

David Patterson (MBA '79)

Chair and CEO, Northwest Capital Management

Interview by Karen Papazian

How did you get from being a student in the MBA program to the founder of Northwater Capital Management – a \$10-billion investment management firm?



As soon as I finished my first course in the part-time MBA program, I immediately started portraying myself as 'completing' my MBA and landed a job as a trainee at what was then called **Canada Permanent Trust Company**. In a little over three years I completed my degree and became head office branch manager. At Canada Permanent, we had had a huge mismatch on our balance sheet – a \$1-billion mismatch on a \$5-billion balance sheet where we were borrowing from savings accounts and investing in five-year mortgages (during a period when interest rates were rising dramatically). Partly from my experience in the MBA program, and partly out of my wife's experience in her own MBA studies, I was able to design a hedging program to mitigate the interest rate risk that threatened the company. It went unused, but when I went to the **Bank of Montreal**, I already knew something about hedging at a time [in 1981] when many other bankers didn't. With only 18 months at the Bank of Montreal, the then independent investment bank, **Burns Fry Ltd**, heard that I was hedging out the interest rate risks using futures contracts on the Toronto Futures Exchange, and they recruited me to work with them on hedging programs in the Futures Department. I ended up becoming the director of futures and options at Burns Fry, and when **Securities Pacific Bank** bought a piece of Burns Fry, I moved to Chicago as the president of Securities Pacific Futures.

In January of 1989 I was ready to return to Toronto and start something of my own. That's when I founded **Northwater Capital Management**. Today, Northwater Capital is a \$10-billion investment management firm with clients in Canada, the U.S., Europe, Britain and Australia. The firm was founded on a strategy that avoided the foreign property rule on pension funds by using derivatives. In 1994 we added a hedge-fund-of-funds, seeking to add a diversified portfolio of 'alpha' to our synthetic 'beta' portfolios.

What is the most exciting part of your job, and what is the most challenging?

By far, the most exciting part is seeing a young person come

into the firm and develop into a leader, taking on responsibilities, pushing their limits and growing their capacities. I used to think the most challenging part was dealing with people, but over the years, I have realized that the only truly challenging part of my job is managing myself and recognizing that my own thought patterns are creating the reality around me.

What do you do in your spare time?

I enjoy reading philosophy, psychology, astronomy, and mathematical cosmology. I spend weekends hiking and snowshoeing at my country home with my wife and our two dogs. Although I am not a huge fan of spectator hockey, I have my own backyard ice-rink where I skate and play hockey.

What advice would you offer to current MBA students?

Read. Read. Read. There is so much value in reading newspapers, books, journals, etc. I am always astonished to find out how little people read these days.

Early in my career a headhunter gave me what was maybe the best advice that I have ever received from a career point of view. He told me to develop a deep expertise in something. Obviously, if you think in a 'forward-looking' manner (a deep expertise in nanotechnology rather than in wheel making for horse-drawn carriages) it will help your career. In my own case, my deep expertise lies in hedging and derivatives. You can see that I built my career and firm on that understanding.

One last piece of advice I would give to today's students is to understand how systems work. I greatly respect **Roger Martin's** focus on Integrative Thinking and the management of systems. One of the things we emphasize at Northwater is the importance of optimizing the whole – not just the parts. I may be the only CEO in Canada who wanders around telling his people not to do their best, because in any system, you can only optimize one thing at a time: if you are doing your best by optimizing yourself, you are not optimizing the firm. For us, we include our clients, our employees and their families, our suppliers and our environment in the system we are trying to optimize. Most western businesses don't understand systems and don't understand this critical point. They take an accounting point of view that suggests the bottom line is the sum of the parts. It isn't. You have to understand the feedback loops to optimize a whole system. **R**