

# STEWARD

*A Quarterly Publication of Allodium Investment Consultants*

**“If you think that hiring an expert is expensive, wait until you hire an amateur.”**

~ Red Adair

Investors with a long-term time horizon can generally earn higher returns if they take more risk. To manage this investment risk prudently, investors typically use asset allocation strategies to diversify their portfolios. However, doing so involves the large challenge of selecting competitively-performing investments in each asset class of a well-diversified portfolio.

Investors typically select these investments in one of two ways:

1. Select individual stocks and bonds within each asset class to build a diversified portfolio.
2. Select professional investment managers (e.g., mutual funds, exchange-traded funds, separately-managed accounts, etc.) to manage each asset class.

Since option 1 can be very time consuming and requires significant investment expertise to do well, most investors opt for option 2. However, even option 2 leaves the large challenge of selecting high-quality investment managers in each asset class from over 20,000 professional investment managers available. This is why many investors hire investment consulting firms like Allodium to help select and monitor quality investment managers.

So how does Allodium select high-quality investment managers for each asset class from the thousands of options available? To do so, we use a disciplined investment review process that assesses both quantitative and qualitative factors.

Our process begins with a quantitative screen called the Fiduciary Score developed by an independent firm that exists to define and promote investment best practices - Fiduciary 360 (Fi360). This Fi360 Fiduciary Score ranks each investment manager across all nine of the following criteria deemed by Fi360 to be important for prudent investment management. We believe all nine factors - not just investment results alone - are important when evaluating investment managers. That's why we start here:

1. Regulatory Oversight: To identify investment managers with sound regulatory oversight like the Securities and Exchange Commission (SEC). This is particularly important in the aftermath of recent Wall Street scandals, Ponzi schemes and the conflicts of interest that still remain within many brokerage firms.

2. Investment Track Record: To identify investment managers with a proven performance record over a long time period.
3. Assets in the Fund: To rank investment managers by size so that investors may avoid funds that are too large or small for their needs.
4. Stability of the Organization: To identify investment managers who are part of stable organizations.
5. Composition Consistent with Asset Class: To identify investment managers who invest consistently within their target asset class and don't deviate by investing a large percentage of their assets in other asset classes.
6. Style Consistency: To identify investment managers who stick to their stated investment style - like investing primarily for aggressive growth versus investing for capital preservation.
7. Expense Ratios/Fees Relative to Peers: To identify competitively-performing investment managers with lower fees than their peers.
8. Risk-Adjusted Performance Relative to Peers: To identify investment managers who achieve competitive performance results with less risk.
9. Performance Relative to Peers: To identify investment managers who have shown the ability to outperform their peers in a specific asset class.

Once we've used the Fiduciary Score to narrow our list of investment manager candidates for each asset class, our Investment Committee meets to evaluate more qualitative factors to select the final investment managers that we recommend to clients. Examples of these qualitative factors include investment manager credentials, staff turnover, client service reputation, etc. Once we select investment managers to recommend to clients, we begin monitoring these managers on an ongoing basis to ensure they continue to meet our selection criteria over time.

If you have questions about how to select quality investment managers for your portfolio or about the process we use at Allodium, please call me. I would enjoy the opportunity to talk with you.

*David Bromelkamp*  
President and CEO

## HEADLINES

- Allodium was pleased to welcome one new client during the first quarter of 2010.
- As a community service, our President and CEO Dave Bromelkamp welcomes all opportunities to share investment management and fiduciary best practices with individual investors and foundation and endowment leaders. To this end, Dave participated in the following efforts so far this year:
  - Participated in panel discussion at the annual Fi360 Conference in Orlando, Florida ([www.fi360.com](http://www.fi360.com)).
  - Spoke on the topic of Investment Decisions for Fiduciary Investors at the Minnesota Fiduciary Roundtable in April.
  - Served as a judge for the Engaged Philanthropist Award which will be presented by the Minnesota Community Foundation and Social Venture Partners at the Social Venture Partners Engaged Philanthropy Conference on June 17, 2010.
  - Authored an article about Estate Planning and Philanthropic Giving for the Spring 2010 Benedictine Legacy Society Newsletter published by Saint John's Abbey & Saint John's University.
- FYI - our office will be closed for the following upcoming New York Stock Exchange holidays: Monday, July 5 - Independence Day; Monday, September 6 - Labor Day.

UPCOMING EVENTS:

Allodium will sponsor the following free educational lunch workshops for foundation and endowment leaders:

- Wednesday, September 15, 2010 - How to Select Investment Advisors
- Wednesday, December 8, 2010 - How to Develop a Disciplined Investment Process

Please contact Cristy Leaf at 612-230-3706 or [cleaf@aicria.com](mailto:cleaf@aicria.com) to RSVP or to be added to our invitation list for future workshops.

## THE ALLODIUM TEAM



Left to Right: Susan Johnson, Kerry Kaluza, Kelsi Rahm, David Bromelkamp, Dawn Coughlin, Cristy Leaf, Jeremy Graff

Click [here](#) to see biographies for members of our team on our website.

**We Appreciate Your Introductions:**

We launched Allodium to provide objective investment advice and personal service to a limited number of individual and institutional investors. We embrace our responsibility to always act in our clients' best interests. To avoid conflicts of interest, we are a fee-only registered investment advisor that is completely independent from banks and brokerage firms, and we do not receive commissions for the investment options that we recommend. If you know of a friend or associate who may be looking for this type of objective investment advice, please contact David Bromelkamp at 612-230-3702 or [dbromelkamp@aicria.com](mailto:dbromelkamp@aicria.com) to arrange a friendly, no-obligation introduction.

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Please contact Cristy Leaf at 612-230-3706 or [cleaf@aicria.com](mailto:cleaf@aicria.com) if you have any comments about this publication or would like to be added to or removed from our mailing list.  
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