FALL 2007

Brought to you by the Business Families Centre at the Sauder School of Business and the Vancouver Chapter of the Canadian Association of Family Enterprise.

LEGACY MATTERS

Family Councils, the Best Investment a Family Will Ever Make

By Jim Reger

No amount of business success will ever make up for a family failure. If the family is not working right, sooner or later it will destroy the business. The creation of a family council is one way to restore the balance between business and family life.

Many people in business families view the work of the business as real and concrete, requiring careful planning and the investment of effort and material resources, while the work of the family is assumed to somehow take care of itself. However, to achieve a balance between family and business requires elevating the family to the status it deserves. In a family business, the wealth consists of three forms of capital: human, intellectual and financial – and without active stewardship of the human and intellectual capital, a family cannot preserve their financial capital.

The family council is a structure of the family, not of the business or shareholders. It honors the fact that all family members have a stake in issues of family identity – as current or future employees, current or future owners, or simply members of a family whose life is continuously affected by what happens in the family business.

Family councils provide:

- A forum for educating family members about the concept, the responsibility and the privileges of family business.
- A forum for identifying and teaching the family's values and how they affect the business.
- A forum for developing succession planning in the family to allow timely transition of the business.
- An opportunity for dialogue and input from family members on their own goals, ideas and perspectives.
- A process for resolving conflicts within the family.
- A place to establish and monitor family goals for achieving stewardship of the business.
- A place to design a family charter or mission statement that will ensure stewardship of the business.

Typical outcomes:

- Individuals are clearer about their roles—in the business, in the family, and as owners.
- Individuals understand and respect each other more.
- The family communicates more effectively.
- Individuals are more satisfied with the decision-making processes.
- Individuals feel more secure about the future.
- Key issues get resolved openly and levels of trust are improved.
- The family is better equipped to address new challenges.

JIM REGER IS A BUSINESS FAMILY FACILITATOR AND LEADERSHIP MENTOR WHO WORKS EXTENSIVELY WITH BUSINESS FAMILIES ASSISTING THEM TO EFFECTIVELY HANDLE THE SPECIAL ISSUES THEY FACE.

CAFE VANCOUVER

SAUDER School of Business

Business Families Centre

THE UNIVERSITY OF BRITISH COLUMBIA

Words from the Executive Director

September marks the start of a new and exciting programming year at the Business Families Centre. We have an array of educational programs and events planned for both families and advisors.

The fifth annual Family Legacy Series Dinner will take place on November 28th, 2007 featuring the Gillespie Family. We are thrilled to highlight the Gillespie family, who owns and operates Bakers Delight, branded as COBS Bread in North America. This company, founded in Australia in 1980, is the world's most successful franchise bakery chain employing approximately 15,000 people in over 700 bakeries across Australia, New Zealand, Canada, and the United States. We hope that you will join us as Co-CEOs Roger and Lesley Gillespie, together with their children, Aaron and Elise, share their experience of building and growing the business.

Our Certificate in Business Families Advising, the first certificate program of its kind in the world offered by a university, will launch December 3-6, 2007. We are proud to be the first to offer such a program, as one of the goals of the Business Families Centre is to provide professionals with comprehensive education so that they are better able to successfully advise business families. By taking this program, participants will gain new ways of thinking and new strategies for addressing the unique and special issues around business families.

This fall we are also launching two breakfast briefing series': the CAFE Breakfast Briefing Series, with sessions addressing Educating Children on Wealth and Investing, and Financing Options for Sale/Purchase of the Family Business, and the Executive Briefing Series, titled Corporate Social Responsibility: Leading in the Age of Sustainability, which will also commence in September.

Please refer to our full calendar in this issue for all program dates and details.

Another key initiative for us this year is to expand our network of families who are both members of CAFE and involved with the Business Families Centre. We recognize that a larger, diverse, and constantly expanding membership leads to a richer learning and networking environment, which benefits us all. If you know of any business families who would be interested in finding out about how the Business Families Centre and CAFE can be of service to them, please refer them to us or alternatively, you can bring them to an event this fall under our new 'bring a friend' program (please see below for more information).

We look forward to working with you this year and to seeing you at our upcoming events and programs.

Thank you for your continued support of the Business Families Centre!

Judi Cunningham
Executive Director,
Business Families Centre

Bring a Friend Program

If you are a CAFE member or know of a family business that could benefit from our programs, you are welcome to invite up to two people along to one of our upcoming CAFE Advisor Breakfast Briefings as your guests at no additional cost. (The CAFE member price for the Advisor Breakfast Briefings is $49+GST). To register, please call us at 604-822-8400.

2007 - 2008 Business Families Programs

Family Legacy Series

Nov 28, 2007

Fairmont Waterfront Hotel

Join us for our FLS gala dinner with the Gillespie family of COBS Bread and celebrate all that is good about family business

Inside the Entrepreneur

February 25, 2008

This event will feature Yves Potvin, founder of Yves Veggie Cuisine and Garden Protein International, who will share his experiences as a successful entrepreneur

Family Retreat: Preserving Families, Preserving Wealth at Sonora Resort

October 11-14, 2007

Join some of Canada's most prestigious business families in a stimulating exchange of innovative ideas and information about wealth preservation.

Two-day Seminar: Communications & Conflict

November 1-2, 2007

Explores the nature of the family business dynamic—improve interpersonal skills and business effectiveness

Two-day Seminar: Navigating the Business Family Relationship –Road Map Part One and Two

Road Map Part One **February 15-17, 2008**

Road Map Part Two **January 18-20, 2008**

Two Day Seminar: Working with Non Family Executives

February 21-22, 2008

Family firm owners and non-family executives will explore best practices for bringing in non-family executives, ways to integrate family and non-family members in a family business, what systems and policies need to be in place to ensure maximum business effectiveness and family harmony.

Two Day Seminar: Strategic Planning for the Family Business

April 29-30, 2008

This workshop looks at strategic planning from both the family and business systems perspective.

Two Day Seminar: Governance for the Family Business

June 2-3, 2008

This workshop explores family governance structures; governance for the family, business, and ownership.

Certificate in Business Family Advising

December 3, 2007

Delivered in four day modules – balance of theory (learning and reviewing theoretical knowledge) and practice (specific skills), must be completed within three years.

Certificate Core Module: Understanding Business Families and Business Family Advising

December 3-6, 2007

Examine the key underlying principles, concepts and theories in the field of business families advising. Through lectures, case studies and small group work, gain the opportunity to reflect on your current practice with business families, and identify and integrate new theories and skills into your worktechnical topics from a variety of disciplines.

To register, or for more information, visit our website www.sauder.ubc.ca/bfc

All programs and seminars are held at UBC Robson Square, 800 Robson Street, in downtown Vancouver, BC.

2007 - 2008 CAFE Advisor Breakfast Briefings

Total Authentic Wealth

Sept 18, Vancouver
Sept 21, Langley

This briefing will help you to Identify your values, beliefs, and behaviours surrounding money.

Instructor: Franco Lombardo, Reyes Consulting

Educating Children on Wealth and Investing

Oct 11, Vancouver
Oct 12, Langley

Instructor: Catherine Dorazio, Concierge Investing

Financing Options and Sources for the Sale/Purchase of the Family Business

Nov 6, Vancouver
Nov 8, Langley

This briefing will feature a panel with speakers on Senior Debt, mezzanine/sub debt, and equity Merits/demerits of each.

Instructor: Vic Tyson, RBC

Effective Tax Distribution and Corporate Structures

Dec 4, Vancouver
Dec 6, Langley

Instructor: Scott Wyper, Partner and Steve Carreiro, Senior Manager, KPMG

Issues and Strategies in Families for a Change in Business Ownership

Feb 12, Vancouver

This briefing will include strategies to prepare for issues such as: Compensation for family members in a business, sudden death or illness of founder, compensation for family members in a business, the effect of money on families, etc.

Instructor: Ruth Steverlynck, PriceWaterhouseCoopes

The Gift - "Love, Money, and Family"

March 11, Vancouver

Instructor: Enzo Calamo, Gracious Living

Preparing Your Business for Sale

April 8, Vancouver

This briefing will include discussion around the current purchaser market, purchaser groups (including what buyers are looking for, valuation techniques and understanding strategic buyers), steps in the divestiture process and due diligence.

Instructor: Doug Cruikshank, Cruikshank Advisory Group

From Management to Ownership: How Can Management Teams Buy Out the Company They Work In?

May 6, Vancouver

Creative Buy-out techniques, minimize personal and family exposure when buying into a business.

Instructor: Robert Napoli, Vancity

How To Develop and Run a Family Business Council

June 10, Vancouver

Instructor: Francine Carlin, Business Harmonizer

2008 Executive Breakfast Briefings

Corporate Social Responsibility: Leading in the Age of Sustainability

Managing by Values: Organizational and Business Family Values

April 10, 2008

Thomas Knight, Sauder School of Business,
Dick Kouwenhoven, President & CEO, Hemlock Printers

Philanthropy for Community Change

June 3, 2008

Frieda Granot, Sauder School of Business
Andrew Tong, VP Acquisitions, Concert Properties

To register, or for more information, visit our website www.sauder.ubc.ca/bfc

Briefings take place from 7:00 am-9:30 pm at Robson Square in Vancouver and, where indicated, at the Sandman Hotel in Langley.

Retirement Withdrawal Rates

By Bruce Chisholm

As Canadians approach the milestone of retirement, they often find themselves asking financial questions such as:

Have I saved enough to retire comfortably?

How much can I withdraw annually from my savings while in retirement?

Should I alter my investment strategy when I retire?

There are no definitive answers, as people retire at different ages, with varying levels of savings, and with different goals and ideas of how they want to spend their retirement years.

An issue that confounds many retirees is withdrawal rates—that is, the amount of money, expressed as either an absolute dollar amount or a percentage of total retirement savings, that a retiree could withdraw from his or her investment portfolio each year. In financial planning, this rate is often applied to a portfolio's value heading into retirement and remains constant thereafter, or it may be adjusted each year to account for inflation.

Sources of Retirement Income

Retirees typically draw on one or more types of savings vehicles and programs to provide annual income—pension plans, registered savings plans, government programs (i.e., the Canada Pension Plan and Old Age Security), non-registered savings plans and part-time employment income.

Withdrawal Rates in Retirement

In determining an appropriate retirement withdrawal rate, the goal is to establish the optimal amount of money that can be withdrawn from a portfolio each year such that an individual does not outlive their assets. An ideal retirement portfolio would cover all living expenses (after tax and inflation) in retirement from the interest, dividends, and capital gains that it generates, and none of the capital would be eroded. As well, the plan holder would be able to bequeath an inheritance to their loved ones. The world is not ideal, however. Volatility in the capital markets, inflation, and taxes all create uncertainty and reduce wealth. However, proper diversification and a conservative withdrawal rate can help shield a portfolio from these forces.

A common misconception among investors is that a portfolio's expected compound annual rate of return can be considered a safe annual withdrawal rate. For example, a portfolio that is expected to produce an annual compound return of 7% over the long term might be expected to withstand an annual withdrawal of 7% without any capital erosion (ignoring the impact of tax and inflation). If the portfolio in question had no volatility and produced a return of 7% each and every year, this reasoning would hold true.

However, if the portfolio is subject to even a small amount of volatility, this line of thinking is flawed. The volatility of returns plays a large role in determining whether a portfolio will be depleted over time (and the rate at which erosion occurs) when a constant withdrawal rate is applied to it.

If returns are volatile, the sequence of annual returns is one of the most important determinants of a portfolio's survival. High returns early in the holding period can allow a portfolio to withstand the impact of future negative returns, as it has a built-up capital base. Alternatively, if negative returns are realized in the first few years, the outcome can be devastating.

Another common misconception has to do with life expectancy. It would not be prudent for a male who retires at the age of 65 to base his financial plans on an "average" life expectancy of 77, because once a male reaches the age of 65, his odds of outliving the average life expectancy rate become greater. This retiree could find himself in dire circumstances if his portfolio is depleted by the time he turns 78.

Continued advances in medicine and health care will serve to increase life expectancy rates going forward, so investors should plan conservatively (i.e., expect a longer life).

Current Wisdom

Financial planners recommend that retirees will require 70%-80% of their pre-retirement income annually to live a comfortable retirement lifestyle. While some retirees may require less money and others more, this is a useful guideline to assist in determining annual spending requirements.

The most frequently cited study on the subject of retirement withdrawal rates is known as the Trinity Study. Written by three business professors from Trinity University in San Antonio, Texas, this study concluded that an appropriate withdrawal rate for a portfolio depends on its asset mix (the amounts of stocks and bonds), the planned payout period, and the retiree's degree of risk aversion.

Generally speaking, shorter payout periods could withstand higher withdrawal rates, particularly as the fixed income portion of the portfolio was increased. Alternatively, higher withdrawal rates could be sustained for a longer period of time as the equity component of the portfolio was increased.

One of the study's conclusions is that an inflation-adjusted withdrawal rate of 4% had a high success rate over almost every asset mix and payout period studied. Consequently, some retirement planners point to 4% as a safe (sustainable) withdrawal rate. Yet, while this figure may provide a good starting point for retirement planning, it should not necessarily be viewed as the final word on the subject. The Trinity Study's data series is less than perfect: it ends in 1995, is based solely on U.S. returns, and is based on past returns (which may or may not be indicative of future returns). Most importantly however, the study assumed a constant asset mix. Whereas in reality, portfolio adjustments typically be needed, and a retiree's asset mix will likely change over time.

Recommendations

There is no universal withdrawal rate that applies to all retirement portfolios. In determining a sustainable withdrawal rate, investors must take a close look at their own risk tolerance, estimated payout period, and flexibility with respect to withdrawals.

Individuals, who retire later in life than the norm and, accordingly, assume a shorter payout period for their portfolio, may take on a higher withdrawal rate (e.g., 6%) without substantially increasing the risk of depleting their portfolio. Alternatively, those who retire early should apply a conservative withdrawal rate (i.e., 3-4%) to their portfolio to ensure that it provides them with a constant income stream throughout their more lengthy retirement.

Retirees who hold a significant amount of their retirement assets in a Registered Retirement Income Fund (RRIF) are forced to be a little more creative in their retirement planning. The minimum percentage that must be withdrawn increases each year and is based on the age of the account holder. If the proceeds resulting from the required RRIF withdrawal exceed the overall retirement withdrawal amount, the excess proceeds should be invested in a non-registered investment account.

Portfolio diversification is crucial to every retirement strategy, as it helps reduce volatility. A portfolio that is balanced among equities and bonds is generally subject to less volatility than either an all-equity or all-bond portfolio (all other things being equal) and as such, stands a greater chance of success. By reducing portfolio volatility as well as maintaining a conservative annual withdrawal amount, retirees increase the likelihood that their portfolio will provide them with income throughout their lifetime.

BRUCE CHISHOLM, CFA IS A PORTFOLIO MANAGER IN VANCOUVER, BRITISH COLUMBIA WITH PHILLIPS, HAGER & NORTH INVESTMENT MANAGEMENT. HE IS A MEMBER OF CAFE VANCOUVER AND HOLDS A BACHELOR OF COMMERCE DEGREE FROM THE UNIVERSITY OF ALBERTA AND HE IS A CHARTERED FINANCIAL ANALYST.

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Thanks & Acknowledgements

This issue of Legacy Matters is proudly sponsored by Borden Ladner Gervais and ZLC Financial Group

BORDEN LADNER GERVAIS

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Comprehensive Support for Your Family's Success

Do you or your family own a family business? Does your family business have adequate governance, ownership or family support structures to face the unique challenges involved with family enterprise? Are you prepared for ownership transition to the next generation?

Are you wondering what your role will be in the future? The Business Families Centre (BFC) and the Canadian Association of Family Enterprise (CAFE) are dedicated to supporting both business families and families in business. Through a comprehensive program of family networking, educational programming, and peer support, your family can develop knowledge necessary for future success.

Join a Peer Advisory Group

A Peer Advisory Group is a group of 8-10 individuals who meet monthly to share personal and business ideas and support. It provides the members with expert, objective and confidential advice. Peer Advisory Groups are consistently rated the best value by CAFE members.

www.sauder.ubc.ca/bfc/cafe/
Contact us to find out how you can join a Peer Advisory Group.

Contact us to find out more about:

- how you can become involved in the Business Families Centre
- joining CAFE Vancouver
- how to make your tax deductible contribution to the Business Families Centre

Sauder's activities in the Business Family community are comprised of The Business Families Centre and the Vancouver Chapter of the Canadian Association of Family Enterprise. We are committed to assisting business families, their advisors, and their enterprises through research, programs and academic education.

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