

The International Family Offices Journal

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Barbara R Hauser

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Family office profile: Northwood Family Office

Interview with Tom McCullough by Barbara R Hauser

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

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).

The family office concept was virtually non-existent in Canada when we started, and up until four to five years ago it remained an idea unfamiliar to many wealthy Canadians. My family was Northwood's first client, and we have now grown our practice to serve approximately 60 families of wealth across Canada. Our 14-year history is a testament to the need for family office services.

How did you choose the name?

The name Northwood actually has an interesting origin. It was certainly meant to evoke the iconic northern forests in Canada, but it was mostly based on the three benefits we want to contribute to the lives and financial affairs of our client families – *direction, perspective* and *confidence*. These three

attributes are represented by the three trees in the Northwood logo.

Direction. The first part of our name – 'north' – evokes a picture of a compass, with the needle pointing up to the 'N'. Our experience is that if a person knows their 'north point' – in other words, if they have thought through what is most important to them and their family, including their principles, their goals, and what they really believe in – they are less likely to get lost on their way there. All other decisions become easier and make more sense when you have truly understood what is 'north' for you. We help our clients do this and thereby achieve clear *Direction*.

Perspective. The second part of our name, 'wood', suggests a picture of a forest. If you are standing in the middle of a forest, it is easy to get overwhelmed by the individual trees and not see the forest as a whole. At Northwood, we help our clients by shining the light on the whole 'forest' of their financial affairs. Most people's financial lives are made up of a collection of standalone advisers and products, such as tax, investment, insurance, philanthropy and legal, among others. Because these areas are often kept separate, like individual trees in a forest, the clients are often faced with making 'one-off' decisions that do not necessarily fit in with the whole picture. We help our clients to see the whole proverbial 'forest, and not just the trees' and thereby gain proper *Perspective*.

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Confidence. If you have a clear understanding of your *Direction* (knowing what ‘north’ is for you) and a good sense of *Perspective* (seeing the big picture and not missing the ‘forest for the trees’), it leads to a sense of *Confidence* – the confidence that you have a sensible plan, you have made the best decisions you can, and things are well looked after.

This is our name and it is also the promise we wanted to make to our client families.

How do you operate and what services are offered?

Our family office relationships start with a conversation. We sit down with each family and talk about their hopes, their goals, the resources they have at their disposal, and the constraints and challenges they face. We also undertake a full net-worth review, including reviewing all key financial documents, so we can get an accurate picture of the family’s current situation. We then discuss what they are looking for from their family office and, together, we tailor a service plan that will work for them.

The services we offer fall into three main categories:

Integrated planning

After the initial client discovery meeting, integrated planning is the next step. Northwood works with the family and their other key advisers to identify priority issues, map out a game plan and develop solutions together to meet the family’s objectives. This can include family governance, risk management, and tax and estate planning, among other topics. Our integrated approach allows us to see the big picture and manage all aspects of our clients’ net worth.

Northwood’s breadth and depth of experience in all key financial disciplines makes us uniquely positioned to pull all the pieces of the puzzle together. In a sense, we act as the ‘architect and general contractor’ for each family, coordinating all the expert ‘trades’ and making sure the financial ‘house’ gets built to the right specifications.

Investment management

A second major area of responsibility is investment management. Our approach to family investment management is founded on five objectives:

- Meeting client goals – we set a sensible investment policy based on our calculation of the capital that will be required to meet each of the family’s goals and then work to ensure clients’ investments are managed in a manner consistent with those goals.
- Capital preservation – we aim to protect client investments through a conservative approach with appropriate balance between risk and reward.
- Diversification – we ensure client portfolios are well diversified – by asset class, region, manager

style, industry group and security – which tends to reduce volatility and increases the probability of goal achievement.

- Superior risk-adjusted returns – we search for, select and combine boutique-style, value-oriented investment managers, who are specialists in their fields and have the potential to deliver superior risk-adjusted returns.
- Tax and fee efficiency – taxes eat away significantly at investors’ returns, particularly in a low-yield environment. We take advantage of the tools and structures that can reduce the negative impact taxes have on investment performance. We also use our economies of scale to help reduce fees for clients whenever possible.

Implementation

The third area of focus is implementation. We believe that the finest plans in the world are not worth the paper they are printed on unless they are successfully executed. We focus much of our time and attention on this responsibility on behalf of our clients, which typically includes consolidated reporting, administration, task management and generally making sure the trains run on time and nothing falls through the cracks.

Describe the firm’s core value proposition and differentiating factors?

Our core value proposition is that we are an independently owned firm that provides objective, integrated advice and management to families of wealth. We do not have proprietary products to sell to clients, nor do we have incentives to put them into any specific investment vehicles. We simply help our clients see the big picture of their financial affairs and provide them with the implementation expertise that we have developed over many years of advising families of wealth.

Most families already have access to advisers in specific disciplines, such as tax, legal, insurance and investments. However, there is often very little coordination among these professionals, often resulting in an unconnected mix of investments, strategies and services that may not meet the family’s objectives. Our role, as a family office, is to develop an integrated plan for family wealth, to identify areas requiring specific expertise and attention, and to direct and manage them in a sensible manner.

When it comes to differentiating factors, the following attributes come to mind:

Independent and nimble

We have always held firmly to our objectivity and our client-first focus. Our boutique nature allows us to respond quickly to client needs and has led us to

develop a very close-knit client service team of professionals who know each client family intimately. At the same time, we have developed global reach and a network of independent experts through our founding membership in the Wigmore Association. The Wigmore Association is a collaboration of eight leading family offices from around the world. Our membership in this association helps enhance our understanding of the issues that are most important to the families we serve, and gives us access to significant global resources. [Note from the Editor: See our article on the Wigmore Association in the first issue of the Family Offices Journal.]

Built to last

At Northwood, we have always felt a responsibility to be a family office firm that is built to last and serve both current and future generations of our client families. Our families understand that we need to be profitable and sustainable with a diversified client base, in order to ensure that we will thrive in the future, and can be there for them when they need us. We have always been focused on our succession plan and on building up our younger staff to eventually manage the firm and look after clients. Half of our client service team is under 40 years old, and each member is well-credentialed in the key technical areas of importance to clients. This is of significant benefit to our client families who are interested in a strong and stable family office with the ability to stay independent and objective and to look after the family over multiple generations.

Thought leadership

Family wealth is a complex and ever-changing field and it is important not just to stay current, but to get ahead of the curve on behalf of our client families. We have always strived to differentiate ourselves by seeking out ongoing learning opportunities and sharing the knowledge base that we have built. In 2013, I co-authored a book titled *Family Wealth Management: 7 Imperatives for Successful Investing in the New World Order*. I am an Adjunct Professor and Executive-in-Residence at the University of Toronto's Rotman School of Management where I teach Private Wealth to MBA students. I am also a member of the Editorial Board of the *Journal of Wealth Management* and an Entrepreneur-in-Residence at Western University's Ivey School of Business. My partners and staff are similarly active in the family wealth field. As is often the case in these types of situations, I receive as much or more than I give. But, most importantly, it has allowed us the opportunity to exchange ideas with the best thinkers in the world on topics of critical importance to our families, and to help build up the next generation of integrated family wealth advisers.

Describe the firm's investment philosophy?

We always undertake investing in the context of an overall plan for the family net worth which takes into account all of the other relevant aspects including tax planning, estate and succession planning, philanthropy and family goals and dynamics. We then go through the process of understanding and quantifying the spending goals (both lifetime and legacy) of each client family. We then determine how each of the financial goals is going to be funded and what kind of asset classes are most appropriate to ensure that the goals will be met, with a minimum of risk. Nearer-term and 'must-have' goals will be funded with lower-risk, more-liquid assets, and longer-term or more 'aspirational' goals can be funded with assets that may have more risk and less liquidity, along with a higher expected return.

We then choose external managers in each asset class, with a focus on quality and risk mitigation, and monitor them on an ongoing basis. We are highly sensitive to taxes and fees, which can reduce a family's net worth, and we work to reduce them wherever possible.

What have been some of the challenges?

As with any growing business, we have dealt with several challenges since starting Northwood Family Office in 2003. A few that stand out over the years include:

Explaining the concept

When we started Northwood, the concept of a multi-family office was not well known in Canada. Awareness has increased over the last decade and a half (in no small part due to our active education activities), as we have grown Northwood into the leading multi-family office in the Canadian market. Northwood has been routinely selected as the No 1 independent family office in Canada in *Euromoney's* Global Private Banking survey. However, in a country where the six big banks have historically dominated the market, we still encounter families of wealth who have never heard of the multi-family office concept.

Finding the right staff

Managing the lives and complex financial affairs of multi-generational families of wealth is challenging and demanding work. It requires a very special type of adviser – one with a wide range of knowledge, significant experience, quiet confidence and an even temperament. Not surprisingly, it can be difficult to find and hire top-quality employees with all of the skills that a multi-family office demands.

This has always been a challenge, but we have also viewed it as an opportunity. The financial and professional services industries tend to operate in silos, so we have had to create our own 'expert

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generalist’ family office advisers. Instead of recruiting established silo advisers, we have tried to hire smart and credentialed younger professionals, and then build up their integrated skill-sets over time. This has worked well for us and it has created a very cohesive team with a long-term focus. When you have employees who are invested in the long-term success of the family office, it makes succession planning and continuity of service for our families much easier.

Keeping your eyes on the ‘big picture’

As any entrepreneur knows, you have to be careful not to become bogged down in details. It is all too easy just to keep ‘working *in* the practice’ as opposed to ‘working *on* the practice’. As a family office, our number one priority is our clients, and this means being proactive in their lives and responsive to their needs above all else. This focus has served us (and them) well, but if we are not careful, a solely inward focus can lead to myopia. Being conscious of this challenge, we always set aside time each month, quarter, and year to think about the ‘big picture’ and what client families will need in the future and what we want our practice to look like in the years ahead.

What trends do you see? What are your predictions for the family office market?

The family office industry continues to evolve as more and more wealthy families become aware of the service and of the benefits of objective, integrated financial and life management. I might be biased, but I think that family offices will continue to grow in Canada and globally as the affairs of families of wealth become increasingly complex. At the same time, the interconnection between families and finance has never been stronger. The coming wealth transition from the baby boomers to their offspring will only further highlight the importance of thoughtful succession planning and solid family governance during multi-generational wealth transfers.

As someone who has worked in senior wealth management roles at banks and now runs a family office, I am very aware of the different areas of focus at the two institutions. A family office is easily able to take a consistent client-first approach, but this is not always possible at a bank where the firm’s interests

often take priority. I believe that to objectively advise families you have to have independent ownership and independent thought. I think it is much more difficult to do that if you are part of a large public financial services company.

What advice would you give?

Over the last 14 years I hope we have learned a few things about how to build and run a successful multi-family office. Below are a few of my most important takeaways.

Start with family goals, not financial solutions

It is tempting (and sometimes even more fulfilling) to jump right into investment or technical solutions early on in a client relationship. At Northwood, we resist that temptation. Everything – and I mean everything – starts with what the family has and wants to accomplish – long before we get to discussing specific investment strategies or planning ideas. We ask fundamental questions like: “What is the money for?”, “Who is it for?”, “When will it be needed?” and “How high a *priority* is the particular goal?” Only once we have clear and detailed answers to these questions can we move on to the implementation stage of our process. They can be hard questions to answer, but it is worth the effort. They are the critical foundations of a goals-based wealth management philosophy and to making sure we help families accomplish what is most important to them.

Fact-based decision making

The financial services industry is filled with forecasters and prognosticators. There are thousands of people making predictions on everything from stock markets to GDP growth rates to currency movements. While it is good to be aware of and have an opinion on these statistics, we have always focused most of our time and effort on fact-based decision making. Using facts (that can be corroborated) versus predictions (that can’t) to guide decision making provides better, more certain outcomes for clients and helps them focus on the most important factors. I can’t guarantee you where the S&P 500 is going to be a year from now (and neither can anyone else), but I can tell you what your spending rate is and how likely you are to be able to maintain it over a long period of time.

Control what you can and conservatively estimate the rest

In an uncertain and volatile global investing environment, it is more important than ever to focus on the items that you *can* control. Taxes are controllable, in the sense that every dollar saved in taxes provides a ‘certain’ additional return with no added risk.

Investment costs are another area where we can work to minimise the costs to clients and thus increase their overall returns. Some other areas that we view as controllable are personal spending, how long you will work, when you will sell your business, ensuring a margin of safety in your investment portfolio and the amount of investment risk you choose to take. For the things that no one can reliably control, like investment returns, we use conservative estimates in our planning models. Positive surprises are rarely a problem, whereas negative surprises can play havoc with family plans.

How many employees do you have?

We have 15 employees at Northwood Family Office and are continuing to grow quickly. Of the 15 staff, nine are client facing, including the three partners in the business. Partners are responsible for all client relationships, with support provided by our client management associates. It is important for us to continue to grow staff levels as we grow our client base, to ensure that our clients continue to receive the highest level of responsive service and advice. Considering we started this company 14 years ago with two people working together in one office, I am proud of the success we have been able to achieve and the confidence we have been able to bring to our client families.

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