

STEWARD

A Quarterly Publication of Alodium Investment Consultants

“Alternative asset classes contribute to the portfolio construction process by pushing back the efficient frontier, allowing the creation of portfolios with higher returns for a given level of risk or lower risk for a given level of returns.”

~ David Swenson - Chief Investment Officer, Yale University

Over the years we have studied and adopted what we refer to as the “endowment model” of investing, because we have observed that large college endowment funds generally seem to outperform smaller institutional portfolios over time. We believe they achieve this by employing the following investment best practices:

Long-Term View:

Larger endowments tend to take a longer-term view, seeking to grow their portfolios over time via consistent compounding rather than seeking high-risk, get-rich-quick strategies that can often prove counter-productive longer term.

Disciplined Approach:

Larger endowments tend to spend more time on defining their investment policy to guide their investment strategies and decisions. This helps avoid emotional decisions and knee-jerk reactions that can harm long-term results.

Also, larger endowments tend to focus on the highest-impact investment activities. The four major activities that contribute to long-term portfolio returns are 1) asset allocation strategy, 2) investment manager selection, 3) portfolio construction and 4) security selection. Academic literature shows that the majority of portfolio return over the long run comes from the first three activities. Yet the bulk of the investment industry focuses on the last activity - security selection - which is probably the most overvalued investment activity. Larger endowments tend to spend more time on the first three activities.

Broad Diversification:

Recent studies by Morgan Creek Capital Management have shown that reducing the volatility of a portfolio can harvest the power of compound interest and lead to greater wealth over time.

“Given two investments with the same average annual return over time, the one with the lower volatility will generate more wealth over the period. Over an extended period, an investment with the same rate of return but half the volatility always creates more wealth.” - Morgan Creek Capital Management.

Larger endowment funds understand that reducing volatility and preserving capital in down markets can lead to superior growth over the long term, so they tend to employ

diversification strategies to reduce investment risk and swings in volatile markets. As a result, their portfolios tend to be more broadly diversified with a wide range of investment options including index funds, hedge funds, mutual funds and other vehicles to support low-volatility compounding and consistent returns across different market environments.

Alternative Investments:

Investment portfolio construction can be defined as the process of choosing the components of one’s investment portfolio in terms of asset classes. Traditional asset classes include stocks, bonds and cash.

In their efforts to reduce portfolio volatility, larger endowments and foundations have been leaders in the adoption of alternative investment strategies and have established significant alternative investment programs over the past few decades. Pension funds have been slower to adopt alternative investment strategies but have also been moving to increase their exposure to alternatives in recent years.

Alternative investment strategies focus on non-traditional asset classes. Examples include commodities, real estate, private equity and venture capital. Alternative investment strategies generally exhibit low correlations with the traditional asset classes of stocks, bonds and cash, offering the opportunity to lower portfolio volatility.

In recent years we have been emulating and promoting the above best practices of larger endowment funds. We encourage investors to adopt a long-term view and to develop clear investment policies that are well-diversified. We also encourage investors to learn more about the benefits of employing alternative investment strategies to reduce investment risk and reap the long-term performance benefits of lower-volatility compounding. When appropriately used, we believe that adding alternative investments to a traditional portfolio can boost future expected returns and reduce overall portfolio risk.

If you would like to learn more about these investment best practices or how alternative investment strategies may improve your portfolio, please call us. We will be happy to discuss this with you.

David Bromelkamp

HEADLINES

- Allodium was recently recognized in several local and national publications:
 - ◇ Allodium appeared in the July 11, 2008, issue of Minneapolis/St. Paul Business Journal among their “Winner’s Circle” of the Top 15 Independent/RIA Wealth Managers in the Twin Cities based on both quantitative and qualitative criteria. The article also featured a Best Practices Roundtable with Dave Bromelkamp representing Allodium. [Please click here for article.](#)
 - ◇ For the third year in a row, Allodium appeared in Wealth Manager magazine’s July 2008 “Top Dog” listing of top investment advisory firms in the nation based on average size of client relationship in terms of assets under management. We were ranked 182nd in the nation.
 - ◇ Allodium was also ranked 267th in the nation in Financial Advisor magazine’s July 2008 Top RIA Survey of the largest independent Registered Investment Advisors in the nation in terms of total assets under management.
- We congratulate Wade Fowler who left our team on August 22nd to join an investment research firm in Rockville, Maryland as a Research Analyst. Wade joined our team in the summer of 2003 after graduating from Saint John’s University and advanced to the role of Investment Consultant serving institutional clients. Wade has been a valuable contributor to the development and growth of our institutional consulting practice. Although we’ll miss Wade, we’re very happy that he’s joining the firm that we employ to perform independent research on investment managers.

UPCOMING EVENTS:

- Allodium is sponsoring the following upcoming free educational lunch workshops for foundations & endowment leaders:

- ◇ Wednesday, September 17, 2008 - How to Establish an Effective Investment Committee for Your Organization
- ◇ Wednesday, December 10, 2008 - How to Establish an Investment Policy for an Endowment Fund

Please contact Cristy Faltinosky at 612-230-3706 or cfaltinosky@aicria.com to RSVP or to be added to our invitation list for future workshops.

- Dave Bromelkamp will speak at the following upcoming conferences:
 - ◇ Managed Funds Association - September 9, 2008 - Topic: Sound Practices for Hedge Fund Managers (Panel Discussion Sponsored by Faegre & Benson)
 - ◇ 28th Annual MNCPA Not-for-Profit Conference - October 16, 2008 -Topic: Managing Your Portfolio in a Down Market
 - ◇ 32nd Annual Minnesota Planned Giving Council Conference - November 6, 2008 -Topic: Investment Stewardship - Proving Fiduciary Excellence to Your Donors

We Appreciate Your Introductions:

We launched Allodium as an independent fee-only registered investment advisor to provide completely objective investment advice and personal service to a limited number of individual and institutional investors. If you know of a colleague, friend or family member who may be looking for help with their investments, we’d enjoy the opportunity to introduce ourselves. Please contact David Bromelkamp at 612-230-3702 or dbromelkamp@aicria.com to arrange a no-obligation introduction.

ALLODIUM TEAM PROFILE
CRISTY FALTINOSKY

Role At Allodium: Assistant to the President & CEO.
Also helps with marketing & client service.
Joined Firm In: 2006



Hometown:
Butternut, WI
Favorite TV Show:
House Hunters, HGTV
Favorite Book:
The Alchemist
Favorite Vacation Spot:
Beaches of North Carolina
Favorite Hobby:
Hiking

If I won the lottery I’d... Go back to school to earn my degree in Organic Farming & Sustainable Agriculture.

Click [here](#) to see more about Cristy on our website.

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Please contact Cristy Faltinosky at 612-230-3706 or cfaltinosky@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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