Chairman’s Message
Tom McCullough

I just returned from Mumbai. It was my first time in India, so my all my senses are on overload - the sights, smells, sounds, tastes and textures. India has 1.2 billion people (most of whom, I think, were in cars outside my hotel when I left!), $2.3 trillion in GDP, over 20 languages, and 29 states and 7 union territories. It is a massive, growing and complex society to which I cannot do justice in a brief newsletter commentary.

Instead, let me share some thoughts I had as I travelled back from India. As regular readers of this newsletter will know, Northwood is a founding member of the Wigmore Association, a group of eight independent family offices from around the globe. (www.wigmoreassociation.com) The Chief Investment Officers (CIOs) of these organizations get together twice a year in international locations to exchange investment views, share their research on investment managers and hear from local experts (This time it was in Mumbai). In the last year, the CEOs of the member firms have also started to meet together to share best practices for serving the needs of families of wealth, managing their organizations effectively, and preparing for the future. There is no inter-ownership. It is just a group of independent, non-competitive, like-minded family offices working together for the common good of the families they serve.

Wigmore has been an interesting experiment over the last six years. When we first met together on Wigmore Street in London in February 2011, no one knew exactly how it would turn out. But we thought that if we put our heads together to share ideas and build global relationships it was sure to bring some benefits to our clients and our organizations. We wanted the benefits of global expertise and shared resources, but without the bulk, burden and bureaucracy of a large bank or investment institution. We wanted the ‘reach’ of the big firms without losing the nimbleness, independence and client focus of a local boutique family office. Now, six years and twelve meetings later - in locations such as New York, Melbourne, Toronto, Frankfurt, Rio, Singapore, Beijing, San Francisco and Mexico City - ‘the jury is in’ and the experiment has been a resounding success.

Upon reflection over the six years, I believe there have been three main benefits of this global collaboration for Northwood and, by extension, for our client families.

Investment intelligence – We have the opportunity to meet with a very smart and intimate group (10-12) of global CIOs for two days twice a year. Managing investments in today’s environment is a complex task and listening to how other organizations approach this task informs our own view. The exchanging of investment information gives our investment management staff access to the latest research and due diligence, and because the firms are not competitive and there is no sales agenda, there is a high degree of openness in what we are able to share. At the same time, under our Chatham House rules, everything we talk about stays in the room. This intelligence gathering continues outside of the semi-annual meetings, as we share a database of investment managers and hold separate conference calls or online conversations on topics and asset classes of interest. The conversations cover a wide range of economic and investment issues, but what it really comes down to is this – How are we going invest client funds to achieve the best returns and the least possible risk to allow them to reliably meet their goals? No one has all the answers, but I believe that the Wigmore collaboration makes us more intelligent investors.

Global perspective – Financial markets are more interconnected and interdependent than ever before. What happens in one (previously thought to be ‘remote’) area of the world, often affects all others. It is very difficult for one organization to stay on top of all of the global events and opportunities, so Wigmore’s global network helps us leverage our own investment research teams. In particular, the fact that the meetings are held in various locations around the world and provide access to high-profile local experts means that we are able to broaden our investment perspectives, get a local on-the-ground vantage point and ultimately make better more-informed investment decisions within a global context. For instance, it has been helpful to gauge the progress in various developing economies.
to get a non-North American take on global affairs from other developed countries, and to learn how to take advantage of major opportunities and avoid dangerous missteps. In addition, because each member firm is different and sees things from a different perspective, it allows us all to explore and compare different solutions for clients that may not be as evident in our own local market. The broad geographical reach of the group helps provide all-important context as well as the ability to focus on the horizons and not the headlines. Being a part of a collaborative global group like Wigmore affords the clients of each member firm the twin advantages of objective local boutique-style service and a global network connected to the most current global investment thinking. Perhaps the best of both worlds.

**Trusted network** – Not surprisingly, over twelve meetings the CIOs (and more recently the CEOs) of the members firms have built strong relationships and a high level of trust. We now have a global network of colleagues who we can call upon for expertise, access and introductions. While each firm is independent and takes a slightly different approach, every one of them is dedicated to acting in the best interests of the families they serve. As families of wealth become more global themselves (as businesses expand and as children study, live and marry across borders), it is important for family offices to have a global footprint for clients and have a network of people they can trust in different regions around the world. For example, one of our client families wanted to set up trusts for their children who live in the United States and Australia. Fortunately, we were able to tap into the expertise of our fellow members in those two countries to come up with the best possible solution. We also benefit from the strategic discussions we have with these world-class firms on how to operate a family office efficiently and effectively. This strengthens our operations and makes us better able to serve our clients and be sustainable over a long period of time.

As my flight touched down in Toronto (22 hours after leaving Mumbai), I was feeling quite good about how the Wigmore Association has brought together a diverse set of people and firms on behalf of the families we serve. To learn more about the group you can click here to read the article on The Wigmore Association in the September 2016 edition of The International Family Offices Journal.

**Why Dividend ‘Growth’ Matters**

*Dan Solomon, MBA, CFA, CFP*

For investors seeking income, the investment landscape has become an increasingly complicated one over the past several years. ‘Yield compression’ has been the prevailing theme. Yields on traditional fixed income instruments have trended dramatically lower since the credit crisis, and this has pushed investors further out on the risk spectrum to earn meaningful yield. One major beneficiary of this change has been dividend paying stocks, which have risen in value as investors sought to augment their portfolio’s income stream.

**Don’t Overlook the ‘Growth’ Element of Dividends**

At Northwood, we responded to persistent low yields by increasing our allocation to dividend-paying stocks through the development and introduction of a Canadian Dividend Growth mandate. The key, and often overlooked, word here is ‘growth’. In constructing the mandate, we elected to forgo higher yielding stocks with less chance of increases in dividends, and, instead, to invest in companies that paid decent dividends but also exhibited high potential to grow their dividends over time.

We introduced this mandate to our clients in 2010 and so we now have a meaningful history to analyze. One thing that has stood out to us is that while the yield on the portfolio has indeed come down as the value of the holdings has gone up, the decline in yield has not been as pronounced as with other income-producing asset classes. This can be attributed to the dividend growth element of the portfolio. By investing in companies that not only pay dividends, but also aim to grow them each year, the income earned on each original dollar invested has meaningfully increased since inception.

The chart on the following page helps to illustrate this point. Had you invested at inception, the yield on that initial investment amount would now be approximately 6.5%. For example, a $1,000,000...
The Northwood PERSPECTIVE
Direction. Perspective. Confidence. Page 3

Investment in the mandate in 2010 would currently be earning $65,000 in annual income. This is more than double the current 2.7% yield on the mandate, showing the benefit of holding companies that grow their dividends. Looking at it another way, an investor in this mandate in 2010 has seen both their portfolio rise from $1,000,000 to just over $2,100,000 as well as their annual income increase from $45,000 to $65,000.

Current Yield vs. Yield on Original Investment

For the tax aware investor, it is also important to note that in Canada, domestic dividend income is taxed more favourably than other sources of income, which further enhances the after-tax return to the investor for this type of mandate.

Dividend Growth Could Help to Mitigate Interest Rate Risk

One of the more significant risks to income-producing asset classes is the potential for interest rates to rise. Of course, dividend-paying stocks will also undoubtedly suffer as well as yields rise (i.e. prices fall). But given their ability to increase the cash dividends they pay, it is a fair bet that dividend-paying companies will do a better job of protecting capital even as market rates rise.

What If Income Streams Don’t Grow?

Like dividend-paying stocks, alternative investments such as real estate, mortgage loans, distressed credit, and infrastructure opportunities have also experienced an influx of investor funds. However, unlike dividend stocks, managers of these asset classes have struggled to deliver higher or growing streams of income. In fact, in many cases the opposite is true.

For example, in our due diligence efforts we have noticed many firms that lend to distressed companies have had trouble putting investor cash to work due to increased competition. The result has been riskier loans finding their way into funds in order to maintain the level of yields. Other lenders have used additional leverage to keep their yields from falling. In many cases, investors are receiving less compensation than they were a few years ago to take on even more risk. To a different degree of magnitude, the same can reasonably be said for other alternative asset classes such as income-producing real estate and infrastructure, where the combination of long-term leases/contracts and asset inflation has pushed yields down.

Although dividend paying stocks now trade at higher valuations, when evaluating income producing options we still believe that they should be a consideration for a portfolio. However, as with all asset classes, the potential impact of rising rates should be a factor for all investment decisions.

What is a Family Office? – Our New White Paper
Tom McCullough

The family office model has become increasingly popular in recent years, largely in response to the increasing complexities and growing size of wealth held by multi-generational families. While recognition of the concept has become more widespread, however, many are still unfamiliar with the details of what exactly a family office is, what benefits they provide, and how they operate. To shed light on many of the key questions surrounding this topic Northwood has published the ‘What is a Family Office?’ white paper, excerpts of which are highlighted below:

Q. What is the difference between a single-family office and a multi-family office?

A. A dedicated family office or single-family office looks after the affairs of one family or a small group of related families and gives 100% of their attention to the family they serve. They also are paid for by that one family. Most experts agree that families setting up a single family office can expect to pay a minimum of $1 million per year in expenses and often much more. If a family is large enough – at least $500 million in family net worth – and has enough complexity to require the full-time services of a single-family office, it can make sense.

But if the family is smaller (i.e. between $10 million to $500 million), they may choose an option like a multi-family office. In this case, the family essentially shares the family office resources... Continued
Q. Are multi-family offices governed or regulated in the conduct of their respective practices by any third party institute, association, or other agency?

A. At the firm level, family offices are typically not regulated unless they provide investment advice. In Canada, for instance, firms that provide financial planning advice or family management are not regulated, but those that provide investment management are. Most often, those family offices that offer investment advice to multiple families are regulated by the relevant provincial securities commissions.

Q. What specific services does a multi-family office provide to its clients?

A. Every family office is different. In fact, it is often said: "If you've seen one family office... you've seen one family office." But most family offices provide five broad categories of service to their family members. In some cases, they provide the services themselves internally and in other cases they outsource them to specialists and simply play a supervisory and coordination role.

1. Holistic financial management: This includes goal-setting, financial planning, cash flow planning, estate planning, business succession and wealth transition planning. In this context, family offices often play a key coordination role with the family's other advisors to provide simplification, integration and to balance competing interests.

2. Investment management: This includes determining investment goals, developing an investment policy, making asset mix decisions, and selecting and supervising investment managers. Again, sometimes this will be done internally and sometimes it will be outsourced, often depending on the skills within the family office and the complexity of the family investment strategy.

3. Administration and management: This can include a wide array of services such as keeping minutes of meetings, making tax installment payments, reviewing insurance policies, writing trust resolutions, bill payment, accounting, cash flow management, and identifying trustees, executors and powers of attorney, just to mention a few.

4. Consolidated reporting: This typically includes comprehensive reporting across all entities (such as individuals, trust, hold-cos, foundations, etc.), as well as specific investment reporting.

5. Family development: Family offices are usually involved in many non-financial components of the lives of their families as well, including family meetings, governance, education, communication and conflict management.

Q. What are the specific benefits to clients of a multi-family office?

A. There are five main benefits of using a multi-family office:

1. One-stop shop: A family office provides coordination, simplification and ongoing management of complex financial affairs. It allows the family to go to one place to deal with pretty much any financial issue. If it is something the family office can't look after itself, it will bring in and coordinate with the relevant advisor. More often than not, big issues will require the input of multiple advisors, which the family office will facilitate.

2. Unbiased advice: True family offices are 100% focused on the best interests of the family and are completely objective in their recommendations and advice. A true family office is paid only by the family and doesn't sell any products. Families can be fully confident that the counsel they are getting is balanced and trustworthy.

3. Organization and management: Family office clients benefit from the confidence that comes from developing clear goals and strategic direction for the family, implementing good governance, deciding and documenting the critical issues, having regular consolidated reporting, putting contingency plans in place, and ensuring proper communication with all key stakeholders. Most families can't say they have this confidence, but it is achievable.

4. Economies of scale and cost saving: One of the other benefits of a multi-family office in particular is the economies of scale that result from combining the buying power of multiple families. This can apply to investment management fees, custody charges, research, and professional fees, as well as access to investment managers and services.

5. Continuity and institutional memory: A multi-family office also provides a stable advisory team who can work with a family over the long term, often across generations, and keep consistent records of key information and decisions the family makes over time. A multi-family office also reduces the risk of losing a key long term member of a single-family office and the disruption that could cause.

Overall, we believe that the family office is a compelling solution for successful families, providing a dedicated team of professionals who oversee and manage their complete financial affairs. To read the full white paper, please visit the 'white paper' section of our website by clicking here.
Managing Your Task List – The Ivey Lee Method

Barrett Lyons, CPA, CA, CFP, CIM

With wealth comes great responsibility and, unfortunately, sometimes great complexity. For many families of wealth, the administrative details, required decisions and ongoing management can be a real headache, if they don’t have a dedicated team supporting them. Family decision makers often suffer from what is called the ‘tyranny of the urgent’. They are continually bombarded by tasks that seem urgent, but may not be important. At the same time, the more important jobs (that often aren’t as urgent) get parked on the back burner and never seem to make it to the top of the to do list (see Eisenhower Matrix below).

1. At the end of each workday, write down the six most important things you need to accomplish tomorrow. Do not write down more than six tasks.
2. Prioritize those six items in order of their true importance.
3. When you arrive at work tomorrow, concentrate only on the first task. Work until the first task is finished before moving on to the second task.
4. Approach the rest of your list in the same fashion. At the end of the day, move any unfinished items to a new list of six tasks for the following day.
5. Repeat this process every working day.

I recently came across a great article by James Clear recently featured in Fast Company (click to view) that highlights an approach to managing your own personal task list that can help defend against the tyranny of the urgent. The process, called the Ivy Lee Method, was developed by productivity consultant Ivy Ledbetter Lee in the early 1900s and couldn’t be more straightforward:

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<thead>
<tr>
<th>High</th>
<th>Urgent Important</th>
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<tbody>
<tr>
<td>Urgent Not Important</td>
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<tr>
<td>Low</td>
<td>Not Urgent Important</td>
</tr>
<tr>
<td>Not Urgent Not Important</td>
<td></td>
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This approach is dead simple and it works. Why? First, its simplicity makes it a manageable and repeatable process reducing the time required to manage your task list while providing focus and direction. Second, it helps prioritize what is most important and forces you to get these tasks done. Third, it deflects less important tasks that are not adding value.

This approach can be used to manage your daily task list at work or in any other facet of your life. Part of our role at Northwood is to manage a client’s wealth management task list. In this way, we can ensure that the family’s important (but perhaps non-urgent) decisions are being brought forward and given appropriate attention (e.g. short and long term goals, family-related issues, estate planning, etc.), as well as keeping the trains running on time by managing the day-to-day administration of the portfolio, holding company, trusts and/or foundation.

Blockchain – A Potentially Disruptive Technology

Andrew Jeffery, CPA, CA, CLU, CIM

There’s a new technology gaining interest in the techworld that may be poised to disrupt powerful sectors like financial services, government, and even the music industry. It’s called the Blockchain. Have you heard of it? If not, perhaps you’ve heard of Bitcoin, which was the first application to utilize the technology. And while Bitcoin’s future is uncertain, its underlying Blockchain technology could prove to be the most important technological advancement since the internet.

What is the Blockchain?

The blockchain in its simplest form is a secure open-source database capable of keeping track of everything from asset ownership rights, historical records, and even votes in an election. It’s not stored in a central location or owned by any one entity, but rather it’s cloud based and openly shared among all participating users who want access to it.

Continued
If we look at Bitcoin specifically, the blockchain is a running ledger of who owns each coin. And because this ledger exists and is openly distributed, two parties are able to enter into a transaction where Bitcoin is the method of payment and no third-party financial intermediary is required to validate the transaction.

To elaborate on the last concept, payment using Bitcoin is drastically different than our existing electronic payment model, which relies on financial intermediaries to establish trust between buyer and seller. For example, when someone buys a new pair of shoes using debit or credit, a financial intermediary such as a bank or credit card company is relied upon to approve the transaction and ensure the purchaser has the necessary funds or credit available. Payments with Bitcoin present an alternative to this model, where the blockchain ledger can be referenced to ensure the purchaser has the necessary funds as opposed to relying on a financial intermediary.

How does the Blockchain Work?

When a Bitcoin is spent the transaction is recorded in the blockchain ledger in real time. The transaction triggers two offsetting entries, one to remove the coin from the purchasers account and another to add the coin to the sellers account. Clever coding ensures that the transactions are entered in sequential order which prevents a scenario where an individual makes a purchase using Bitcoin they don’t have.

Then, every ten minutes, the latest series of transactions are closed off and time stamped into a block, never to be modified. Simultaneously, a new block is created that references information from the previous block, creating a chain like effect. Due to the linking between the blocks of information, it’s near impossible to manipulate the blockchain ledger. In fact, should someone want to manipulate the data, they would need to rewrite the entire history of that particular blockchain within ten minutes before the next block of transactions stamps shut. Not to mention that the data is heavily encrypted and manipulation would occur in plain sight of all blockchain users.

The open-source blockchain structure is significantly more secure and customizable than the private databases maintained by large corporations and institutions. And it’s for this reason that many of these entities are starting to study and invest in blockchain projects to determine whether they could benefit from its use. The following section touches on a few practical applications or disruptions that could occur in various sectors due to the introduction of a blockchain infrastructure.

Financial Services

The most talked about application for this technology exists within financial services. As mentioned earlier, one primary application would be to permit secure electronic trade between two parties without the use of a financial intermediary.

Other applications could be to permit much faster, and in some cases, instantaneous settlement of trades involving stocks, bonds, and other financial instruments, which today can take up to 3 days to settle.

Corporations and Other Large Institutions

Another very practical application of the technology could be to improve how large institutions deal with the significant quantity of data they retain. This data can often be difficult to share among departments and is also open to manipulation or exploitation by internal staff or external threats like hacking. A blockchain structure could be implemented that would create one database to be shared among all departments, which would reduce data entry duplication and the need to request information from other departments. I can think of one large Canadian telecom company that could benefit from this type of sharing of information, which could in turn significantly boost their customer service.

Music and Intellectual Property

The music industry is perhaps the industry most impacted by the internet and so called ‘sharing’ economy. The introduction of platforms like Napster and now Spotify or Apple music have essentially forced artists to give up control of their work as they are at the mercy of large corporations. A blockchain platform could put the artist back in the driver seat and ensure fair compensation for the use of their work. One possible application is to use coding within the blockchain that would recognize each time a song is played via radio, streaming, or in a movie or commercial, to ensure royalty payments are accurate and content isn’t used without permission.

Challenges and Potential Drawbacks

Perhaps the biggest challenge facing the use of Blockchain technology is the fact that it’s so new, and there is always a resistance to change. The implementation of a blockchain system to facilitate trade or share information would represent a radical change in how consumers, businesses, and institutions currently operate.

Regulation is also another major hurdle. Blockchain ledgers like the
one built for Bitcoin are able to be distributed across a global network, which creates problems on how to regulate the flow of assets across international borders.

And finally, as with any technological advancement, there is the potential for the loss of jobs. The technology has the potential to streamline and automate many administrative processes within corporations that would reduce the need for humans to complete those functions.

Conclusion

Despite the challenges and drawbacks, the Blockchain movement appears to be full-steam ahead. There have been significant recent investments into both start-up ventures and projects by large North American Corporations to understand the potential uses of the technology. It’s clear they see the potential in the technology to improve the efficiency and security of their operations.

I think the real question is not if, but when, blockchain technology will start to have a significant impact on society as we know it. And if companies like Uber and Airbnb have taught us anything, long-standing traditional industries are not immune to technological disruption. They either need to adapt and embrace technological change, or risk being left in its wake.