

THE NEW YORK FAMILY OFFICE

Your Contact in the U.S.

Newsletter: 1st Quarter 2014

Economic Outlook

Waiting for Spring (Page 2)

Business & Finance

Renewable Energy: Hydropower in North America (Page 2)

Philanthropy

Philanthropy: Room to Read (Page 4)

Market & Financial Data

Economic Indicators & U.S. Dollar Foreign-Exchange Rates (Page 8)

Interest Rates, Real Estate & Taxes (Page 9)





Waiting for Spring

According to the third estimate of the U.S. Bureau of Economic Analysis (BEA), U.S. real gross domestic product (GDP) increased at an annual rate of 2.6 percent in the fourth quarter of 2013. However, in the first quarter of 2014, real GDP is expected to grow only about two percent largely because of the economic disruptions caused by the severe weather in January and February. There are indications that March was stronger and some economists hope that the catch up from weather-delayed plans could push job gains in the spring over 200,000 per month. More jobs mean more paychecks, which might lift consumer confidence and encourage consumer spending. With improving demand, businesses will invest to supply the goods and services in demand. Since the economic recovery has not been an investment-led expansion, continued economic gain will depend heavily on how robust the labor and housing markets are as warmer weather arrives.

The Federal Reserve seems confident that the economy will continue to improve. Under the new Federal Reserve Chairman, Janet Yellen, the monthly bond buying initiative – which is aimed at keeping long-term interest rates low to boost spending, hiring, and growth – was reduced to \$55 billion from \$65 billion in March. In addition, with an unemployment rate of 6.7 percent as of February, the Fed changed its guidance regarding the likely path of short-term interest rates. Since December 2012, the Federal Open Market Committee (FOMC) has indicated that the federal funds rate would stay low at least as long as unemployment is higher than 6.5 percent and the outlook for inflation does not exceed 2.5 percent. In its March meeting the FOMC decided to put less weight on the unemployment rate as a signal for when rate increases will start. Instead the Fed will look at a broad range of economic indicators in deciding when to start raising short-term rates from

near zero, where they have been since December 2008. In a press conference Ms. Yellen mentioned ten different labor-market indicators she is watching, including the share of workers who have been unemployed for six months or more, the share of adults who are holding or seeking jobs, the portion of workers who hold part-time jobs but say they would rather have full-time occupations and the rate at which people are quitting jobs. Overall, the Fed took several steps to assure investors that interest rates will not rise soon and when rates do start rising the increases will be gradual and limited.

A major obstacle to a more normal economic growth rate of approximately three percent is the fact that cash rich corporations, which are operating at historically high profit margins, are reluctant to invest in capital equipment and hire more people because of increasing government regulations on business activity combined with high tax levels. Consequently, corporations tend to hoard cash and engage in record amounts of stock buybacks. There are estimates that these stock buybacks account for an additional two percent in earnings growth per share for the S&P 500 but for the economy this does not contribute to capital expansion or increase employment.

Renewable Energy: Hydropower in North America

Hydropower (powered by water) may not be one of the sexy, renewable energies that politicians and environmentalists favor. Yet it is North America's oldest power source and still accounts for 59 percent and seven percent of all electricity generated in Canada and the U.S., respectively, which made these countries in 2010 the third and fourth largest hydroelectric producers world-wide after China and Brazil.





Hydropower is created when the movement of water as it flows downstream creates kinetic energy (motion) that can be converted into electricity. A hydroelectric power plant converts this energy into electricity by forcing water, often held at a dam, through a hydraulic turbine that is connected to a generator. The water exits the turbine and is returned to a stream or riverbed below the dam.

While big utilities control the largest and most prestigious hydropower plants, there are many mini to small hydro plants (between 0.5 and 50 megawatts in installed capacity) in both countries that provide power to the grid and are owned and operated by private investors.

Some long-term value investors are looking for bargains in those facilities. Their rationale is that hydropower is clean, renewable, and at the right location a predictable energy source. Converting over 90 percent of available energy into electricity, hydropower is the most efficient source of electrical energy. By comparison, the best fossil fuel power plants operate at an efficiency rate of approximately 60 percent. Hydropower facilities have a very long service life, which can be extended indefinitely, and further improved. Some operating facilities are 100 years and older. This makes for long-lasting, affordable electricity.

1) United States

Hydroelectric plants exist in at least 34 U.S. states. Hydropower is mostly dependent upon precipitation and elevation changes; high precipitation levels and large elevation changes are necessary to generate significant quantities of electricity. Therefore, an area such as the mountainous Pacific Northwest has more productive hydropower plants than an area such as the Gulf Coast, which might have large amounts of precipi-

tation but is comparatively flat. Hydroelectricity projects such as the Hoover Dam, Grand Coulee Dam, and Tennessee Valley Authority have become iconic large construction projects.

In 2012, the United States generated about 4,054 billion kilowatt hours of electricity. According to the U.S. Energy Information Administration (EIA) about 68 percent of the electricity generated was from fossil fuel (coal 37 percent, natural gas 30 percent, and petroleum one percent), 19 percent from nuclear, seven percent from hydropower and five percent from other renewables (biomass 1.42 percent, geothermal 0.41 percent, solar 0.11 percent, and wind 3.46 percent). In three Northwest states – Oregon, Washington, and Idaho – hydro is still the main source of power.

Dozens of mini hydro plants dot the U.S. – each generating less than one megawatt of power per year. Some are more than a century old, often still operated by individual owners. In 2013 there were approximately 100 of these “minis” operating in the Northwest. Of those, perhaps two dozen are in play at any given time as owners decide to cash out of their investments because cheap wind power and natural gas unlocked by fracking have driven down energy prices across all sectors. In addition, older owners with smaller plants are exiting the business. Some small investors, especially if they believe they have time to sit on an investment until energy prices improve, see opportunity in these “minis”.

Under the 1978 Public Utilities Regulatory Policies Act (PURPA), utilities must purchase power from sources generating renewable clean energy – which are mostly hydro, solar or wind-derived. Local utilities must agree to buy the power, although generally not at prices above what they are already paying for power from larger wholesalers. However, even though utilities are





compelled by law to buy, they can demand terms of sellers that can erode profits. For instance, utilities may require insurance, or that vendors are bonded against accidents that could impact their common grid. Newcomers may also need to meet environmental standards, especially along rivers where endangered fish species spawn and migrate. But there are also incentives, like Renewable Energy Credits, for which utilities can qualify for buying power from small hydro producers. States like Oregon are mandating that utilities derive an increasing proportion of their power from renewable sources – in Oregon’s case 20 percent of all power by the year 2020, and 25 percent by 2025.

2) Canada

The most important source of energy in Canada is moving water, which generates almost 60 percent of electric energy supply with over 380 billion kilowatt hours produced in 2012. The hydropower capacity has been developed where favorable geography and hydrography exist, primarily in Quebec, but also in British Columbia, Ontario, Labrador and Manitoba. These provinces and territories produce over 90 percent of their electricity in this manner. About 22.4 percent of the electricity generated was from fossil fuel (coal 12.6 percent, natural gas 8.6 percent, and petroleum 1.2 percent), 14.5 percent from nuclear, and three percent from non-hydro renewable energy sources.

The generation, transmission and distribution of electricity in Canada fall primarily under provincial jurisdiction. Provincial governments exercise their jurisdiction through provincial Crown utilities and regulatory agencies. Historically, electricity has been provided mainly by vertically-integrated electric utilities that were often provincial Crown corporations with monopoly rights (e.g., Manitoba Hydro). Some large industrial electricity users, such as aluminum manufactur-

ers, have also built electricity generation facilities to meet their own electricity requirements. However, over the past decade, the structure of the electricity industry has undergone significant change. Most provinces have unbundled the generation, transmission and distribution functions of electric utilities into separate organizations. As well, some provinces have moved towards a more competitive generation system with the private sector playing an increasing role, giving rise to independent power producers.

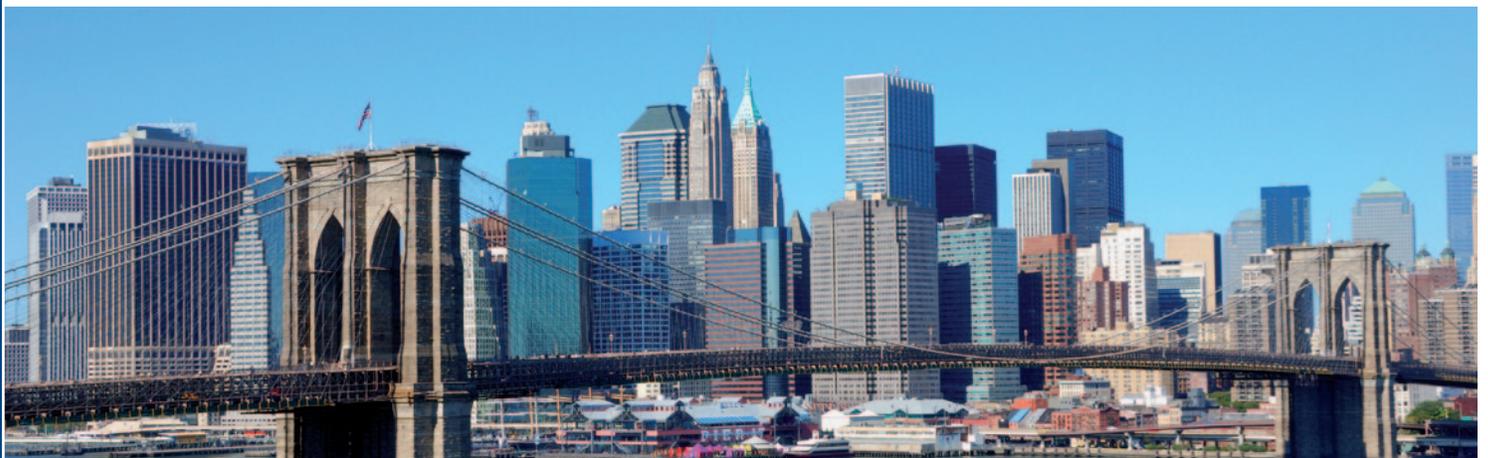
Public electric utilities in Canada are required to provide electric service to isolated communities and have operated smaller hydro power stations for many years. For example, Transalta Utilities operates virtually all of the small scale hydro plants in Alberta, contributing about five percent of Alberta’s total. Nova Scotia and New Brunswick each operate about 40 small hydro plants supplying approximately 11 percent and 20 percent of provincial capacity, respectively. In a deregulated electrical generation environment, utilities in several of the provinces are encouraging private development of abandoned power plants and at existing dams as well as new developments of small hydro to substitute for diesel power in remote communities.

Conclusion

Collectively, smaller private hydroelectric operators have a chance to make an impact in the race to produce clean energy in Canada and the U.S. It will be interesting to see how these producers develop in the move towards the creation of cleaner energy sources.

Philanthropy: Room to Read

For many principals philanthropy is a very personal matter, because to them philanthropy has a deeper





meaning and is often more rewarding than investing. Whether family members support philanthropy with their knowledge, time or fortune, it is the opportunity to do something meaningful and measurable, get the next generation involved and convey family values. From time to time we take the liberty of introducing interesting U.S. non-profit organizations, which may be of interest for families in GSA (Germany, Switzerland and Austria) or may serve as inspiration for similar purposes.

In this edition, we introduce Room to Read (www.roomtoread.org), a non-profit organization focused on literacy and gender equality in education in Asia and Africa. Founded on the belief that world change starts with educated children, Room to Read works in collaboration with local communities, partner organizations and governments to develop literacy skills and a habit of reading among primary school children and to ensure girls have the skills and support needed to complete their secondary education. Since 2000, Room to Read has impacted the lives of almost nine million children by providing increased access to high-quality educational opportunities through its network of libraries and schools, local language children's books and its girls' education program. Room to Read currently operates in 10 countries throughout Asia and Africa (Bangladesh, Cambodia, India, Laos, Nepal, South Africa, Sri Lanka, Tanzania, Vietnam, and Zambia) with plans to expand and bring educational opportunities and resources to children throughout the developing world.

It all started in 1998 when John Wood, a rising executive at Microsoft, took a vacation that changed his life. Trekking through a remote Himalayan village, a schoolteacher invited John to visit his school and its library. Having spent countless hours in the local library in his hometown and immersed in books as a kid, John foolishly expected to see a similar setting and was

shocked when he found there were no desks, no chairs, no shelves and, most importantly, fewer than 20 books for the more than 450 students. Upon seeing John's reaction to the lack of books, the school's headmaster suggested, „Perhaps, sir, you will someday come back with books“, which inspired John to solicit book donations from family and friends. A year later in 1999, he returned to the village in Nepal with 3,000 books. He will never forget the wide-eyed looks and bright smiles of the kids when they opened up their new colorful storybooks – the first time many of them had ever seen or held one. It was a life-changing experience and at age 35 John Wood quit his position as Director at Microsoft in order to found Room to Read. He has never looked back.

The wise headmaster put it best, and spoke for many people in developing nations, when he said, ***“We are too poor to afford education, but until we have education we will always be poor.”*** Education is a hand up not a hand out, and with it, children and families can improve the socioeconomic conditions for themselves, their communities, countries, and future generations. That is why Room to Read exists.

The Challenge

- 774 million people in the world are illiterate about 16% of the world's adults. Of the illiterate, 2/3 are women and 250 million are children. Since 98 percent of them are in the developing world, this is a problem that is somewhat easy to overlook.
- 61 million primary school-aged children are out of school. The majority lives in Asia and sub-Saharan Africa.
- 5.4 million teachers are needed to achieve universal primary education by 2015, more than 1/3 of





them in sub-Saharan Africa.

- 97 countries have not achieved gender parity at the secondary school level.

The Programs

- ***The literacy program enables primary school children to become independent readers.*** Room to Read focuses its efforts on developing reading skills and the habit of reading in primary school-aged children because literacy is the foundation for all future learning. The program does this by establishing school libraries, publishing original children's books in local languages, constructing child-friendly classrooms and supporting educators with training and resources to teach reading, writing and active listening more effectively.
- ***The girls' education program supports girls to complete secondary school with the skills necessary to negotiate key life decisions.*** Room to Read focuses on girls transitioning to secondary school because that is where the biggest – and most permanent – gaps in gender equality in education take place. The program does this by creating more girl-friendly school environments, financially supporting girls to attend and remain in school through graduation, and providing female mentorship and life skills training to assist girls in making informed life decisions.

The Model

John strives to bring Microsoft business practices and the lessons of the corporate world to the non-profit sector. Room to Read combines his passion with the discipline of a well-run global company:

- ***Invest locally.*** Room to Read hires and empowers local teams to run its in-country operations, and partners with local communities and challenges them to co-invest in each project. This ensures their active participation and sense of ownership.
- ***Build community capacity.*** Room to Read ensures it is always contributing to growing the capacity of the local community. For example, in its book publishing program, Room to Read holds workshops with local authors and illustrators to empower a growing pool of local talent.
- ***Improve program quality.*** Room to Read continuously tracks its programs through ongoing research, monitoring and evaluation. For example, during the first three years after a library is established, site visits are conducted every three months to assess progress. In addition, Room to Read offers needed training and provides additional books and educational materials if necessary.
- ***Manage efficiently and effectively.*** Room to Read ensures maximum investment in its programs. For every \$1 Room to Read receives, 84 cents go directly to programs. Although this number will decrease as Room to Read makes strategic investments to build capacity, it will always do its utmost to make sure that donors' money goes towards helping children in the developing world and not to a wasteful bureaucracy or to unnecessary programmatic spending. Since villages are co-investing in its projects, donors' support is often leveraged and sometimes even doubled. Room to Read also maintains a diversified donor base with 51 percent of its funding coming from outside North America.
- ***Create a global movement.*** Room to Read has





over 50 chapters in 16 countries and over 11,000 volunteers that network, plan events, and raise awareness for its work. Room to Read chapters collectively raise approximately 30 percent of its annual operating budget.

- ***Community engagement is key.*** Even with the support of governments and school administrators, it is really the communities that contribute to the success of the projects. The support of one village elder or the word of mouth from one community to the other can have an immediate impact. For example, in Rajasthan, India Room to Read faced some resistance in a Muslim community to educating girls in the village. Over the course of many visits and conversations with the village elders and fathers, Room to Read was able to turn the tide toward support for the girls. Now, more than half of the students enrolled in school are girls, and the community even built a secondary school so students could continue their learning. The first girl ever in this community to complete eighth grade back in 2009 is now being treated as a local celebrity. She told Room to Read, “When I graduate, I hope to become a teacher and give back to my community who has provided me with this opportunity.” You cannot buy or force that kind of support. It has to come from within. It has to be driven by the community, not imposed.

- 885 children’s books in 27 local languages have been published, representing more than 8.6 million books.
- More than 13.3 million children’s books have been distributed, including original Room to Read titles as well as donated books written in English and in local languages.
- 25,703 girls have been supported by Room to Read’s Girls’ Education program.

The Results

- Nearly nine million children have been provided better access to education through Room to Read since 2000.
- 1,752 schools and 16,060 libraries have been established by Room to Read.



Economic Indicators & U.S. Dollar Foreign-Exchange Rates

Economic Indicators	February 2014	December 2013	February 2013	February 2011	February 2009
Employment	175,000	74,000	236,000	192,000	(651,000)
Unemployment Rate	6.7%	6.7%	7.7%	8.9%	8.1%
Avg. Weekly Hours (Manuf.)	40.7	41.0	40.9	40.5	39.6
Avg. Overtime Hours (Manuf.)	3.3	3.5	3.4	3.3	2.6
Building Permits	1,018,000	986,000	946,000	517,000	547,000
Housing Starts	907,000	999,000	917,000	479,000	583,000
Consumer Confidence Index	78.3	77.5	68.0	72.0	25.3
Purchasing Managers Index	53.2	56.5	54.2	59.6	35.5

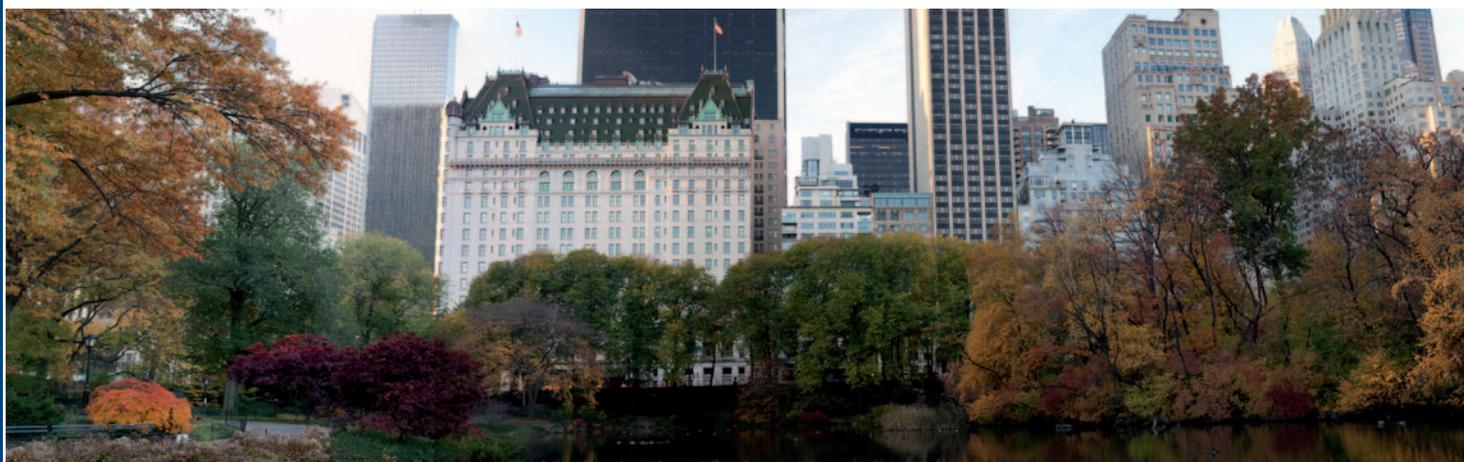
Other Indicators	Feb. 28, 2014	Dec. 31, 2013	Feb. 28, 2013	Feb. 28, 2011	Feb. 27, 2009
S&P 500 Index	1,859.45	1,848.36	1,514.58	1,327.22	735.09
S&P 500 - Trading Volume (in thousands)	3,917,450	2,312,840	3,912,320	1,252,850	8,926,480
VIX (Volatility Index)	14.00	13.72	15.51	18.35	46.35

Real GDP	2013 Q4	2013 Q3	2012	2010	2008
Real GDP	2.6%	4.1%	2.2%	3.0%	(0.3%)

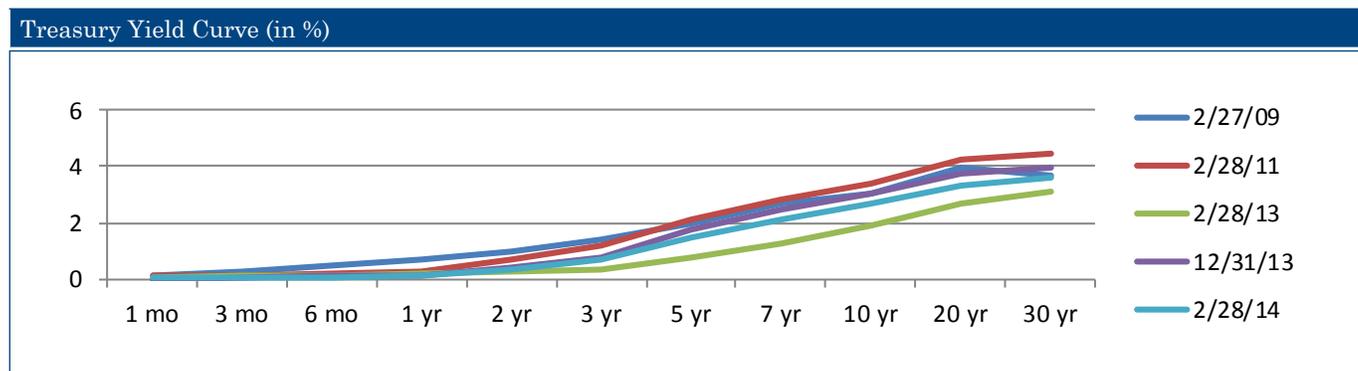
Inflation	February 2014	December 2013	2012	2010	2008
Inflation	1.1%	1.5%	2.1%	1.6%	3.8%

Currency Exchange Rates	Feb. 28, 2014	Dec. 31, 2013	Feb. 28, 2013	Feb. 28, 2011	Feb. 27, 2009
EUR / USD	1.3682	1.3766	1.3082	1.3241	1.2744
GBP / USD	1.6664	1.6488	1.5127	1.6111	1.5926
CHF / USD	1.1235	1.1230	1.0734	1.0765	0.8567
CAD / USD	0.8981	0.9349	0.9747	1.0223	0.7987
CNY / USD	0.1632	0.1636	0.1590	0.1519	0.1460
JPY / USD	0.0098	0.0095	0.0109	0.0122	0.0102

Note: Some Numbers May Be Updated Due to Revisions of Official Statistics.



Interest Rates, Real Estate & Taxes



Base Rates	April 3, 2014	2 Weeks Ago	One Year Ago
30 Day LIBOR	0.15%	0.15%	0.20%
U.S. Treasury			
5 Year	1.79%	1.73%	0.73%
10 Year	2.80%	2.79%	1.81%

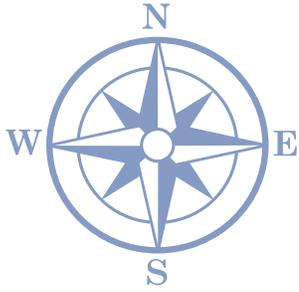
10-Year Fixed Rate Ranges by Asset Class	Max. LTV	Class A	Class B/C
Anchored Retail	70-75%	T + 195	T + 205
Strip Center	65-70%	T + 210	T + 220
Multi Family (Non-Agency)	70-75%	T + 170	T + 180
Multi Family (Agency)	75-80%	T + 165	T + 170
Distribution/Warehouse	65-70%	T + 195	T + 205
R&D/Flex/Industrial	65-70%	T + 205	T + 215
Office	65-75%	T + 190	T + 200
Full Service Hotel	55-65%	T + 255	T + 275

Note: T = Interest Rate for 10-Year U.S. Treasury (2.98%)
 Source: Cushman & Wakefield (April 3, 2014)

Simplified Presentation of the Most Important U.S. Federal Tax Rates:	
Income Tax	10% - 39.6%*
Long-Term Capital Gains (LTCG)	15% / 20%*
"Qualified" Dividends	15% / 20%*
Corporate Tax	15% - 35%
Gift and Estate Tax	18% - 40%*

Note: * = As of January 1, 2014 higher tax rates apply for individuals earning more than USD 406,750 (and couples earning more than USD 457,600).





THE NEW YORK FAMILY OFFICE

Your Contact in the U.S.

If you have questions or would like to schedule a meeting, please contact us.
We are looking forward to hearing from you.

The New York Family Office

Telephone: +1 (646) 734 - 4056

Facsimile: +1 (646) 355 - 2855

contact@tnyfo.com

www.tnyfo.com

Copyright © 2014 · The New York Family Office. All rights reserved.

