



## ALSO IN THIS ISSUE:

- The Summer When Tax Planning Stopped.....2
- Northwood Staff Profile – CC Shaver .....3
- How to Engage the Next Generation in Philanthropy .....4
- A Wild World.....5

## The Northwood PERSPECTIVE

### Chairman's Message: Wigmore in America

Tom McCullough



As most of you know, we meet with our colleagues from the Wigmore Association twice a year in various locations around the world ([www.wigmoreassociation.com](http://www.wigmoreassociation.com)). We meet as a group of CIOs (Chief Investment Officers) and also, separately, as a group of CEOs (Chief Executive Officers).

At the CIO group meetings, we share the investment approaches we are using for our client families, to hear from local investment experts, dig into underlying investment trends, and learn about other areas of the world and their effect on global investing. The give-and-take within the sessions and the individual one-on-one conversations help us better understand and profit from the complex, ever-changing world we encounter. While each firm has its own independent approach to investing, this group activity among smart, committed, voluntarily-connected professionals is like 'iron sharpening iron'. It makes us all better investors, and that is good for all of our client families.

This year we met in New York City and Washington, D.C., given that they are currently two of the most significant epicenters of global political and financial power, particularly these days with new tremors emanating from the USA every day. We met with a variety of funds managers (equity, hedge, venture, buyout), politicians and political strategists, and some senior leadership members of international monetary financial institutions.

I was left with two particular impressions. First, the political divide between right and left (whatever that even means these days) is as wide and unhealthy as the press seems to suggest. Each side seems increasingly entrenched in its positions and there doesn't appear to be much hope for easy resolution. Further, almost everyone we spoke to, including Republicans, thinks that the White House is in disarray, with no expectation of change anytime soon. Not a shock, but interesting to hear it first-hand and across the board from many DC insiders.

Second, almost counterintuitively, there seems to be a lot of confidence from the business side. The economy is strong, the stock market has been on the upswing (although driven mostly by a handful of big-name technology stocks), and entrepreneurial energy is high. We spent most of our time discussing the secular

trends that are disrupting the traditional economy. We saw much evidence of the commercialization of some of these trends that will play a prominent role in our new future – artificial intelligence, biotech, and direct lending vs. bank lending. We also spent a lot of time with a group that is trying to turn 'lemons' (cybercrime) into 'lemonade' (a fund of cybercrime-fighting companies that will combat and profit from this epidemic).

The CEOs of the Wigmore member firms also meet semi-annually. Here the focus is on sharing ideas on how to manage a family office more effectively, understand the trends that we will be facing, and serve our client families even better. The fact that all the firms are independent, but non-competitive, means that the breadth of approaches is wide and the depth of idea-sharing is profound.

This year we arranged expert speakers and had in-depth discussions on some very interesting topics, including the following: (1) how to handle issues of mental incapacity when they occur within our client families, (2) what it means to 'live well' (beyond just money) in this increasingly frenetic, complex world, and how to help families find the path that is best for them, (3) how to effectively and proactively deal with the inevitable business succession of the family offices themselves in a way that is positive for clients, (4) how to attract and retain the very best staff (including millennials) who will be incented and challenged to serve families on a long-term basis, and (5) what 'the firm of the future' will look like and how family offices will have to adapt to meet the fluid needs of families and shifts in the global landscape.

There are many challenges, but there is also much potential. And we are embracing it in a proactive, positive manner. Wigmore is just one excellent example of the resources we use to stay sharp, connected and focused for the benefit of the families we serve.

*Tom*



**Wigmore's eight member firms are from around the globe**

### NORTHWOOD FAMILY OFFICE

is a multi-family office providing comprehensive Net Worth Management™ to wealthy families and foundations.

## The Summer When Tax Planning Stopped

Lorn Kutner, CPA, CA, MBA



I have been an income tax specialist for over 35 years and have never seen what happened this summer. All tax planning for private corporations came to a screeching halt. Unless you've been out of the country for three months you are aware that on July 18, 2017, the Department of Finance released broad sweeping proposals impacting private corporations and their shareholders. This 63-page paper, "Tax Planning Using Private Corporations", outlined their proposals to address tax planning involving income sprinkling using private corporations and strategies that convert distributions from private companies that would otherwise be taxed at dividend tax rates to capital gain tax rates. In addition, Finance was seeking input to address the tax deferral achieved when after-taxed corporate business income is retained in a private company and is used to invest in passive investments instead of being paid out to the shareholder.

The Department of Finance provided a 75 day consultation period whereby interested parties could submit input regarding these proposals. Did Finance actually believe that it was reasonable to begin a consultation period during the summer and allow only 75 days on what was probably the most significant tax reform impacting private companies and their shareholders since 1972? Perhaps their intent was to limit the number of submissions they received. If that was their motive, their strategy backfired as they received about 21,000 submissions by the time the consultation period ended on October 2, 2017. One of the impacts of the proposals and the consultation period is that all tax planning impacting private corporations came to a grinding standstill on July 18. How could tax practitioners comfortably advise their clients regarding estate planning, corporate restructuring, the purchase of life insurance in a company, paying a capital dividend, (and the list goes on) when the fundamental tax rules impacting private companies were in such a state of flux.

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Well, now that a month has passed since the consultation period ended and Finance has had lots of time to review all of the submissions (really??!!), let's review where matters stand.

During the week of October 16, 2017 the Federal Government made a series of announcements regarding modifications to their proposed private corporation taxation changes:



**1. Income Sprinkling:** The Government is moving forward with this proposal, but changes will be made to simplify the reasonableness test. While the initial proposals included a reasonableness test for any dividends paid to family members, there was no guidance on what would be considered reasonable. The Government announced that these modifications would be reflected in revised legislation to be issued in the Fall. The new rules will become effective on January 1, 2018, so income splitting should be maximized where possible before the end of the year.

**2. Multiplying the Capital Gains Exemption:** Private corporations and their shareholders use structures that allow multiple family members to access the lifetime capital gains exemption when the private company's shares are sold. This has been a very effective way to reduce the family's overall tax bill on sale. While the initial proposals were going to reduce or eliminate the effectiveness of this planning, the Government has backed away from making any changes to the current rules and as such this type of planning continues to exist.

**3. Converting Income to Capital Gains:** Tax planning currently allows shareholders to receive distributions from their private companies and be taxed on such distributions at capital gains tax rates vs. dividend tax rates. While the initial proposals were meant to eliminate these planning opportunities, they were exceedingly complex and had many unintended tax consequences. The Government will no longer be moving forward with these proposals and as such this type of planning is also still available.

**4. Passive Income Deferral:** The Government plans to introduce proposals that target the deferral of tax benefits of passive investments within a private corporation. However, they did confirm that the new rules, whatever they may be, will not impact existing investments or the future income from those investments. Furthermore, the first \$50,000 of investment income earned (although it was not made clear that this is above and beyond any investment income earned on grandfathered investments) will continue to be taxed under the current tax system. There is no draft legislation, so the effective date of any rule changes is unknown, and it is unclear how they will ensure that investments that exist on the date of the rule changes and the income therefrom will be protected. The Government did say that draft legislation will be introduced as part of its 2018 Federal Budget (usually tabled in March or April).

**5. Changes to Small Business Tax Rates:** This was a surprise as it was not part of the July 18 proposals. It may have been a Government response to the significant backlash they had been receiving since the July 18 proposals were announced. Nonetheless, this is good news. The federal small business income tax rate that applies to the first \$500,000 of qualifying active business income of a Canadian-controlled private

company will be reduced from its current level of 10.5% on a phased in basis (and prorated for non-calendar year ends) as follows:

- 10% effective January 1, 2018
- 9% effective January 1, 2019

The Government also provided its Fall Economic Outlook on October 24, 2017. In addition to reiterating the small business tax rate reduction, they introduced corresponding increases to the personal tax rate on non-eligible dividends, enhancements to the Canada Child Benefit plan, and additional funding to the Working Income Tax Benefit credit.

Based on the current lay of the land, it appears that tax planning can now continue, on a more solid footing than existed over the last three months. The previous three months has been a significant challenge for private companies, their shareholders and tax advisors. Nonetheless, although some of us may remember that 1967 was "the summer of love", I'm not sure that in another 50 years we will remember 2017 as "the summer of no tax planning." 🌲

## Northwood Profiled in *The International Family Offices Journal*

Northwood Family Office was recently profiled in the Fall 2017 edition of *The International Family Offices Journal*. The profile takes the form of an interview between Barbara Hauser, the Editor of the Journal, and Northwood's Chairman and CEO, Tom McCullough.

Please click the image to the right to read the interview.

A small excerpt of the interview appears below:

**BH:**  
***How and why did you start it? Describe the firm's history?***

**TM:**  
*I was a frustrated consumer!  
I had worked for over 20 years in senior executive roles in wealth management at a large Canadian bank, and I realised that there was a gap in the market for clients like me. Families of wealth had accountants, lawyers, investment managers and bankers, but they did not have anyone to create a central strategic plan, tie everything together, and make sure it actually happened. I started Northwood Family Office in 2003 with my co-founder Scott Hayman to try and address this gap in the market (and solve my own family's problems).*

Click on the journal image to keep reading...





## Northwood Staff Profile – CC Shaver

CC Shaver, CPA, CA, CFA



*In this new quarterly feature, we help our readers get to know some of the people who work at Northwood Family Office. The 'Northwood Staff Profile' consists of a short interview with a key member of the team at Northwood. First up, CC Shaver, who joined us earlier this year as Director of Operations and Finance.*

### 1. What do you do at Northwood Family Office?

My role at Northwood Family Office is Director of Operations and Finance. My responsibility is to ensure that day-to-day activities run efficiently so that our team continues to provide the highest standards of service to our clients. This also involves project and system implementations to continually improve operations.

### 2. What did you do before you joined Northwood?

After qualifying for my CPA, CA at PricewaterhouseCoopers LLP in Vancouver, B.C. in 2000, I decided to take a leave of absence and travel for a year around Australia and parts of Asia. After I completed my travels, a friend contacted me about an opportunity to work in Bermuda. It did not take me long to consider and accept the offer – pink sand beaches, palm trees, and tax-free status! In Bermuda, I worked primarily at a large insurance company XL Group (now XL Catlin) in their Investments division. I also worked in their London, UK office for a few years. I was VP of Reporting when I left XL Group to return to Canada. After thirteen years away, it was time to come back home.

### 3. What do you enjoy most about working at Northwood?

Although the primary focus of my role is Operations, I really enjoy the variety of roles or hats that I am able to wear on any given day: Finance, HR, IT, Compliance. This is not a position where I am focused on only one particular niche; it encompasses everything that makes a business function and I truly love being able to see how all the pieces fit together.

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“One of the most satisfying aspects of my role is being able to propose a solution, see the receptiveness by senior management, and witness the quick implementation of changes once approved.”

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The culture at Northwood is entrepreneurial yet family and team oriented, and one of the most satisfying aspects of my role is being able to propose a solution, see the receptiveness by senior management, and witness the quick implementation of changes once approved. There is a strong sense of being part of a collective effort to constantly improve business operations and provide the best client service possible. I feel very lucky to be part of a highly talented team that embraces the same values that I have.

### 4. What are your favourite things to do outside of work?

I had never lived in Toronto before moving here a couple of years ago, so it has been a lot of fun to discover the new city that we now call home. There are endless activities to do here, but one of my favorite things to do is to explore the new restaurant scene in Toronto with my husband. Anyone who knows me knows that I love to eat! We also like to watch Blue Jay games (even during the past season) or catch a performance at the Toronto Symphony Orchestra.

I have two young children who keep me very busy during my spare time, but they have taught me to enjoy the fun parts of childhood. Suddenly, playing tag is a new form of exercise and retrieving hidden toys and treasures require more acrobatic moves than most yoga classes.

Time is a precious commodity. Sometimes my favourite thing to do is to enjoy a home-cooked meal, a tall glass of wine, and then settle on the couch for a good movie.

### 5. What is your secret talent?

I have the ability to remember a lot of detailed information (that may or may not be particularly useful). I can recite a play by play of a movie or remember the plot line of books that I read years ago. 🌲🌲🌲



## How to Engage the Next Generation in Philanthropy

Aneil Gokhale (Director of Philanthropy, Toronto Foundation)



*This is an interview we conducted with Aneil Gokhale, the Director of Philanthropy at Toronto Foundation. Here he shares his thoughts on how charities can better engage the next generation in philanthropy.*

### **NW: How does the next generation's view of philanthropy differ from their boomer parents?**

**AG:** Millennials and Gen Xers are changing the world in really positive, innovative and exciting ways, especially in philanthropy. Young people are well-informed and engaged in the world around them. They are driven by the causes they feel are important, which affects the way they give. While older generations are more likely to support particular institutions, young people plan their giving around specific issues and gain motivation when they can see the tangible impacts of their giving.

The next generation's philanthropy is also affected by the unprecedented financial challenges they face, including high housing prices, high student debt and low salaries. As a result, they are finding ways to give back that allow them to live within their means. They are volunteering more, planning and attending fundraising events, and advocating for the causes they care about both online and on the ground. There are also Millennials and Gen Xers with significant means of course, but the motivations and interests of both cohorts are generally the same.

They are also driving the growth of sustainable investing, which allows them to build their wealth while supporting companies targeting social or environmental goals. In fact, young people see these activities as having more positive impact than traditional giving.

### **NW: What can charities do to engage the next generation?**

**AG:** Like many of us, young people want to feel like they are part of something bigger than themselves. Charities and nonprofits who can harness this desire and build meaningful relationships with young people will see the greatest long-term engagement, which has the potential to last decades into the future.

The first step in fostering lasting relationships with young people is to let go of stereotypes. Millennials and Gen Xers are often pigeon-holed into certain roles and activities (like event planning) which they find alienating. Instead, charities can offer young people creative ways to get involved that go beyond traditional giving. For instance, by hosting events and volunteer opportunities, charities can help young people see, touch and hear the realities of life in vulnerable communities, and help them build personal connections to these communities. Charities can also create spaces for young people to collaborate with like-

minded peers, supporters, and community leaders where they can be part of innovative solutions to tough problems. Through these experiences, young people learn first-hand about society's most pressing issues and how organizations are part of leading positive change.

Above all, young people value authenticity, transparency, and data-driven decision making. The more honest and up-front an organization is about its strengths and weaknesses, and the more research it has to support its work, the more trust they can build with Millennials and Gen Xers. Armed with this knowledge, young people can then direct their giving to have the most impact for communities with the greatest need.


### **NW: How can someone in their 20s or 30s get involved in charitable giving, beyond the usual suspects (i.e. charitable runs, Movember etc.)?**

**AG:** That's a great question, and one that many next generation donors are asking themselves right now. Many charities host peer groups for young people who are actively engaged with their organization. These groups allow young people to get involved through volunteering, planning and attending fundraising events, and acting as ambassadors for the charity. Members can network with like-minded peers, learn more about the issues, and get a better sense of the work the charity is doing in their community.

Smaller organizations are getting really creative when it comes to connecting with young people, and The Stop Community Food Centre in Toronto is a great example. The Stop began as one of Canada's first food banks, and now provides drop-in meals, a food bank, community kitchens and gardens, family support and civic engagement programs for marginalized and socially isolated people. For the past several years, they've hosted The Stop's Night Market, where attendees come together with Toronto's most creative chefs, artists and performers to celebrate the power of food. By allowing young people to donate to a worthy cause and learn more about the organization while enjoying the city's best food and socializing with their peers, The Stop has created a great opportunity to connect with younger generations.

Young people can also start thinking about the difference they want to make over the course of their whole lives. One way they can plan for long-term impact is to join Toronto Foundation's Vision 2020 program. Vision 2020 will activate a new generation of change-makers and city-builders. By helping young philanthropists understand the city's most urgent issues, Vision 2020 will empower young people to be part of innovative solutions and have meaningful impact in vulnerable communities.

If you'd like to learn more, you can contact Aneil at:

**(416) 921-2035 ext. 212 or [AGokhale@torontofoundation.ca](mailto:AGokhale@torontofoundation.ca)** 

## A Wild World

Scott Dickenson, CFA, MBA



These days it seems every morning brings a new crisis, disaster or destabilizing tweet. It also seems like there is a dichotomy between a world roiled with geopolitical tensions, and global stock market indices that continue to reach and surpass all-time highs.

Conventional wisdom suggests that the more geopolitical headwinds facing the market, the more likely investors would be to achieve below average returns. However, the current global issues that we read about every day in our newspapers and on our iPhones, have not had any sort of sustained negative effect on the performance of global equity markets.

To give you some perspective, the S&P TSX Total Return Index is up 7.3% on the year while the S&P 500 Total Return Index is up 16.9% in USD terms (from Jan 1 – Oct 31, 2017). Both markets have performed well in 2017, although it is worth noting that a large component of the U.S. market performance can be accounted for by a small number of technology and online retailing giants. However, these numbers are more impressive when one considers the geopolitical backdrop over the first ten months of 2017. In the last quarter alone the following geopolitical stories have emerged: the US President decertified the Iran Nuclear Deal and threatened to pull the country out of NAFTA, North Korea tested several nuclear missiles and engaged in sabre-rattling with the Trump administration, and Catalonia voted to separate from Spain in a highly contentious vote. Despite all of this, global equity markets continued to post steady (if not spectacular) returns. This situation may seem strange, but in fact is in line with what has happened historically in times of great turmoil.

Global asset management firm AllianceBernstein recently ran a piece in their October 2017 'Capital Markets Outlook' that looked at the historical precedent for the situation we are in today. They selected over 30 geopolitical shocks since 1970 and looked at what the S&P 500 did in the next day, week, month and year. The shocks included the outbreak of the Yom Kippur War in 1973, 9/11 in 2001, and the Trump election win in 2016. They found that, on average,

the S&P 500 dropped 0.3% on the first trading day after a shock, was flat within a week, up 1.2% within a month, and up an average of 7.8% a year later.

A useful recent example of this phenomenon is the stock market reaction to the surprise Brexit referendum result in June 2016. The overnight result came as a big surprise to markets, and as a result the S&P 500 dropped 3.6% the following day. However, within a month the index had recouped its losses and was up 3.1%, and within a year it had gained 17.4%. Overall, this study has given us a better understanding of how equity markets have historically reacted to geopolitical shocks.

Stock markets are driven, ultimately, by economic fundamentals. Geopolitical events are not drivers of stock market values because they typically do not have a long term impact on economic performance. Although they are unpredictable and can indeed be shocking, most geopolitical events do not have big financial and economic implications. This is the difference between a paradigm shifting economic event like the Global Financial Crisis of 2008, and an isolated tragedy like the Boston Marathon Bombing of 2013.

These findings are also in line with the way we think about investing and the management of our clients' affairs at Northwood. We always strive to see the big picture perspective and help our clients avoid missing the proverbial 'forest for the trees' when making important financial decisions. This is because we believe it is important to overcome the natural human tendency to overreact to short term phenomena. As the AllianceBernstein data shows, a knee-jerk reaction to a geopolitical shock is rarely the right decision. In fact, it is far better to stick with the investment plan that you created in more stable times and take a long term view versus overreacting to short term noise. As Warren Buffett's mentor Benjamin Graham once said, "In the short run, the market is a voting machine but in the long run, it is a weighing machine." 🌲

### Who is Northwood Family Office?

Northwood Family Office is an independent, privately-owned boutique family office which provides comprehensive Net Worth Management™ for wealthy Canadian and global families. Northwood clients have significant family net worth, typically in the \$10M and above range. The firm acts as a Personal CFO or Chief Advisor to client families using a dedicated team of professionals who oversee and manage their integrated financial affairs. Northwood Family Office is Canada's leading independent multi-family office and has consistently been ranked the '#1 family office in Canada' in the *Euromoney* Global Private Banking survey. For more information, visit our website or contact Tom McCullough for a confidential conversation.



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