

LEGACY MATTERS

Integrated Wealth Management Strategies The Multi-Family Office

by Catherine Dorazio

Your wealth is comprised of your entire set of family assets such as a family business, real estate assets, and an investment portfolio of stocks and bonds. But rarely is an investment strategy designed with these diverse assets in mind. This lack of coordination can create a chasm between where you stand today and how you are going to reach your family's investment objectives. Coordinating the expertise of your advisors will assist your family in reaching its goals.

Many families ultimately employ a full range of advisors that includes everyone from an Accountant, Lawyer, and Investment Manager, to the specialists that are brought in to facilitate your real estate, estate planning or philanthropic strategies. These Advisors provide valuable knowledge but often focus exclusively on their individual area of expertise. It is important to have someone who will coordinate this team, ensuring the information is communicated effectively and that comprehensive solutions are considered.

For example, real estate is an investment. Its characteristics are uncorrelated to that of a stock or bond and it actually responds differently to changing economic variables than most asset classes. It is also a hedge against inflation. For these reasons, and many more, real estate assets, exclusive of your home, could be factored into your overall investment strategy as a means of diversification and lowering risk. It may also

"Coordinating the expertise of your advisors will assist your family in reaching its goals."

be a source of present or future income that can ultimately alter the investment strategy of your typical investment portfolio.

There are many more examples, but ideally your advisors understand how their specialized advice fits within your overall wealth management strategy and tailor that advice accordingly. Often this means that someone has been given the role of 'quarterbacking' all the information and advice so that the family can ultimately be presented with all the options and make an informed decision. If you are yet to structure a team of professionals who are part of an integrated asset plan here are some points to consider.

For some family business owners, managing their wealth is simply an extension of running their business and they are comfortable managing all the pieces themselves. But the majority realize that their efforts are best spent working on the family business and therefore, they choose to work alongside a professional who can manage the overall wealth management strategy, present options, and find solutions as the family heads toward their long-term goals.

Choosing to work alongside a team of advisors often leads a family towards the Family Office (FO) or Multi-Family Office (MFO) structure. Whereas a Family office requires investments in the hundreds of millions of dollars to be cost effective, a MFO aggregates and focuses resources from a group of families to facilitate a common interest in investment management, asset protection, cost control, financial education, family philanthropy, and a host of other needs. Ultimately, it provides a customized investment solution and an integrated approach so that a team of professionals work together to achieve the goals of each individual family.

Some MFO's offer different services to clients based on their asset size and the complexity of the situation. Benefits that may not be easily achieved through traditional financial services or even a sole Family Office provide advantages to MFO's such as a broader team of professionals to collaborate on complex problems, strength in handling a number of large portfolios, leading technology and systems, efficient back office and reporting functions, and of course - economies of scale. The team structure of an MFO can also help ensure continuity for the family through future generations.

The Multi-Family Office model is rapidly becoming the most sought after platform for ultra-affluent families. In the United States, one-third of all MFO offices have been formed in the past three years and most with a minimum above \$20 million per family. In Canada, only a handful of FOs and MFOs exist and minimum investment size in Canada is around \$5 million to \$10 million.

Whether you manage your own team or enlist the expertise of a professional to help do this for you it is paramount that you integrated your entire set of assets. This will ensure that your wealth management strategy encompasses the larger picture to help achieve your long-term goals more quickly. Just as each part of your business runs as part of a cohesive whole, your wealth management strategy should incorporate the advice of a multitude of experts - as the saying goes, The Whole Is Greater Than the Sum of Its Parts.

Catherine Dorazio is an Associate Portfolio Manager at Concierge Investing™.

Business Families Centre &
CAFE Vancouver wishes you a
very Happy New Year!



THE UNIVERSITY OF BRITISH COLUMBIA



Outstanding Lecture Series

On November 16th, guests at the Outstanding Lecture Series luncheon were captivated by Globe and Mail journalist Gordon Pitts, and Philippe and Nan-b de Gaspé Beaubien as they discussed their collective business family wisdom. The de Gaspé Beaubiens were founders and owners of Telemedia Inc., one of Canada's largest radio and magazine companies, and they relinquished control of the company to their three children in 1998. Gordon has interviewed some of Canada's largest and most successful families and has written many books about Business Families.

The Canadian economy depends on the health and well-being of business families. Through the knowledge of Gordon Pitts and his vast understanding of Canadian business families and with the personal experience of Philippe and Nan-b, the afternoon was nothing short of magical. Canadian business families have such a rich history and the de Gaspé Beaubiens are no exception. Philippe's family has a 350 year history of family business in Quebec and in thirteen generations of succession the family was never entirely successful in passing the family company from one generation to the next. With the strong support and advice from his wife Nan-b, the couple has worked hard to ensure that their children had a range of choices as they received stewardship of the family enterprise.

In a very personally revealing and sometimes touching conversation, Gordon, Nan-b and Philippe discussed the common struggles of generational transitions and what it means to be a business family in today's economy. Gordon, who has chronicled many of the leading business families in Canada and has also written widely on business issues, highlighted how family businesses in most cases outperform non-family businesses. The weaving of the personal experience of the de Gaspé Beaubiens with the experiences of other business families that Gordon Pitts has interviewed, resulted in a thought provoking, moving, and highly educational dialogue. Through their conversation, the theme emerged that there is hope and support for families and that they should seek out help from knowledgeable sources.

The audience was mesmerized and delighted as Philippe and Nan-b recounted their stories on the subject. Gordon's extensive insights with families added a depth to the discussion. The profound commitment to family business by all three of them was evident in their discussion.

CAFE Vancouver Elects New Chair

At the CAFE Vancouver Annual General Meeting held in September, Rick Wagner was elected as the new Chair for the CAFE Vancouver Board. Rick is President of Maxwell Floors and is the second-generation of this family-owned firm. Rick and his brother Marcus have been CAFE members since 1997.

"My experience with CAFE over the years has been an invaluable benefit for myself, my family and our business. The incredible support and insight provided by members of my Personal Advisory Group and from others at CAFE have been instrumental to the success of our family business.

It is for these and other reasons that I am proud to be involved with the organization in this capacity. This past year has been one of great change and as the organization develops to the next stage at both the national and local level; it is your insight, participation, and experiences that will help shape future programs and services. I hope that you will continue to provide your feedback to us so that we can shape the future together. I also encourage those who are considering membership in our organization to contact me at the number below if you have any questions in this regard.

I would also like to thank our outgoing executive members Charles Flavelle and Nina Henriksen who, along with our returning Board members, have provided exceptional leadership and service to the organization over the years. And I look forward to their continued advice and support.

Thank you."

Rick Wagner
604.597.2423

A Word from the Chair

Lorraine Cunningham, Business Families Centre



December marks a natural milestone to look back over the past twelve months and to also look forward to the year ahead. 2006 has been a year of great activity at the Business Families Centre and it is very gratifying that our efforts have been enthusiastically embraced by the BFC and CAFE community. This season also symbolizes the spirit of giving and philanthropy and it is with pride that I announce success in achieving the first milestone of \$2.25 million dollars towards our fundraising goal of \$14 million dollars. The generous support of CIBC and many local families will help fund research and programming for the Centre and provides a solid foundation for our long-term funding plans.

As we plan for the year ahead I am sure that you will have the opportunity to experience another great year of programs, events, and services. I extend a sincere and heartfelt thank you to the faculty, staff and supporters without whom our goals would not have been achieved. Thank you also to the many advisors and families who have participated in our events throughout the past year; your involvement makes the collective efforts of many people worthwhile and very rewarding.

I wish all of you the very best for the holiday season and the New Year.

Lorraine Cunningham
Chair, Business Families Centre

2007 Business Families Programs

BREAKFAST BRIEFINGS

Financial Statements for the Non-Accountant: Improve Your Understanding of Corporate Finances

January 19th, 2007 - 7 AM to 9:30 AM

Jeff Kroeker, UBC Sauder School of Business

Sponsored by Borden Ladner Gervais



Valuing Your Business

February 15th, 2007 - 7 AM to 9:30 AM

Pirooz Pourdad, Vice Pres., PWC Corporate Finance Inc.

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Essential Value of Shareholder Agreements: Gain Insight Into Their Use In Succession, Estate & Tax Planning

April 19th, 2007 - 7 AM to 9:30 AM

Josephine Nadel, Partner, Borden Ladner Gervais

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Each Breakfast Seminar is \$115

Cafe Member price is \$85 for each seminar

Breakfast Briefings are designed to provide succinct information on the key tools and knowledge for families and businesses. Join us for Breakfast, connect with CAFE members and others, and learn the latest from leading experts.

EXECUTIVE BRIEFINGS

Managing Conflict & Change in Rapid Growth

January 31st, 2007

Seminar Leader: Dr. Thomas Knight

Industry Speaker: Dave Galloway, Former Group Vice-Pres. of Customer Support, Business Objects

When organizations are moving quickly, people often experience greater levels of stress and interpersonal conflict. This briefing demonstrates how to avoid conflicts and resolve them in a fair and considerate manner, as well as key strategies for managing change and transition.

Managing High Growth Firms in Dynamic Industries

February 21st, 2007

Seminar Leader: Dr. Thomas Hellmann

Industry Speaker: Bruce McDonald, Vice Pres. & General Manager, Sophos

This briefing discusses strategic management for fast-growing firms in volatile markets. It shows how to analyze emerging threats and opportunities, develop competitive advantages for the short and long run, and evaluate strategic options. The session includes hands-on participation.

Attracting & Retaining Employees in a Competitive Economy

April 4th, 2007

Seminar Leader: Dr. Nancy Langton

Industry Speaker: Grace Pulver, Vice Pres. of Human Resources, Vancity

Employee shortages have become one of the biggest constraints on corporate growth. This briefing looks at strategies for attracting talented employees and for developing a corporate culture that encourages them to remain with the organization.

Each Executive Briefing is \$125

Cafe Member price is \$110 for each seminar

To Register for any of the above seminars or more information:

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604.822.0102

Fees are Tax deductible and include coffee and breakfast.

Check-in and breakfast begin at 7:00 a.m. The presentation runs from 7:30 a.m. to 9:30 a.m.

All programs are located at Robson Square in Downtown Vancouver.

Executive Briefings provide the latest strategic thinking for business and organizations by pairing researchers with industry leaders.

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Managing Your Bank

Key Factors To Prepare to Help Your Bank Understand Your Needs

by Marcelo Bohm

It's the morning after and your head is still reeling from your dinner last night. Earlier in the week you received a call from your largest competitor asking you to join him for dinner. During dinner, after much polite conversation, he let it be known that he was interested in selling his business and he wanted you to consider buying it. You ended the evening agreeing that you would consider it and if interested would make him a fair offer. You have three weeks to decide.

Acquiring his company will take your business to a whole new level. Markets and relationships that would have taken you years to develop could now be yours. In your mind the synergies between the two businesses are awesome. There is little to think about...you want the business. The only issue now is how much you are going to offer and how you will raise the money.

First stop, the bank. You sit down with your Relationship Manager (RM) and spend the next hour telling her about all the great opportunities that would result from the acquisition. She listens attentively but somehow your enthusiasm is not contagious and her focus is on how the acquisition could put you off side with your covenants. She goes on to question the validity of the synergies and if the price you were considering offering was not too high. She then asks you a number of questions focused on cash flow projections, thoughts on capital structure and integration strategies. You end the meeting frustrated and feeling she may not support what you deem to be an excellent opportunity.

Let's rewind the tape and look at how your visit with your RM could have gone considerably better. Before your RM can get excited about this great opportunity for your business, you need to ensure you've done some pre-work that enables her to see what you see.

The Business Plan

Taking the time to complete a business plan will ensure that you analyze the opportunity from various angles. Your end product will provide your RM with all the information she needs to prepare a recommendation and provide you with value added ideas and the funds you need for the debt portion of the acquisition.

Strengths, Weaknesses, Opportunities and Threats (SWOT)

Start out by brainstorming, on a quadrant, what the strengths, weaknesses, opportunities and threats are of the acquisition. Include others, as you deem necessary, to get involved in this exercise. At the end of it, you should have a pretty good idea of the areas you will have to focus on to ensure you maximize on the strengths and opportunities and minimize the

weaknesses and threats. This exercise will clarify your rationale for making the investment.

The Business Environment

Reviewing the overall business environment will give you good insight into the external factors that could influence the acquisition. A useful tool to assess the business environment is a P.E.S.T analysis, which encompasses the following four key areas:

Political Factors
Economic Issues
Societal Factors
Technological Considerations

Once you have considered how the acquisition could be impacted by each of the four key areas, noted above, you will have a much more thorough understanding of the external factors that could either assist or hinder the acquisition. Next you need to think about financing.

“ Before your Banker can get excited about this great opportunity for your business, you need to ensure you've done some pre-work that enables her to see what you see. ”

Financial Analysis

This is a critical component of your business plan. This is where you figure out how you will pay for the acquisition. The following are some areas you will want to focus on:

Valuation technique - how did you arrive at the purchase price?

Areas to consider include: Public comparables, Acquisition comparables (precedent transactions), Discounted cash flow or Intrinsic Value, and Book value or net asset value.

Capital structure - what is the right balance between equity (yours, family and friends, private investors or potentially the public market) and debt (junior/senior)?

You need to understand your: Risk tolerance, Peer comparisons, Credit ratings, Cost of capital, and Need for reserve debt capacity.

Cash flow - a cash flow projection should be completed that identifies how the acquisition will be repaid. This can include cash flow from your existing enterprise and the new one. The projections should go out at least 3 years.

You need to think about: Consider the key drivers of the cash flow including AR collections, AP options and inventory turns. Are the cash flows cyclical? Think about the cost of integration including people, IT and real estate. Also work out potential impact on sales (short term and long term).

Market Risk - greater exposure to market risk (interest rates, foreign exchange, commodity risk) increases cash flow earnings volatility.

Your financial analysis should provide you and any reader with a clear indication of how you expect to pay for the acquisition and how and what can impact your cash flow.

People and Systems

Your plan will also need to contemplate the impact of the integration of the two cultures or how the systems and the people will be impacted by the acquisition. Quite likely one of the opportunities for synergy will come from the people side.

You will need to consider if there are complimentary or overlapping skill sets within the two businesses. Are there people with special skill sets you will need to keep to ensure the continue success of the new operation? Are there people in your existing operation you can now leverage to improve the new combined operation providing them opportunities for growth? Are there skill gaps you will have to fill? Ensure you understand each role and identify which players are key to your future success. Many business integration plans have failed because the importance of culture (people) has not been understood and planned for.

Concurrently the need to successfully integrate the systems will have to be understood. Having a pre-emptive systems integration plan will greatly assist in the amalgamation of the two businesses and will give your RM confidence in your ability to execute the transition.

Competition

It is worth spending some time thinking about how your competition will react to the acquisition. Will the acquisition in any way threaten the established status quo and if so what are possible reactions by your competitors, i.e. price wars and attempts to lure your top employees.

There are many factors that can be considered when looking at an acquisition. At a minimum, thoughtful analysis of the ones noted above will validate your instincts around proceeding and will provide your RM with the confidence that you have done your homework. You will be able to demonstrate your understanding of how both the business and the industry factors could effect your acquisition, that you have thought about your preferred capital structure and the possible impacts on the cash flows and equally if not more important the effect on culture and the employees. Remember, it's okay to identify gaps, areas where you need more information or help and areas of risk. With this work in hand you are ready to go back and meet with your RM. Good luck!

Marcelo Bohm is the Senior Director/Team Leader for Commercial Banking at CIBC.

Effectively Managing Working Capital

By Nick Fry

When it comes to managing working capital, the first step is to focus on being proactive, not reactive.

Entrepreneurs experiencing rapid growth are often confronted with the challenge of not having enough cash on hand to operate their businesses. By carefully planning ahead and looking at all your options, you can be ready for growth and take full advantage of any opportunities.

Although working capital is seemingly a simple calculation of current assets minus current liabilities, business owners can easily lose sight of how much they need to keep their businesses operating smoothly. For many entrepreneurs, for example, working capital can be tied up in delinquent client payments or excess inventory. While the numbers look good, the reality is that you don't have access to the cash you need to keep the business growing.

So how do you become more proactive and better manage working capital?

Get external help

Hiring a consultant to take a hard look at your operations is often a great chance to see your business from another perspective. They will often do a thorough cash-flow assessment and look at key areas such as sales cycle, inventory turnover, and credit terms for suppliers and customers. In addition, some consultants will look at your work processes to identify ones that add no value to the product or service and simplifying those processes that do.

Lean manufacturing, for example, targets a number of sources of waste, including overproduction, defects, delivery delays, unnecessary inventory and the movement of goods, people or information. Ultimately, if you can find ways to run your company more efficiently, you can also make more profits and increase cash flow.

Know your sales cycle

Keeping a vigilant eye on your sales cycle is another way to help manage your working capital. By identifying the highs and lows of your fiscal year, you will know when you will be facing financial difficulties. By having this information available, you can better negotiate with your customers, suppliers, and banker to make sure you can manage through the entire cycle.

Manage your credit terms

You should establish a credit policy based on your needs first. Terms should include number of days to pay, deposits that are required, or discounts for early payment and be communicated clearly up-front. Although negotiation is always an option, ultimately you must ask yourself: how much can I afford to lend my customers without draining my resources?

You will also want to ensure that your customers have a good credit history and that they will respect your payment terms. Do some basic research on potential clients and don't always take the sale no matter what. Otherwise you may find yourself without cash when you need it most.

Collect payments faster

Collecting payments from customers faster is an obvious route to keeping more working capital in your company, but it's important not to put your client rapport in jeopardy. Being aggressive on payment with a client could sour the relationship, so there are other ways to speed up the process. One option is creating an invoice immediately, as opposed to waiting until the end of the month. Also, look at taking deposits or progress payments on large purchases. These create the same cash flow and should have less impact on your client relationship.

Negotiate the best supplier terms

The flip side of the collection coin is your payments to suppliers. Be sure that your suppliers are giving you the best possible deal and don't be afraid to negotiate. This includes shopping around to get quotes from several suppliers - and look beyond the price. Extended payment terms can be as valuable to a business as a couple of percent off the price.

Making payments to suppliers on time is also a great way to negotiate. By respecting terms in the good times, most suppliers will be more willing to cooperate if you need to re-negotiate payments or get additional credit.

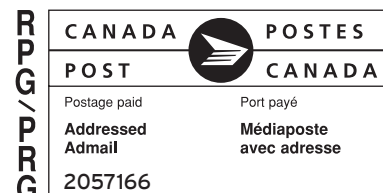
Watch your inventory closely

It's also a good idea to assess your inventory turnover to determine the optimum level of inventory you need, and which items are selling and which are not, and therefore using up your working capital. Inventory can be great when you are trying to meet customer demands, however you should not let your clients demands totally dictate your inventory management. Look closely at ways to balance a clients needs with those of your business - including minimum order quantities, reducing customization, and possibly eliminating products altogether.

Ultimately, working capital is far more complex than simple assets minus liabilities. It is the lifeblood of a business and with proactive and comprehensive management of its individual aspects, your business will have the ability to grow and prosper.

Nick Fry is the Area Manager of the Entrepreneurship Center in Vancouver for the Business Development Bank of Canada.

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Do you or your family own a family business?
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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.

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A PAG 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. PAG's are consistently rated the best value by CAFE members.

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Contact us to find out how you can join a PAG.

Call for Submissions

Legacy Matters is always interested in news, articles and ideas from business families and their advisors.
If you would like to contribute in any way please contact us with your ideas.

Business Families Centre & CAFE Vancouver

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

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