets. However, it's important for investors to take a close look at what the sector composition of their investments may be today given the changes that have occurred. As we move forward, and the world tries to shake off the debt overhang that plagues developed economies, we may experience some bumps in the road as markets digest the changes to the economic prospects and the structure of economies throughout the world. A more resource-based stock market will in most cases also mean a more volatile stock market. Economists and analysts will continue to duel about the long term prospects for the resource markets, and many do speculate that the run will continue, however, the risks posed to investors should be considered if the expectations for a continued advance don't come true.

In addition, Canadians who primarily invest domestically are missing exposure to stable sectors found in other developed stock markets, such as healthcare, consumer staples, and consumer discretionary, all of which are in very limited in the TSX. Exposure to these sectors has helped investors fair very well during periods of poor performance (ie. 2008). Northwood has always taken a very global approach to investing; believing that sector diversification is one of the most important steps an investor can do, after making a suitable asset mix decision. In our view, this has only become more important since the resource bull market began in Canada.

Northwood Launches Two New Websites



Scott Hayman, CA, CFP

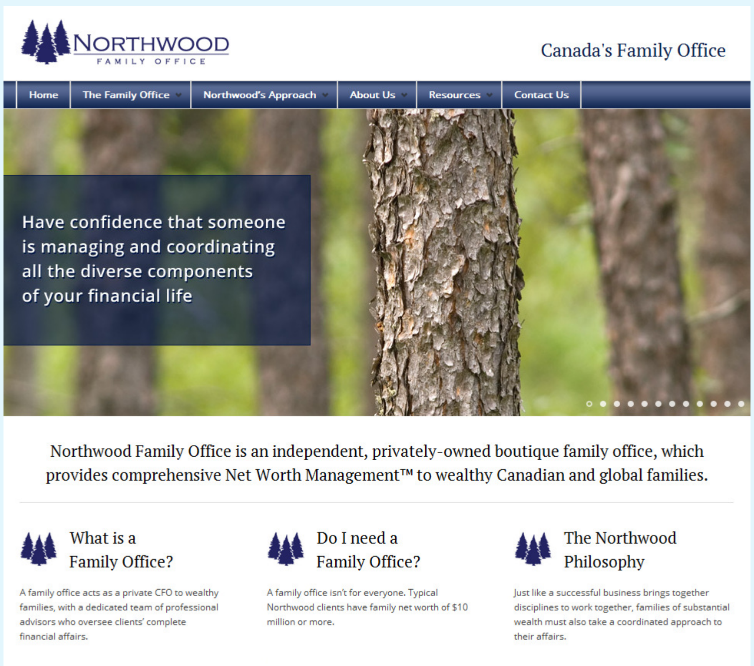
Northwood is pleased to announce the launch of two brand new websites for Northwood Family Office and Northwood Private Counsel. These new sites better reflect the values, processes, and services offered by each arm of our organization. A snapshot of the homepage of each site is below. If you have the chance, please take a peek and let us know what you think about the new look!

Northwood Family Office, Canada's #1 Family Office, offers comprehensive Net Worth Management to wealthy Canadian and global families. Northwood offers unbiased, objective advice, along with a highly customized, integrated service to help families manage the many challenges that come with significant wealth. Clients typically have $10 million or more in family net worth.

Northwood Private Counsel offers access to Northwood Family Office's exclusive *investment management* program to investors with $3 to $10 million in investable assets. Clients receive:

- An initial investment and cash flow planning report;
- Access to our successful investment management program and our top-tier investment managers; and
- Quarterly consolidated investment statements, which include performance of all assets, regardless of where they are held.

Clients also benefit from the pricing advantages that come from the buying power of one of Canada's leading family office groups.



2012 Federal and Ontario Budget Highlights

Barrett Lyons, CA, CFP

The Federal and Ontario governments tabled their 2012 budgets on March 29th and March 27th respectively. Below is a brief summary of the more noteworthy personal finance highlights from each:

Federal Budget

After setting expectations for significant reductions in this budget, the Conservatives tabled a plan that was not particularly heavy handed and contained relatively few surprises. In fact, this budget will most notably be remembered for the demise of the penny rather than any substantial policy changes.

- *Increase in eligibility age for OAS and GIS from 65 to 67* - The increase will be phased in beginning in 2023 with full implementation by January 2029. Individuals who turned 54 on or before March 31, 2012 will not be impacted.
- *Optional deferral of OAS* – Beginning July 1, 2013 individuals may voluntarily defer their OAS benefits for up to five years in exchange for receiving a higher actuarially-adjusted benefit. Individuals already enrolled in the program cannot make this deferral.

CON'T FROM PG 3 … 2012 BUDGET HIGHLIGHTS

- *Review of life insurance exemption* - Currently, permanent life insurance policies are not subject to income tax on investment income if the policy is an "exempt" policy under the Income Tax Act, allowing these types of policies to be significant tax-free investment vehicles. The budget proposes to implement changes that will modify the exemption test that determines if a policy is exempt. The CRA will undertake consultations with industry stakeholders over the next few months. Any amendments to the tax provisions will impact policies issued after 2013.
- *Eligible dividend designations* – For dividends issued after March 29, 2012, corporations will be able designate a portion of a dividend as eligible and the remainder ineligible, simplifying the administration. Previously these two types of dividends had to be issued separately.

Ontario Budget

The Ontario budget estimates the current debt at $237.6 billion where annual interest costs to service the debt are approximately $10 billion annually, the third largest expense behind only health care and education. The budget highlighted a number of areas that will be reviewed for cost cutting, mainly public sector compensation, but it lacked detail in where exactly these cuts will occur. No personal tax measures were announced. Below is the only significant tax measure of note:

- *Corporate Tax Rates* - Ontario corporate tax rate will be frozen until the budget is balanced. Ontario's general corporate rate was scheduled to decrease from 11.5% to 10% by July 1, 2013.

As the current Ontario government is a minority, the budget must still be passed before any of the above measures take effect.

Press Release - Northwood Joins Global Investment Group in Australia to Address Investment Strategy

Wigmore Association evaluates expansion of membership, global investment priorities and developments in China and South East Asia

Toronto, Canada - Capitalizing on the continuing secular shift of global economic power from West to East was the dominant topic at the recently-concluded Wigmore Association Summit, a semiannual global collaboration of the chief investment officers of six family offices representing North America, Europe and Australia.

The group met over the course of three days in Melbourne, Australia with a cross-section of investment managers, influential policymakers, and economic analysts. Discussions focused on the changing macroeconomic drivers in the Pan-Asian region and how client investment portfolios can benefit from them.

Since the group last met in October of 2011, short-term allocations have moved to a slightly larger exposure to risk assets. At the same time, the long-term challenge of slower growth in developed markets has led some members to focus on direct investments as an alternative to the public markets. The continuing European debt crisis and the uncertainty it creates is still seen as a drag on the world economy.

"We believe that the shift in global economic power from the developed world to developing markets, particularly in Asia and South America, will continue and will have a significant impact on global investing," said Tom McCullough, Chairman and CEO of Northwood Family Office. "In fact, at the current pace, by the year 2030, two thirds of all middle class people in the world will come from China and India. As a result, the Wigmore members came to the conclusion that expanding the Association's membership to include family offices from Asia and South America would enhance the global dialogue we are looking for."

Wigmore Association was formed in 2010, consisting of Northwood and five other family offices from around the world, The Myer Family Company (Australia), HQ Trust GmbH (Germany), Pitcairn (US), Progeny 3 (US), and SandAire (UK). Its goal is to further each other's understanding of issues that are important to the families they serve.

The Wigmore Association will next convene in September in Toronto, Canada. Northwood Family Office will host the gathering.

NORTHWOOD FAMILY OFFICE

For more information or to set up an appointment, please call Tom McCullough or Scott Hayman at

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