

THE ARTISAN



ISSUE: SPRING 2016



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Financial markets will continue to be volatile but with positive returns. Interest rates will remain low or could drift slightly higher.



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...we continue to source and evaluate alternative investments of institutional quality that will add value to our clients' portfolios



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We all want the best for our pets just as we would our own family, but with that comes significant commitment and inevitably, significant costs.



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IPP's provide ... the opportunity to shelter a significant portion of their wealth in a very tax effective manner



NORTHLAND
—WEALTH MANAGEMENT—

We wish to share with you that Northland Wealth was honoured last month in New York City at the *Family Wealth Report Awards* as **Best Canadian Multi-Family Office**. When Northland Wealth was founded in 2011 it was with the belief that Canadian families deserve to be offered unbiased advice, transparency of fees, and access to leading institutional quality investments. The prestigious panel of judges at the event agreed and said, "It was Northland Wealth's disciplined, comprehensive approach that has made them a leader in holistic wealth planning." We will continue with our mission to help families by providing industry leading and unconflicted advice in order to meet our clients' goals and objectives.



In this edition of *The Artisan* our feature story is "Not all alternatives are equal", which focuses on a few of the risks we consider before making investments in alternative instruments. We also examine Individual Pension Plans and the benefits they provide family business owners. We then travel west and highlight some of the challenges Western Canada is experiencing under the current lower energy price environment in the story "Western Woes." We share all of this along with our market insights and more.



WESTERN WOES

Economic fortunes can turn on a dime and none more so than the resource based economies of Western Canada. Commodity prices swing hard every 5-7 years and this time is no exception, caused by the slowdown in China. Alberta's oil and gas based economy has been particularly affected by this downturn and a simultaneous price war instituted by Saudi Arabia. Alberta's government has forecast that the recession that began in 2015 will now extend into 2016. It is the first time since the early 1980s oil slump that Alberta's economy will shrink for two consecutive years. As a result, it's important to examine the impact of the downturn on the industry, as well as the knock on effects to the provincial economy as a whole.



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ORIGINS AND UNDERSTANDING



Not All Alternatives Are Equal

Past *Artisan* newsletters have focused on the alternative investment space, each highlighting their characteristics, benefits, drawbacks and opportunities. There has been a great deal of information covered to date. Investing in alternatives has gained a lot of momentum, as global assets under management (AUM) have grown at an annualized pace of 10.7 percent, to a record high of \$7.2 trillion in 2013. This surge in growth and myriad of new money managers present new challenges for investors. This amplifies the importance of sound investment and operational due-diligence. Investing in the asset class of real estate has been done for thousands of years. However, in today's world, it is considered an 'alternative investment'. Which begs the question, alternative to what? It is an alternative to the publicly accessible exchanges and markets.



The actual term "alternative", is a broad-basket term to define investments not accessible through the public markets. We often refer to buying equities as going 'long beta', which is simply a measure of the volatility or market risk of a security compared to the broad market. The desire to diversify away from the broad markets is demonstrated by recent performance. As of April 1, 2016, the S&P 500 is up 1.40% for the year. The S&P 500 index started off the first week of 2016 with a loss of 6 percent - its worst start since its inception in 1957.

With that said, the argument for increasing exposure to non-market correlated assets is easy to make.

This is where the challenge begins.



UPDATE AND OUTLOOK

Better Times Ahead

The first quarter of 2016 was a trying one for investors. Buffeted by dire predictions of a slowing of the world's economy, the growing potential for a recession in the U.S. and the prospect of rising interest rates in the U.S., global equity markets fell sharply in early January. A short recovery was then followed by another sell off. Finally in mid February equity markets again rallied to end the quarter with modest gains. As we saw through most of 2015, fear dominated market thinking with a wide range of doom-sayers predicting catastrophe. What investors should realize is that many negative predictions are from people who have sold short the market and are betting on market declines to make a profit.

The U.S. housing market continued to improve with an interesting twist.



As the quarter progressed, it became apparent the U.S. Federal Reserve was in no hurry to raise rates and that the U.S. economy was generating encouraging statistics. The U.S. job market continued to produce 200,000 plus new net jobs per month. Even more encouraging for the U.S. was that the participation rate began to rise, indicating that discouraged workers were returning to the job market. The U.S. housing market continued to improve with an interesting twist. Previously a significant part of housing starts were multiple unit starts which

included large multi-story condo or rental units. Many U.S. newly married couples have been afraid to enter the housing market because of the housing price collapse after 2008. Recently, single unit starts have picked up, indicating demand from this group has returned as confidence in the recovery has firmed. Another measure of consumer confidence in the U.S. has been U.S. motor vehicle sales, which recently hit a 15 year high.

It should be recognised that the initial impact of low oil prices had a significant immediate negative effect on the U.S. economy as their energy sector contracted. The benefits of lower energy costs were slower to come, but are now appearing as individuals begin to spend the money they have saved on gasoline and heating expenses. American corporations are still in excellent shape with the exception of the energy sector. Earnings have continued to beat forecasts even after recognizing the tendency of corporations to set easily met objectives. The U.S. trade weighted dollar appears to have peaked which will help the multinational corporations who sell their products in foreign currencies.

The near term Canadian outlook is not as bright as the U.S., but not as bad as many expected; it is looking better with each passing month.



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Within the term “alternative investing” there are hundreds of subcategories across five main asset classes. Each has unique characteristics and varying correlations to each other. In addition to assessing each strategy and how it may contribute to achieving the investor’s end-goal, there is a further complication of investing in a team of people – people are susceptible to making mistakes.

There are two broad sources of risk that should be considered when assessing alternatives for potential investment- investment and operational. Investment risk considerations refer to whether the strategy undertaken by the fund will produce superior risk adjusted returns. It is also important to ensure the strategy's return profile complements the investor's long term objectives. Operational risk focuses on the actual 'running the business' aspect of hedge funds and private equity firms. How these businesses conduct their operations are a significant part of their ability to create value for their investors. Loose policies can increase the odds of malicious employee activity or theft through hacking. Northland Wealth's investment and due diligence process pays significant attention to these risks and addresses them with utmost importance.

Alternative investments have been part of the investment strategy Northland Wealth has offered clients from its inception in 2011. Today, we continue to source and evaluate alternative investments of institutional quality that will add value to our clients' portfolios. You can stay assured that we understand that not all alternative investments are equal.

Victor Kuntzevitsky
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WESTERNWOES (CONTINUED FROM PAGE 1)

Alberta's economy is now expected to contract by 1.1 per cent in 2016, following a decline of 1.5 per cent in 2015. With North American oil prices languishing around \$30 (U.S.) per barrel, lower energy royalties and reduced tax revenue will push the province into a deficit of \$6.3-billion after consecutive billion dollar surpluses. Complicating matters, years of fast population growth have created a need for continued public sector spending despite the decline in oil prices. An example of this is the provincial government's plan to maintain spending on infrastructure over the rest of this decade, totaling \$34-billion on new schools, hospitals and roads.

Investment in the oil and gas sector is expected to decline by a further 20 per cent in 2016, following a double digit decline in 2015. As a result, the unemployment rate is expected to average 7.4 per cent in 2016—the highest rate since 1996. On a point of inter-provincial pride, the Alberta government now expects 6,000 more people will move out of the province in 2016 than decide to settle here from other parts of Canada—the first migration out since 2010.

From an investment perspective the historic glut in global oil and gas inventories has created a collection of have and have-not producers.



From an investment perspective the historic glut in global oil and gas inventories has created a collection of have and have-not producers. Integrations like Husky and Suncor have enjoyed rich margins on their downstream refining operations, which have helped to cushion the decline in prices. Similarly, nimble, junior producers have been able to focus on the sweetest of sweet spots in their drilling programs to deal with the new profit reality. The have-nots are medium to large cap producers such as PennWest Petroleum, which are caught in the squeeze of significant debt and ongoing capital investments required to bring major projects on stream. Rounding out the group are the service companies, always the most volatile segment including names like Trinidad Drilling or Secure Energy Services, which have undergone drastic operational cuts or outright mergers to ensure survival.

Oilsands operators, who are viewed as the highest cost producers in the global supply equation, actually have a different take on the
(CONTINUED ON PAGE 5)



UPDATE AND OUTLOOK (CONTINUED FROM PAGE 3)

The near term Canadian outlook is not as bright as the U.S., but not as bad as many expected; it is looking better with each passing month. The most recent indicator of growth in Canada saw the month-over-month growth in Gross Domestic Product up 0.6% - much better than expected. The low Canadian dollar has finally impacted non-energy exports which in the most recent 3 month period were up at a 26% annual rate in price-adjusted volume terms.

The main hurdle remains Alberta, where low energy prices have caused a significant economic decline. Unemployment has risen sharply as energy companies cut expenses to survive declining cash flow. However, the declines in Alberta have been at least partly offset by increases in B.C., Ontario and Quebec. Recent budgets in those provinces and at the Federal level have been stimulus oriented. While there should be concern about government deficits, significant new expenditures on infrastructure, such as public transit tend to have positive economic benefits. To offset some of this spending, the Federal government has imposed a substantial increase in tax rates for small and family business owners – we believe this will create unforeseen negative consequences over time in Canada. Lastly, there is also the prospect that commodity prices have bottomed, which would be a major benefit for Canada.



Looking ahead at factors that will potentially impact financial markets, some areas stand out.

Looking ahead at factors that will potentially impact financial markets, some areas stand out. China again will be an area of concern, but recent statistics indicate problems but not collapse. European numbers also show some improvement, indicating fiscal stimulus may not be necessary. The Federal Reserve has become more dovish and a potential interest rate increase has been pushed off to the future.

We remain positive on the prospect for continued but slow economic growth in the U.S. and Canada. The U.S. could reach a 2.5% GDP growth rate as 2016 progresses, while Canada will likely grow at a slower 1.5% rate. Financial markets will continue to be volatile but with positive returns. Interest rates will remain low or could drift slightly higher.

We are cautiously optimistic as we see opportunities in North American and European credit, private debt such as mortgages and mid-market lending as well as select areas in private equity. In addition we remain comfortable with core investments in private real estate both in Canada and the U.S. along with public equities in Canada, the U.S. and Europe which exhibit lower than average volatility combined and dividends.

David Cockfield, MBA, CFA
Managing Director & Portfolio Manager



WESTERN WOES (CONTINUED FROM PAGE 4)

cycle. The heads of Suncor and Cenovus view their operations as more akin to mining projects, requiring long term capital investments over an entire cycle and continuous improvements in their processes to bring down costs and reduce environmental impacts. A renewed emphasis on technological innovation is key as these companies seek additional leverage above and beyond traditional job and spending cuts to manage through the downturn.

At a recent Houston energy conference, the Saudi oil minister pointedly commented that North American producers must lower their costs, borrow cash, or liquidate. Without a doubt Alberta producers are doing all of the above and at a feverish pace. However, as the industry settles on the view that the oil price will be "lower for longer", it will take all those actions and then some before we see a right-sizing of the Alberta economy.

Jerry A. Olynuk, LL.B, CFP, CFA
Senior Vice-President & Portfolio Manager



Industry Involvement

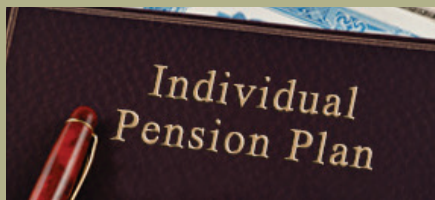
For the second year in a row, Arthur Salzer and Northland Wealth were featured in *Wealth Professional Magazine* as one of the **Top 50 Advisors** for 2016.

Members of Northland Wealth attended the **Goldman Sachs 9th Annual Hedge Fund Allocator Seminar** held in New York. Topics included regulation, cyber security along with strategic transactions.



Northland Wealth Management is now a **MoneySense Approved** financial advisor. We wish to thank Jeff Sproul who co-ordinated this program, which involved an extensive anonymous client survey and rigorous third-party evolution process which reviewed areas such as the broad offering of investment and planning services, high quality of delivery and transparency of fees.

It has been a number of years since we last visited the topic of Individual Pension Plans (IPP). With all the legislative changes recently targeting the taxation of High Net Worth (HNW) families, the IPP has remained steadfast as a retirement savings strategy that can offer significant value.



Most popularized approximately a decade ago, when doctors and dentists were permitted to incorporate their practices, IPP's provided these typically high income earners the opportunity to shelter a significant portion of their wealth in a very tax effective manner within a Defined Benefit Pension Plan. Since then, mostly due to a lack of hype around the strategy, the number of HNW families utilizing the strategy has declined. The same cannot be said for RSP's and Tax Free Savings Accounts. Quite simply this can mostly be attributed to a lack of awareness in regard to the IPP strategy by families and their professional team.

We have found that most HNW families have utilized, and are operating an incorporated company in some capacity, which opens the door for the implementation of the IPP strategy.

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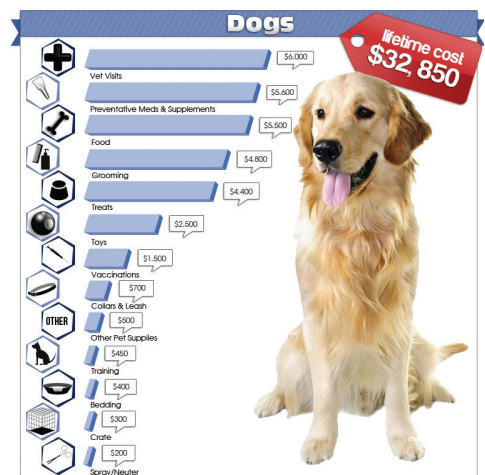


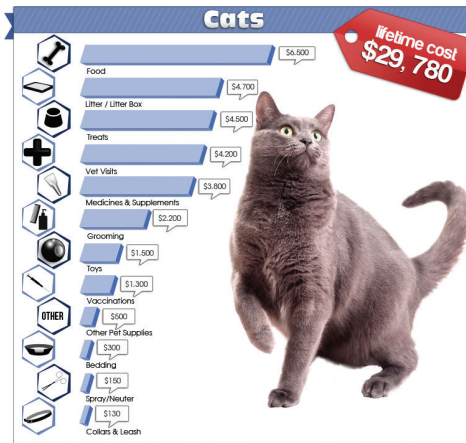
Anyone who has ever had the opportunity of owning a pet will tell you the same thing - they are not just a pet but they are a beloved member of the family. We know from our own experiences as children, and those of our friends and family that have pets, that they are treated and cared for just as their own child. Owning a pet is a wonderful experience and studies have even shown that pet ownership has proved beneficial to both our health and social well-being. We all want the best for our pets just as we would our own family, but with that comes significant commitment and inevitably, significant costs.

Both of us have recently explored the idea of bringing a pet into our homes and continually hear the same line from everyone "it's an enormous commitment, both time and money." So, as young investment professionals we did what we know best, looked at the data! We were amazed to see that it not only requires a large commitment of time, but also requires planning for the costs incurred during the lifetime of a pet, which are ever increasing given the increased sophistication of medical treatments available. In fact the American Pet Products Association (APPA) estimates that in America alone 58.5 billion dollars was spent on pets in 2014.

We decided to look at the costs associated with owning either a cat or dog given these were the two most common household pets owned based on surveys conducted by the APPA, and the U.S. Pet Ownership & Demographics Sourcebook by the American Veterinary Medical Association (AVMA), along with similar figures from the Canadian Animal Health Institute.

The initial purchase price for pets can vary whether you decide to purchase directly from a breeder or adopt from a shelter (which often charge a fee) and will also vary widely based on the breed. In addition, there are one time start-up costs such as vaccines, tags/microchips, spaying/neutering, toys, leashes, scratching posts, crates, litter boxes and training that average to around \$565 for dogs and \$365 for cats. There are the annual expenses, food being the largest with approximately \$15.2 billion spent in the United States in 2014 alone. There are also routine expenses such as grooming, treats, litter etc. As you can see the first year of ownership if you include the initial cost of the pet itself, is over a thousand dollars or higher, with annual expenses ranging between \$700 and \$1200/ year depending on the type of pet and the breed. But wait, we haven't even touched on the elephant in the room, the vet!





Veterinarian care is by far the largest expense of owning a pet and is often overlooked during the initial excitement of adding a new family member. In fact a 2015-16 survey from the APPA showed average annual vet costs for dogs of \$1,436 and \$1,141 for cats. Couple that with the annual expenses noted above, and over the course of a 10 year lifespan your dog or cat could cost over \$20,000.

While there are many factors to consider when deciding on whether or not to purchase a pet, there are steps

to take to prepare for the costs over their lifetime. First, create a monthly budget of what you can afford. There are numerous websites that have worksheets for preparing budgets, specifically based on the type of pet and breed. Also consider utilizing online sources that compare foods. Food is a huge cost, as we already noted, and there are some costly organic brands that are not all they are cracked up to be. Second, negotiate on the price. Breeders want the best for their animals and even go through interviews with potential owners to ensure that they are a good fit. If the breeder feels you will be a great pet owner, they will be willing to negotiate on price. Lastly, set aside an emergency fund as an emergency surgery for pets can cost thousands of dollars and if you are not prepared may leave you with a very difficult choice.



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Georgian Bay Spring (photo on page 6) By: Arthur Lismer Of The Group Of Seven

Arthur Lismer celebrated the powerful beauty of the Canadian landscape in his own expressionist style. His paintings are characterized by vivid colour, deliberately coarse brushwork and a simplified form. Lismer was born in Sheffield, England. At the age of 26, he immigrated to Canada seeking work as a commercial illustrator. It was at the Grip Engraving Company in Toronto that he met a group of other talented young artists and formed the Group of Seven. Although Lismer painted throughout his life, he devoted the majority of his time to art education. A gifted teacher, Lismer pioneered the field of child art education across Canada and around the world.

1. Tax Credits to the Corporation

One of the most common challenges HNW families with an incorporated entity face is transitioning a significant amount of wealth out of the corporation in a tax effective manner. IPP's offer a unique opportunity in this situation - not only are you able to move funds out of the company to the IPP tax free, but the corporation is also entitled to tax credits since IPP contributions, administration and management fees are all tax deductible as expenses for the corporation. Furthermore, taxation is deferred on IPP investments until such time funds are withdrawn from the IPP, similar to RSP's or RIF's.

2. Creditor Protection



The IPP utilizes a trust arrangement and as such can provide creditor protection from personal and corporate creditors. IPP's have provided better protection from potential business risks. For instance, an IPP is not a personal asset of an employee in the same

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INDIVIDUAL PENSION PLANS – AN UNDER
UTILIZED PLANNING TOOL
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way as an RRSP. As a result the IPP strategy can provide some additional comfort to those looking for those looking to protect family wealth.

3. Additional Tax Deferral

Think of an IPP as a “supersized” RSP. Over time, contribution limits of IPP’s tend to far exceed those of RRSP’s, especially when taking into account “past service contributions”. In many cases, when transitioning from an RSP to an IPP, the older the IPP member, the higher the contribution amount, assuming comparable income levels.

Also, under current rules, the IPP’s value may be considered “pension surplus” which is not subject to any withdrawal requirements. In this case, an individual with an IPP is able to defer more of their retirement savings for a longer period of time than is generally possible for an RRSP investor.

4. Estate Transition Efficiencies

The IPP is an excellent tool in succession planning for the business owner. You may be able to continue the tax deferral on registered assets beyond the death of the second spouse by making children members of the plan. In addition, since the IPP is a trust structure, it typically flows outside the estate when set up properly.

Wealth Management strategies focus not only on creation of wealth, but also preservation and transition. Individual Pension Plans create a unique opportunity to address each of those areas. If you would like to discuss how strategies such as an IPP could benefit your family, please contact our office.

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Vice President, Wealth Management
and Associate Portfolio Manager



The information provided in this newsletter is for informational purposes only and should not be used as investment or tax advice. For investment advice tailored to your specific situation and investment objectives, please contact a Northland Wealth Management professional.

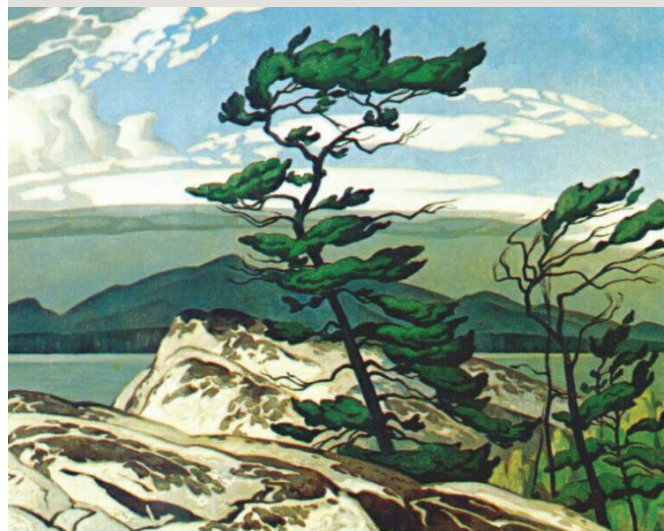


Red Notice

by Bill Browder

This is a story about an accidental activist. Bill Browder started out his adult life as the Wall Street maverick whose instincts led him to Russia just after the breakup of the Soviet Union, where he made his fortune.

A financial caper, a crime thriller, and a political crusade, Red Notice is the story of one man taking on overpowering odds to change the world, and also the story of how, without intending to, he found meaning in his life.



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