

## When is it Best to Keep Things Private?

— JASON VINCENT, PFP, TEP, CHIEF OPERATING OFFICER AND VICE PRESIDENT, MULTI-FAMILY OFFICE

Am I better to give through a public or private foundation? Sometimes I'm asked that question, particularly as year-end draws closer. From a big picture perspective, the answer best lies within the context of a philanthropic plan reflecting your family's goals and desired level of involvement. In Canada there are an estimated 8,400 registered foundations of which 4,000 are private. Approximately \$10 billion is held in private foundations. Clearly, a private foundation is an option worth a closer look.

As the table below shows, there are pros and cons to establishing and running a private foundation. People are often quick to focus on other options such as public foundations—also known as community foundations—or to establish donor advised funds within a public foundation. Both are good solutions. Both mean the foundation ultimately donates the funds to the end charities. Alternatively, you can donate directly to the organization of your choice, typically a good option for smaller gifts.

In speaking with clients, we find that sometimes your real preference would be to establish a private foundation except for the issue of infrastructure. That's when it's valuable to look at some practical short- and long-term considerations. For instance:

- Some foundations start with a \$500,000 donation, but in Canada the average size is \$2.5 million. You may choose to make this type of commitment now, or through a series of larger annual gifts, or plan to establish a foundation as part of the future sale of a business.
- Most successful private foundations address the infrastructure issue by leveraging existing family business capabilities or using multi-family office capabilities such as we provide. Think about using your business as a platform for starting the foundation and access multi-family office services for specific duties such as investment management.

We find the best way to decide whether your current and/or future philanthropic commitments should be a public or private matter is by sitting down and walking through the options. After all, it's not just a matter of dollars and cents. Your philanthropic plans should reflect your values, your passions, your views of the future. We also believe such plans should work to your best advantage all ways. ■



### MATCO FINANCIAL INC.

We are a wealth management office that believes a comprehensive approach to living well with money simply makes sense.

The result is strategies that help you shape what comes next, now and for generations. Strategies that integrate the investment portfolios, trust, estate and tax plans developed exclusively for you. Strategies that can be implemented seamlessly by our group or in concert with your advisors. Finally, consolidated reporting that gives you a comprehensive view of your wealth—raising hidden weaknesses and new opportunities. **This is what we do.**

As a private company, we have a personal stake in your success. We believe the most valued relationships are built one-on-one over time. We believe you judge risks and opportunities as much by the people involved as by the numbers on the page. **This is who we are.**

### PRIVATE FOUNDATIONS

#### ADVANTAGES

- 1) Maximum flexibility for creative long-term philanthropy.
  - Choose which organizations to support annually. You're not locked in.
  - Make significant donations in a given year and gain worthwhile tax benefits while the granting of the gift can be managed over a number of years.
- 2) Opportunity for you and your family to be directly involved in building a family legacy over generations.
- 3) Global solution. Effective for pursuing direct charitable activities outside of Canada. Public foundations and donor advised funds generally only permit gifts to "qualified donees," which may exclude some U.S. and international donees.

#### DISADVANTAGES

- 1) Needs infrastructure.
  - Annual corporate proceedings must be completed, investment decisions made, taxes filed and financial statements prepared. Ongoing administration can be the Achilles heel of private foundations.
  - Can be expensive if you cannot leverage the existing infrastructure of a current business or multi-family office capabilities.
- 2) Can be challenging to maintain family commitment over generations.



Matco Financial Inc.

# Living With the Consequences

— **BILL K. DICKIE, CFA, PRESIDENT AND PORTFOLIO MANAGER**

— **JERRY OLYNUK, LLB, CFP, CFA, VICE PRESIDENT AND PORTFOLIO MANAGER**

Facing the potential for a global credit crisis, increasingly volatile markets, and a sliding dollar, this past quarter the U.S. Federal Reserve Board (the Fed) blinked in its stare-down with inflation. The 50 basis points cut of September 18 was to ease the uncertainty around the asset-backed commercial paper (ABCP) debacle, itself an unintended consequence of the Fed's efforts to moderate the U.S. economy's pace and keep inflation in check.

The decision to cut interest rates ended a series of hikes that rippled through the retail banking system, triggering the subprime mortgage problem credited as the root cause of the global credit crunch. Certain themes of this all too familiar story came to a head as institutional and individual investors judged the true scope, depth and character of subprime mortgage and ABCP issues. It's now clear that:

- The volatility that swept global markets this summer resulted from subprime loans being packaged as high yielding money market investments and distributed worldwide. It's interesting to note neither European nor Canadian banks originated subprime mortgages. Yet they have been caught up in the maelstrom of ABCP.
- The turmoil hit France's BNP Paribas and Coventree Capital Group of Canada and led to last month's run on U.K. mortgage lender Northern Rock plc.
- The Fed's September cut was large enough to calm global credit markets for the time being and to soothe the nerves of world stock investors worried the credit crunch would spill over to other areas of the economy.
- The current environment—with a slowing U.S. economy bumping up against continued worldwide growth that is fuelling the need for specific commodities—means the Fed must ponder further rate cuts to bolster its economy while inflation remains a concern.



## Ongoing Signs of Inflation

There are significant signs inflation persists. For instance:

- Bond prices should have risen in response to the interest rate cut. Instead, long-term bonds dropped and yields rose. While this move restored some normalcy to the flattened yield curve of the past several years, it reflects the fact that longer-term bond investors are demanding a premium as they see inflation in the economy and are anticipating a continued slide in the value of the U.S. dollar.
- Food prices and the costs of production are rising. Attention is already being paid to upward price pressures on grain due to increasing demand for biofuel. However, we think the real story spins off the economic progress in countries such as India and China where an emerging middle class is interested and able to afford products such as meat and dairy. This may be good news in terms of ongoing demand for Canadian products and our dollar, but we expect costs to rise as the world works to meet growing demand and nature plays its hand in influencing supplies.

Rising food and energy costs are a formula for inflation. With this in mind, it's apparent the Fed was forced to choose the lesser of two evils and so opted to ease problems in the U.S. credit market. In Europe and Canada especially, central banks seem less inclined to lower rates unless the U.S. economy shows clear signs of recession.

## Taking Action

With such themes in mind, we've refined our asset mix as the table on the following page shows. You'll see:

- We continue to prefer equities over fixed income.
- We remain committed to U.S. equities; however, we've adjusted our weighting downwards slightly, assuming a neutral position due to the uncertainty emanating from themes at play in that market. We continue to hold investments hedged to the Canadian currency. We believe a mild slowdown in the United States will not negatively affect Canadian and International equities.

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- We've increased our commitment to International equities on expectations of improved performance from Asian and European companies.
- We continue to like Canada and have increased our commitment incrementally. This is based on our view that, without a dramatic interruption, the demand for energy and materials from India and China will be ongoing.

OUR CURRENT INVESTMENT STRATEGY (for the period September 30, 2007 to December 31, 2007)

ASSET CLASS	STRATEGY (LONG-TERM)	TACTIC (SHORT-TERM)	ACTIVE BALANCED PORTFOLIO
Cash	Neutral	Decreasing	0%
Fixed Income	Underweight	Increasing	36%
Canadian Equity	Overweight	Increasing	36.75%
U.S. Equity	Neutral	Decreasing	12.50%
International Equity	Overweight	Increasing	14.75%

Looking more closely at our holdings in Canada, we're generally pleased with the performance of our investment platform, particularly given the tumultuous times of the third quarter.

For example, despite a volatile period for equities, subadvisor C.F.G. Heward Investment Management Ltd. proved their value as consistent, bottom-up, large capitalization stock managers who have outperformed the S&P/TSX Composite Index on a long-term basis. While the firm continues to maintain a well-balanced portfolio, they're overweighting Consumer Discretionary holdings at 24% versus the S&P/TSX Composite Index at 5% and Consumer Staples at 12% versus the Index at 2.5%. We expect these tactical decisions will continue to add value to portfolio performance.

Complementing C.F.G. Heward's approach, we've chosen the Bissett All Canadian Focus Fund as one of our pooled options due to their concentrated quantitative investment style. This past quarter the Fund did not disappoint, generating an outstanding return of 6.12%. Their performance reflects an overweighting of Materials at 37.6% versus the Index at 26% and underweighting of Financials at 7.23% versus the Index at 30%.

### Looking Ahead

We're currently favouring more growth-oriented managers while underweighting value managers. We're tracking issues and trends such as inflation, the Alberta Royalty Review, the direction of the U.S. economy and the evolving global credit crunch. Any significant movement may prompt us to shift towards a more value-based approach.

By combining the distinct styles of these two managers, along with the expertise of the other managers on our platform, we're constructing and managing risk-adjusted portfolios that are well-positioned to perform in the current economic and market environment. ■

For your information:

**BISSETT ALL CANADIAN FOCUS FUND**

The historical annual compounded total rates of return for F class units of the Bissett All Canadian Focus Fund as of September 30, 2007, are: 1 year 37.78%; 3 years 21.55%; and 21.95% since inception in September, 2004. The indicated rates of return include changes in unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any security holder that would have reduced returns.



# MLPs Attracting Attention

— MATCO FINANCIAL INC.

Relatively unknown in Canada, Master Limited Partnerships (MLPs) are causing a stir south of the border as investors continue their quest for higher yield and stable income flow. Keeping a low profile for decades, the market capitalization of the MLP asset class has grown from \$30 billion in 2000 to \$200 billion in 2007.

What are MLPs? Think of them as cousins to Canada's income trusts. Here are some key features:

- Traded in public markets, MLPs combine the tax benefits of a limited partnership with the liquidity of publicly traded securities. Investors purchase units.
- MLPs pay quarterly required distributions based on net income and return of capital. They are characterized as stable, yield-oriented securities.
- Taxes are paid at the investor level.
- By stringent regulation, only certain businesses qualify as MLPs. Most are in the natural resources sector with some representation from financial services and real estate enterprises.
- MLP yields typically range from 5% to 9%. A general review of past performance shows this yield range is accompanied by higher earning and dividends growth as well as higher appreciation of MLP share prices as compared to Canadian income trusts.

We're seeing a generally positive environment for MLPs based on a combination of rising yields and the strong Canadian dollar. The lofty loonie has a positive influence on the attractiveness of U.S.-based MLPs.

Our strategic position with regard to these instruments is reflected in the MFi Energy Class Fund where we've diversified exposure to MLPs. Clients may also choose to hold these assets as individual securities within their Matco portfolio. Our purchase decisions for each avenue of investment are based on the combined research and analysis of Matco Financial Inc. and Ross Smith Energy Group. ■



## MFI ENERGY CLASS FUND

### THESE HOLDINGS:

- CHESAPEAKE ENERGY CORPORATION
- DENBURY RESOURCES INC.
- PIONEER NATURAL RESOURCES COMPANY
- PLAINS EXPLORATION & PRODUCTION COMPANY
- QUICKSILVER RESOURCES INC.

### HAVE THE FOLLOWING IN COMMON:

- ALREADY DEDICATED ASSETS TO AN MLP STRUCTURE  
OR,
- HAVE ANNOUNCED PLANS TO ALLOCATE ASSETS TO AN MLP STRUCTURE  
OR,
- ARE LIKELY CANDIDATES TO USE AN MLP STRUCTURE, THUS CREATING OPPORTUNITIES FOR INVESTMENT POTENTIAL

For your information:

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