



**Part 2A of Form ADV: Firm Brochure**

**Colonial Consulting, LLC**

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This brochure provides information about the qualifications and business practices of Colonial Consulting, LLC. If you have any questions about the contents of this brochure, please contact us at (212) 218-4900 or [mceglia@colonialconsulting.com](mailto:mceglia@colonialconsulting.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Colonial Consulting, LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. Our firm's CRD number is 131570.

## **Item 2    Material Changes**

The SEC adopted "Amendments to Form ADV" in July 2010. This Firm Brochure, dated 03/31/2011, is our new disclosure document prepared according to the SEC's new requirements and rules. As you will see, this document is a narrative that is substantially different in form and content and includes some new information that we were not previously required to disclose.

After our initial filing of this Brochure, this Item will be used to provide our Clients with a summary of new and/or updated information. We will inform you of the revision(s) based on the nature of the updated information.

Consistent with the new rules, we will ensure that you receive a summary of any material changes to this and all subsequent Brochures within 120 days of the close of our business's fiscal year. Furthermore, we will provide you with other interim disclosures about material changes as necessary.

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#### **Item 4    Advisory Business**

Colonial Consulting, LLC (hereinafter referred to as “Colonial”) is an SEC-registered investment adviser that has its principal place of business located in New York. Colonial Consulting Corporation, Inc. (“the Corporation”), the predecessor firm, began conducting business in 1980. Through an Asset Purchase Agreement signed in July 2004, the management of the Corporation purchased the assets of the Corporation through a newly created entity: Colonial Consulting, LLC.

Listed below are the firm's principal owners (those individuals owning 25% or more of Colonial).

- Charles C Georgalas
- Michael A Miller

Colonial provides investment consulting services only, primarily focusing on serving not-for-profit institutions. We have maintained this objective during the past 30 years, as over 90% of our Clients are endowments, foundations, and other not-for-profit organizations. Other Clients include pension plans and high-net-worth individuals. We are not affiliated with any other company and have no other lines of business. Our services are performed on a continuous basis. We do not offer investment products or manage money on behalf of Clients. We do not hold client funds and securities. We do not have discretion over client assets.

Colonial’s investment consulting services for any Client include, but are not limited to, the following:

- Establishment of investment objectives, goals, and restrictions
- Asset allocation studies
- Manager searches
- Independent performance measurement and return verification
- Monthly portfolio analysis/monitoring, including risk assessment
- Comprehensive quarterly reporting
- Manager communication and monitoring
- Custodian searches
- Customized projects
- Donor Forums
- Educational Forums
- Portfolio transitions
- Unlimited meetings

We tailor our investment consulting advice to the particular needs of the Client. Clients may impose restrictions on investing in certain securities or types of securities, and we will then refine our recommendations accordingly.

Colonial also occasionally performs a *de minimus* amount of special project work (for example, asset allocation review, spending policy study, investment manager review). This work is provided on a flat-fee basis, usually for non-consulting clients.

Our consulting process begins by spending as much time as possible discussing the organization, its objectives, and risk tolerance with the relevant parties (Staff, Board, Investment Committee, etc.).

This helps us to gain a greater understanding of the organization and guides us to a strategy that is most likely to produce long-term success.

Based on these discussions, we produce a Statement of Investment Policy, which is distributed to the Investment Committee for review and comment. We spend considerable time evaluating a Client's return objectives, risk tolerance, and any disconnect that may exist between the two. All interactions between Colonial and the Client are interactive in the sense that we incorporate all comments and feedback, create multiple iterations (if necessary), and make all necessary efforts to align the needs and expectations of the Client into the Investment Policy Statement.

As of 1/31/2011, the market values of client assets on which we consult was approximately \$22.8 billion.

## **Item 5 Fees and Compensation**

Generally, Colonial's investment consulting fee is all-inclusive and is based on the market value of client assets covered by the consulting relationship. It is our policy not to modify the fee structure charged to existing Clients. Existing Clients are subject to Colonial's fees in effect at the time that the Client entered into the investment consulting relationship. These fees may differ from the current fee schedule.

Our fee schedule is as follows:

### **Option 1. Standard Fee Schedule**

<b>Fee Rate</b>	<b>Asset Level</b>
20 Basis Points (0.0020)	On the First \$75 million
6 Basis Points (0.0006)	On the Next \$75 million
5 Basis Points (0.0005)	Assets greater than \$150 million

### **Option 2. Incentive Fee Schedule: Base Fee plus Performance Fee**

**This fee schedule option is available to Clients whose portfolios are completely unrestricted, meaning that their assets are not subject to client-requested investment restrictions.**

For the initial 12-month period following the effective date of the contract, only a Base Fee applies; the Base Fee is calculated based on the Standard Fee Schedule noted above. The calculated Base Fee is then discounted 25%. This Base Fee is invoiced quarterly.

After the initial 12-month period, the combined Base Fee plus Performance Fee methodology applies as follows:

Base Fee component: Calculated the same as in the first year.

Performance Fee component: If the portfolio earns a total rate of return, net of investment management fees, that exceeds the rate of return of a mutually-agreed-upon target benchmark

in the 12-month period prior to each Anniversary Date, then the Performance Fee is calculated as follows:

- 2% of the dollar amount of excess return on the first 150 basis points, net of investment management fees, over the benchmark return.
- 1% of the dollar amount of excess return on performance greater than 150 basis points, net of investment management fees, over the benchmark return.
- The Performance Fee is calculated annually in arrears, commencing with the second Anniversary Date.

Colonial may negotiate a different fee structure for Clients who do not require the full consulting services of Colonial and for Clients with at least \$350 million in assets. Under limited circumstances, Colonial may negotiate the fee for the first year *only*.

### **Billing**

Fees under Option 1 and the Base Fee portion in Option 2 are calculated and billed quarterly. Quarterly invoices are sent at the middle of the quarter and are calculated based on the preceding quarter-end market value of client assets using the above fee schedule. For the first billing quarter, if the consulting services did not start at the beginning of the quarter, then the fee will be calculated and prorated based on the time service commenced to the end of the quarter.

Invoices are sent to the Client directly; we do not deduct fees directly from client assets.

Client may elect to have the bill sent directly to their custodian and have the custodian pay Colonial directly. If this is elected, a copy of the quarterly invoice is also sent to the Client. Client must direct their custodian to pay us directly. Client also notifies us of their election.

### **Additional Fees and Expenses**

Colonial's consulting fee is all-inclusive, covering all the services that we perform. We do not charge for travel and other expenses in connection with our services.

Fees paid to Colonial do not include any fees/expenses charged to Clients by other third-party firms in connection with our consulting services. These fees and charges which Clients may pay include:

- Custody fees/charges, which may include transactions costs/fees from purchase/sale of securities, wire charges, etc.
- Investment manager fees for management of the investment assets
- Fees and expenses charged by mutual funds to their shareholders

### **Advance Payment of Fees**

Clients billed at the middle of each quarter may pay Colonial prior to the end of the billing quarter at their option. We do not request that payments be sent prior to the end of the billing quarter.

The consulting agreement is in effect for one year and thereafter until terminated by either party by giving not less than 90 days' prior written notice to the other party. If a Client prepays a fee and the

consulting agreement terminates before the end of the billing period, all prepaid unearned fees will be returned to the Client. The unearned fee will be calculated and prorated based on the number of days from termination date to the end of the quarter. Colonial will refund the money to the Client promptly after the termination date.

## **Item 6 Performance-Based Fees and Side-By-Side Management**

As discussed in Item 5, Colonial does offer a performance-based fee option to Clients; a limited number of Clients have selected this option. Colonial's performance fee is *not* calculated based on a share of capital gains on or capital appreciation of the Client's assets, but rather is earned when the Client's portfolio rate of return, net of investment management fees, exceeds the mutually-agreed-upon benchmark in a specified 12-month period.

As also disclosed in Item 5, existing Clients are subject to Colonial's fees in effect at the time that the Client entered into the investment consulting relationship. Therefore, the Base Fee plus Performance Fee structure for certain Clients may be different from the fee structure disclosed in Item 5.

While the existence of two fee-structure options could conceivably create a conflict-of-interest situation that favored performance-fee-based Clients, Colonial manages its client relationships in a manner that eliminates that conflict. Colonial's investment advice is tailored to each Client's needs. Colonial does not differentiate between Clients on the basis of fee structure when recommending investment managers or asset allocation strategies. Our investment philosophy is focused on earning the highest possible returns within the confines of an acceptable level of risk. Furthermore, a Client is free to select the Base Fee plus Performance Fee option, provided there are no investment restrictions on that Client's assets.

## **Item 7 Types of Clients**

Colonial provides investment consulting services to the following types of Clients:

- Not-for-profit institutions – endowments, foundations, charitable organizations
- High-net-worth individuals, Trusts
- Pension and profit sharing plans (other than plan participants)

New Clients are subject to a minimum asset size of \$40 million.

## **Item 8 Methods of Analysis, Investment Strategies and Risk of Loss**

### **Methods of Analysis**

As an independent investment consultant, Colonial's methods of analysis include setting the investment policy, conducting asset allocation studies, and performing investment manager due diligence.

#### *Investment Policy Statement*

When hired, we begin our method of analysis in formulating investment advice, as described in the

Business Advisory section, by spending considerable time with the relevant parties of the Client (Staff, Board, Investment Committee, etc.). This helps us to understand the organization, its overall objectives, risk tolerance, liquidity constraints, and details of the current investment policy statement. This also guides us to a strategy that is most likely to produce long-term success for the Client. These conversations generally focus on the following areas:

- Investment purpose and time horizon for each pool of funds
- Objectives, risk tolerance, and any disconnection that may exist between the two
- Spending policy and development efforts
- Asset allocation strategy
- Investment restrictions (i.e., social restrictions, security types, etc.) imposed by the Client
- Historical performance data - total portfolio & individual investment manager

Based on these discussions, we produce a Statement of Investment Policy, which is distributed to the Investment Committee of the Client for review, comment, and approval.

In conjunction with the above, we perform asset allocation and investment manager reviews and recommendations.

#### *Asset Allocation Review & Recommendation*

We attempt to identify an appropriate ratio of equities, fixed income, alternatives, and cash that meets the Client's investment goals and risk tolerance. We recommend annual asset allocation reviews, but will seek to review more frequently if there are either changes in the objective and risk tolerance of the portfolio or significant market volatility.

Our advice regarding asset allocation is driven by two fundamental beliefs:

- We firmly believe that short-term market forecasting, or market timing, is not an effective way to manage the Clients' assets. Therefore, a strategic, long-term view of asset allocation is the best approach.
- We also believe Clients should take advantage of the subtle (but important) benefits of a diversified portfolio strategy. Concentrating assets in any one area or market represents a risk that can and should be avoided.

Our asset allocation process begins by establishing expected returns, volatilities, and correlations for each asset class, which are then discussed and updated on an annual basis. Once we have our forecasts in place, client portfolios are reviewed with an eye towards achieving incrementally higher diversification. Finally, we take a market-driven approach to rebalancing by establishing narrow rebalancing bands around each asset class in order to maintain the risk return profiles incorporated in the target allocation and to capitalize on the cyclicity of the market.

A risk of asset allocation is that the Client may not participate in sharp increases in a particular security, industry, or market sector. Another risk is that the ratio of equities, fixed income, alternatives, and cash will change over time due to stock and market movements and, if not corrected, will no longer be appropriate for the Client's goals.

Further risks for any portfolio include the risk of loss, both short-term (which can be temporary) as well as long-term (which tends to be permanent). With our Clients, we examine the risk of loss from



several perspectives.

Short-term loss – This is the risk of short-term (three to five years) losses, which can be temporary and potentially reversible in the long term.

Spending Disruption Risk - This is the shorter-term risk (five years) of a real reduction in spending for the Client.

Asset Impairment Risk - This is the most serious risk in that it represents a long-term loss of purchasing power for the Client, including the impact of actual spending withdrawals.

#### *Investment Manager Review & Recommendation*

Based on a Client-approved asset allocation strategy, we evaluate both existing and new third-party investment managers by using qualitative and quantitative factors. We examine the manager's experience, expertise, investment philosophies, and past performance in an attempt to determine if that manager has demonstrated an ability to invest over a period of time and in different economic conditions. We monitor the manager's underlying holdings, strategies, concentrations, and leverage as part of our overall periodic risk assessment. In-person meetings with investment managers are critical to our evaluation process.

A risk of investing with a third-party manager who has been successful in the past is that he/she may not be able to replicate that success in the future. In addition, as we do not control the underlying investments in a third-party manager's portfolio, there is also a risk that a manager may deviate from the stated investment mandate or strategy of the portfolio, thereby making it a less suitable investment for our Clients. Moreover, as we do not control the manager's daily business and compliance operations, we may be unaware of a potential lack of internal controls necessary to prevent business, regulatory, or reputational deficiencies. We continually review and monitor Clients' investment managers in an attempt to mitigate these specific risks.

#### **Investment Strategy**

Our investment strategy is driven by our philosophy, which is focused on earning the highest possible returns within the confines of an acceptable level of risk. We employ a long-term strategic approach as our Clients typically have a long time horizon. Our investment philosophy is as follows:

- Asset allocation should match Clients' objectives, risk tolerance, and liquidity needs.
- Portfolios should be well-diversified to allow for the achievement of strong returns during a wide variety of economic and market conditions.
- Attempts to predict short-term market behavior via market timing strategies should be avoided.
- World-class investment managers should be retained and are generally expected to outperform index funds over three- to five-year periods.
- Highly disciplined rebalancing strategies should be established between asset classes and within each asset class.

#### **Risk of Loss**

Investments involve the risk of loss. Clients should be prepared to bear this risk of loss.

## **Item 9 Disciplinary Information**

We are required to disclose any legal or disciplinary events that are material to a Client's or prospective Client's evaluation of our advisory business or the integrity of our management.

Our Firm and our management personnel have no disciplinary events to disclose.

## **Item 10 Other Financial Industry Activities and Affiliations**

Our Firm and our related persons are not engaged in other financial industry activities and have no other industry affiliations.

## **Item 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

Our Firm has adopted a Code of Ethics which sets forth high ethical standards of business conduct that we require of our personnel, including compliance with applicable federal securities laws.

Colonial and our personnel owe a duty of loyalty, fairness, and good faith towards our Clients and have an obligation to adhere not only to the specific provisions of the Code of Ethics, but also to the general principles that guide the Code.

Our Code of Ethics includes policies and procedures for the review of quarterly securities transactions reports as well as initial and annual securities holdings reports that must be submitted by the Firm's access persons. Among other things, our Code prohibits the use of material non-public information. All personnel are reminded that such information may not be used in any personal or professional capacity. Our Code also includes provisions relating to confidentiality of client information.

A copy of our Code of Ethics is available to our consulting clients and prospective clients. You may request a copy by sending an email to [mceglia@colonialconsulting.com](mailto:mceglia@colonialconsulting.com) or by calling us at (212) 218-4900.

Our Code of Ethics is designed to ensure that the personal securities transactions, activities, and interests of our personnel will not interfere with (i) making decisions in the best interest of Clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts.

Firm personnel may invest in exchange traded funds ("ETFs") that are also recommended to Clients. As a matter of practice, Colonial does not recommend to Clients which securities should be bought or sold. Occasionally, Colonial may recommend that Clients invest in ETFs in limited situations. This would occur when the Client has decided to transition assets from one investment manager to another. Such situations are typically very short-term in nature and arise when assets from one investment manager must be liquidated at a date earlier than when those assets will be invested with

the new manager. The selection of ETF investments recommended to a Client is based on the Client's overall asset allocation strategy and the nature of the asset class for which assets are being transitioned.

Colonial's Code of Ethics governs personal securities transactions and requires that all personnel first act in the best interests of all Clients. ETF transactions by Firm personnel are reported in the Quarterly Securities Report and Annual Holdings Report.

While it is possible that a Client, based on Colonial's recommendation, may purchase shares of an ETF in which a Colonial employee has/will have a personal investment, we believe the situation would not present a conflict of interest in our representation of the Client for two reasons. First, the recommendation of which ETF to select is based solely on the Client's asset allocation strategy and the asset class under transition. Second, the ETFs recommended for investment are very large funds, so an investment by the Client or the employee would have no measurable impact on the market value of the ETF.

### **Item 12 Brokerage Practices**

Colonial does not select or recommend broker-dealers for client transactions. We do not have any soft-dollar arrangements and do not receive any soft-dollar benefits.

As an independent investment consultant, Colonial does not execute any client transactions.

### **Item 13 Review of Accounts**

At a minimum, Consultants perform ongoing reviews of all client accounts on a monthly basis. Each Client is assigned to a lead consultant, who in turn works with Clients on the development of investment guidelines, makes and implements portfolio recommendations, and monitors the portfolio on an ongoing basis.

Reviews focus on the investment portfolio in aggregate as well as individual investment managers within the portfolio. Investment managers are monitored for notable changes within their organization in terms of personnel, assets, strategies, and regulatory issues, in addition to performance issues. If necessary, we will recommend a replacement when factors that warrant manager removal have been identified and assessed. We also meet in-person with recommended portfolio managers at least once per year, though we will usually hold such meetings at a more frequent interval. New investment manager searches are conducted as needed.

At the portfolio level, Colonial will review and update the Client's Investment Policy Statement (IPS) whenever there is a change in circumstances regarding the strategic asset allocation or the needs of the Client. We also recommend annual asset allocation reviews, but will seek to review more frequently if there are either changes in the objective and risk tolerance of the portfolio or significant market volatility.

Clients can expect to receive a written report that summarizes investment performance for the total portfolio and the individual managers involved therein on a monthly basis. Also included in the

monthly report is a brief market summary for the month. Comprehensive written performance reports are produced and delivered after each calendar quarter. These reports include a global market commentary, quarterly commentary letter addressing an investment topic of interest, asset allocation summary, and detailed investment performance results, as well as investment manager characteristics. Consultants typically meet with Clients on a quarterly basis to review portfolio and manager performance and make any relevant recommendations. However, Colonial's communications with Clients are usually more frequent as Consultants are available for an unlimited number of meetings and conference calls as part of our all-inclusive service. In addition to the Lead Consultant, performance and research analysts also support our relationship with the Client.

#### **Item 14 Client Referrals and Other Compensation**

Colonial does not receive any economic benefits, including any form of compensation, from any third-party firm or individual providing any services to our Clients.

We do not compensate any person for client referrals.

#### **Item 15 Custody**

Colonial does not have actual or constructive custody of client funds or securities.

#### **Item 16 Investment Discretion**

Colonial does not accept or have any discretionary authority to manage securities accounts on behalf of Clients.

#### **Item 17 Voting Client Securities**

As a matter of policy, Colonial does not have authority to vote on proxies on behalf of Clients. In the event the Clients elect to vote their own proxies, Colonial will assist in making sure that Clients are set up to receive all proxies from their custodian(s). If Clients choose not to vote their proxies, they will give their investment manager(s) the authority to vote on Clients' behalf. Any questions regarding the solicitations that Clients may have are addressed to their investment manager(s).

#### **Item 18 Financial Information**

As mentioned in Item 5 Fees and Compensation, Clients billed at the middle of each quarter may pay Colonial prior to the end of the billing quarter at their option. We do not request that payments be sent prior to the end of the billing quarter. We do not under any circumstances require that Clients pay us in advance for services to be rendered. Therefore, we are not required to include our balance sheet for the most recent fiscal year.

Colonial has not been the subject of a bankruptcy petition at any time during the past ten years.