



Making Retirement Work

INNOVEST'S LATEST UPDATES AND ARTICLES FROM THOUGHT LEADERS IN THE FIRM

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NEW INSTITUTIONAL CLIENTS

Paige Foundation

New York News

Tribune Publishing

OneChild

Diocese of Fort Worth

Augustine Institute

It is not known whether the listed clients approve or disapprove of the services provided. The new clients on page one are listed with their approval and permission.

The Ups and Downs of the Stock Market



Steven Karsh, MBA
Principal

The U.S. stock market at the beginning of 2002 seemed like a roller coaster ride at times; big ups, followed by big downs. Despite erratic market movements, often referred to as volatility, long-term investors have been rewarded by staying patient and riding out the volatility. The most recent example happened just over two years ago when Covid-19 caused the global economy to essentially shut down. The S&P 500 experienced its fastest 30% decline in history, taking only 30 days!

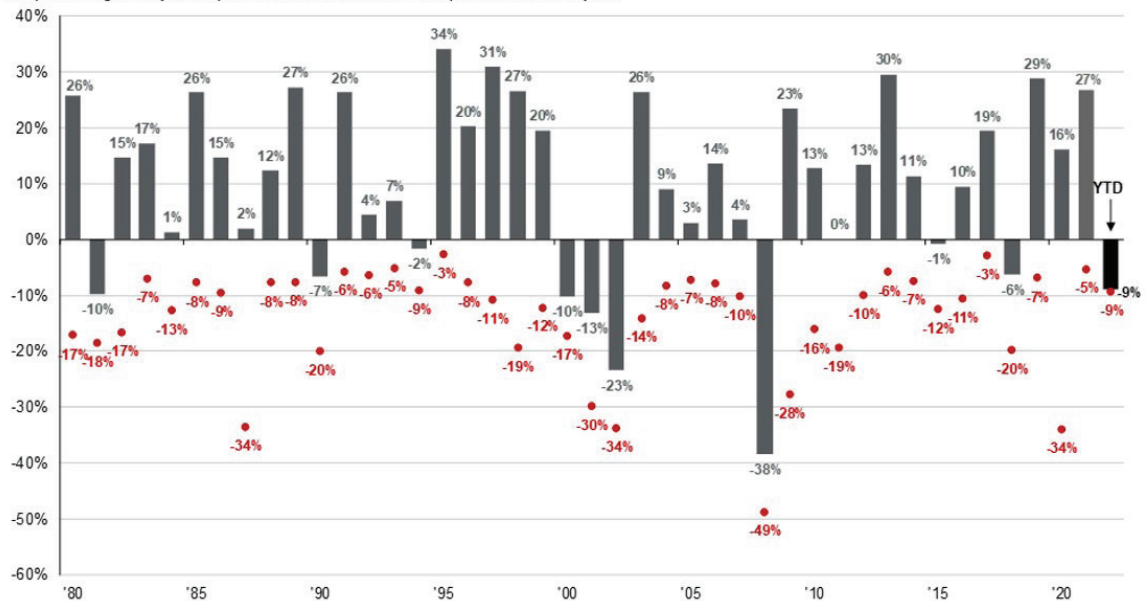
Investors who remained calm and added money to stocks to get to their target allocations reaped big rewards when the market rebounded to new highs in just over four months. In fact, from

the low on March 18, 2020, to December 31, 2021, the U.S. stock market more than doubled, returning an astonishing 106% in just over 21 months. Even more astounding is that after the stock market was down over 50% during the Global Financial Crisis (GFC) in late 2008 and early 2009, the market rose over 580% from the 2009 lows through December 2021! Even if you include the 57% decline during the GFC, the market is still up over 180% from October 2007 through January 2022.

The chart from JP Morgan (next page) shows that intra-year declines in stocks are normal. Since 1980 stocks have fallen an average of about 14% in any given year.

S&P intra-year declines vs. calendar year returns

Despite average intra-year drops of 14.0%, annual returns were positive in 32 of 42 years



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management. Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2021, over which time period the average annual return was 9.4%. Guide to the Markets – U.S. Data are as of January 26, 2022.



Below is another chart that shows taking advantage of stock market dips by adding to equities can lead to significantly better long-term performance than a buy-and-hold approach. The worst approach was to panic and take some money out of the market after prices had fallen.

An Opportunistic Investment Approach Has Historically Been Profitable

Hypothetical Growth of \$10,000 Invested in S&P 500 Index (1980–2021)



Past performance does not guarantee future results. Indices are unmanaged and not available for direct investment. Assumes reinvestment of capital gains and dividends and no taxes. For illustrative purposes only. Data Sources: Thomson Reuters and Hartford Funds, 1/22.

* T-Bills are guaranteed as to the timely payment of principal and interest by the US government and generally have lower risk-and-return than bonds and equity. Equity investments are subject to market volatility and have greater risk than T-Bills and other cash investments.

Chart courtesy of The Hartford

Keeping in mind that past performance is no guarantee of future returns, history has demonstrated that large dips have been buying opportunities, not reasons to become more risk averse. Market rebounds have rewarded patient investors and those who keep their focus on the long-term.

The most pressing question during a downturn is WHY? Many factors can cause a down market, depending on the economic environment. Many believe the recent volatility has been caused by the sharp rise in inflation and the Federal Reserve's plans to reduce it, ranging from increasing interest rates to quantitative tightening (taking liquidity out of the market). Other factors for the recent downturn may include geo-political events such as Russia/Ukraine and China/Taiwan. And we can't forget another ongoing variable, the persistence of Covid.

Regardless of the reasons for pullbacks in stocks, if you have a long-term time horizon, the ups and downs of the market shouldn't cause you to panic and make emotional investment decisions. Time and again, the market has trended upward and adding to stocks when they are down can be beneficial for your long-term investment results.

Employee Spotlight

Claire DeLine

INNOVEST MANAGER

WHERE IS YOUR HOMETOWN?

I am very proud to be a fourth generation Denver native.

TELL US SOMETHING UNIQUE ABOUT YOU:

I met my husband when I was just 14 years old, and we've been "going steady" since junior prom!

WHAT DO YOU LIKE BEST ABOUT WORKING AT INNOVEST?

Far and away, the culture – Rich and Wendy have relentlessly pursued a culture of stewardship since the day they founded our firm, and it continues to shine through today. The people at Innovest are all tremendous stewards of our clients, each other, and the community outside our doors. I am humbled to be a part of such a selfless and driven team.

HOW DO YOU GIVE BACK TO THE COMMUNITY?

We serve in numerous ministries at our church, though our favorite has to be mentoring engaged couples who are preparing for marriage. I am also involved with a number of faith-based organizations, including serving on the Finance Committee for an education-focused nonprofit called Seeds of Hope and volunteering at Arrupe Jesuit, a local high school with an incredible mission.

WHAT ARE YOUR HOBBIES AND INTERESTS?

I love to read, cook, play tennis, go for neighborhood walks, escape to the mountains for a weekend, and above all, spend time with loved ones. I am also trying to pick up golf – it's safe to say my ego has never been more in check!

TELL US ABOUT YOUR FAMILY:

My wonderful husband Chad and I were married in 2019, and we are over the moon to be welcoming our first child, a baby girl, this October! We are blessed to have our parents (and all four sets of grandparents!) living nearby in Denver. We get together every week for family dinner. Our siblings have each married amazing spouses, and we look forward to welcoming more nieces and nephews to dote on in the coming years!

WHAT IS YOUR FAVORITE DESSERT?

I am an ice cream fanatic. A favorite summer pastime of my family's is creating a March Madness style bracket of the best local ice cream shops and trying out each place until we narrow it down to a winner. We call it the "Game of Cones" and our current reigning champion is Sweet Coorie's in Denver.



The Dilution of the Retirement Plan Fiduciary



Rick Rodgers, AIFA®
Principal

In recent years, the term “fiduciary” has been tossed out like parade candy. Is my broker a fiduciary? Is my financial planner a fiduciary? What about my investment advisor? My recordkeeper? What should be a simple concept has become quite complicated. Industry titles can further the confusion, as no standards exist for them. Many investment advisors are also financial planners, but not all financial planners are investment advisors. Those who operate as financial planners can be brokers as well, creating financial plans designed to be implemented with commissionable products.

With so many different titles for financial professionals, it can be hard to determine who is a fiduciary, acting in your best interest, and who is not. This holds especially true when these professionals appear to provide fiduciary-like services or even present themselves as fiduciaries, when, in reality, they are not.

A true fiduciary is a person or organization that acts on behalf of another person or group, putting their client’s interest ahead of their own, with a duty to preserve good faith and trust. A fiduciary is legally bound to put their clients’ or retirement plan participants’ best interests ahead of their own.

When a broker makes a commission from selling a product to his or her client, the broker is by nature acting in his or her own interests and therefore cannot be a fiduciary. It can also be unclear for recordkeepers, money managers, bankers, and many others when acting solely in their professional capacities. While many of these professionals may provide fiduciary-like services, they may not necessarily be a fiduciary to the plan or its participants.

Every retirement plan must have at least one named fiduciary, often the plan sponsor or a committee empowered by the plan sponsor. If the plan

sponsor’s named fiduciary does not feel qualified to make decisions on behalf of the plan, then it is incumbent upon the named fiduciary to hire an external fiduciary who is an expert, qualified, and unconflicted.

Why is finding a true fiduciary so challenging? There are many factors at play here. The complicated regulatory landscape is ever-changing and, at times, conflicting regulations abound. Amongst the Department of Labor (“DOL”), the Securities and Exchange Commission (“SEC”), and other regulatory authorities, it can be hard to keep up with the various standards and exemptions for fiduciaries.

Professions like accounting and law operate under a strict code of ethics and standards for business practices. Conflicts of interest are more readily tolerated in the financial services industry, which lacks similar professional requirements. This fact further contributes to the challenge plan fiduciaries face when attempting to identify potential conflicts. Sadly, many financial incentives are in place to reward advisors for non-fiduciary activities. In many cases, compensation and commissions for non-fiduciary products and services are more remunerative than are the fees earned for fiduciary services.

Compliance and legal opinions, rather than moral discernment, are a further example of a barrier to finding true ethical fiduciaries. As mentioned above, financial rewards may be greater for non-fiduciary services, so some investment professionals may look for the best way simply to stay compliant rather than adhering to a true fiduciary standard. An exemplary fiduciary will not compromise a client’s best interest for their own, but instead will hold themselves to the highest of standards and values. They will use true moral discernment when acting in a fiduciary capacity and not just look for the easiest way to “check the box.”

Retirement plan fiduciaries must meet their responsibilities and have a documented process for oversight of the plan. Some of the general responsibilities of a retirement plan fiduciary, as stated by the DOL, are acting solely in the best interests of plan participants, carrying out duties



“Genius is making complex ideas simple, not making simple ideas complex.”

– ALBERT EINSTEIN

prudently, following plan documents, diversifying plan investments, and paying reasonable plan expenses.

One of the biggest causes of ERISA litigation comes from misplaced trust, whether intentional or due to benign neglect. Plan sponsors may have the perception that a recordkeeper is acting in the best interest of the participants when the recordkeeper makes a recommendation. This is not always the case, and recordkeepers are not legally required to do so. Recordkeepers may profit through proprietary products in the investment menu and/or managed account services, among other things. It is incumbent upon fiduciaries to carefully and independently weigh the costs and anticipated benefits of any products and services offered to plan participants, particularly if the costs are to be borne by the participants (whether visible or not).

Advisory and other financial services businesses can also pose monitoring challenges for fiduciaries. Many advisory or insurance firms also generate revenue from non-fiduciary services and products, often leveraging their relationship with the retirement plan to do so. These firms do not always clearly disclose that they receive compensation for these services to their clients, creating challenges for fiduciaries. For example, an advisor could consistently recommend that clients place recordkeeping business with an insurance company that provides financial benefits to the advisor’s parent company. Although this may seem innocuous, it calls into question the independence of the selection process.

What can a plan sponsor do to mitigate all these challenges they are facing? Decades of regulation have not fully addressed this question and it seems unlikely that regulations alone will fix the problem in the future. Likewise, given the material financial disincentives that exist in the financial services industry itself, it seems equally unlikely that the industry will internally address this issue. An educated purchaser is likely the best and most effective short-term solution. As most plan-sponsor fiduciaries may lack the necessary background to serve as their own educated purchaser, a critical step in addressing the issue is to hire fiduciary experts that simply and clearly lack any conflicts of interest on either a personal or firm-wide basis. If enough plan sponsors educate themselves on what makes a good fiduciary and enough boards and committees commit to only working with those who are fiduciaries of the highest standard, the marketplace may move in that direction over time. In the meantime, keep it simple.

Fixing the 40

in Defined Contribution Plans



Brett Minnick
Senior Client Manager

The historical baseline for what an investor considers a diversified portfolio is often referred to as the 60/40: 60 percent of an investor's assets invested in equities and 40 percent in fixed income. The 60 is generally global exposure, proxied by the MSCI ACWI Index, and the 40 by the Bloomberg Aggregate Bond Index. While this portfolio has generated satisfactory risk/return metrics in the past, there are a number of challenges that investors face moving forward.

Let's consider those challenges and what actions investors can take to mitigate the deterioration of the risk/return profile that the 60/40 faces. In the equity portion of the 60/40, threats to risk-adjusted returns come in many shapes and sizes. Geopolitical risks create uncertainty among specific regions and key exports, none more apparent in this moment than eastern European oil. Stretched valuations lead investors to question whether or not stock prices have room to grow.

Equity factors are important, but it is our belief that considerations for change should focus on the fixed income portion of the portfolio. We have all felt the effects of inflation in recent months, and it seems the term 'transitory' was retired as quickly as it was created. Persistent inflation could lead to lower real returns (returns after the effects of inflation), which would hit the more conservative bond market much harder than equities. Another consideration for fixed income investors is the potential for rate increases. Rates increasing, coupled with higher-than-usual inflation, could not only diminish the value of the underlying bonds in a portfolio but could also reduce the purchasing power investors have once they redeem their bonds.

Knowing all of this, we want to use two hypothetical scenarios to demonstrate the options that investors might consider. The first, the risk-averse investor, is looking to maintain the amount of risk they are exposed to, even if it means sacrificing returns. The second, the return generator, is looking to maintain their expected return with the understanding that risk may increase. Both investors will have to take a different route but have options available to meet their objectives.

The Risk-Averse Investor

The risk-averse investor's primary goal is to preserve capital, and therefore must be comfortable exchanging return for risk mitigation. In a defined contribution retirement plan, this will most likely be found in a stable value product. A stable value fund is a defensive fixed income portfolio at its core, while the underlying holdings are insured to protect the investor against negative fixed income conditions. Essentially, a stable value fund is designed to "smooth" the underlying short-term bond portfolio.

In a rising rate environment, a broad market core fixed income manager will typically struggle due to its increased exposure to interest rate risk. That risk,

also known as duration, has ranged from 6.5 to 7 years for the Bloomberg Aggregate Bond Index in 2022. This means that a 1% increase in rates will result in a percentage decrease of 6.5 to 7 percent on the index as a whole. On the other hand, a stable value product has a much shorter duration. As of 12/31/21, large stable value provider Galliard had an effective duration of 2.74 years.

Not only does stable value have a shorter duration than core fixed income, but participants also benefit from the contract structure of the products. Stable value contracts, issued by banks and insurance companies, allow for these funds to value their underlying investment at "book value" as opposed to "market value." This allows stable value providers to offer a crediting rate to investors that resets periodically, as opposed to participants being exposed to the ups and downs of the market. In short, a stable value fund may not outperform in bull bond markets, but it does provide an investor with protection in bear markets.

The Return Seeker

The return seeker's primary goal is to retain their expected return, with the understanding that their risk may increase. Within a defined contribution plan, this comes in the form of short duration or opportunistic fixed income managers. These managers typically have the ability to allocate to areas of the fixed income market that others may not. This includes, but is not limited to, a wide variety of government bonds, agency and non-agency securitized debt, and issuances across the corporate structure.

As measured by Bloomberg, there have been seven instances of a rising rate environment since 1970. Of the seven, there have been five periods in which short duration products (measured by the Bloomberg 1-3 yr Govt/Credit Index) have outperformed the Bloomberg Aggregate Bond Index. The shorter a portfolio's duration, the less likely it is to be negatively impacted by increasing interest rates.

Investment in these products does come with risk. Investors may be exchanging duration risk for credit risk. Credit risk is the probability of loss resulting from a borrower's inability to repay or meet their contractual obligations. Only the participant, and potentially a trusted adviser, have the ability to determine whether or not the potential increase in return warrants the additional risk brought on.

Gone are the days where a 60/40 portfolio provides investors with adequate risk and returns. There are many potential actions that participants can take to reevaluate the 40. It starts with an evaluation of the goal of their portfolios and the determination whether they fall into the risk-averse category, the return-seeking category, or somewhere in the middle. The risk-averse investor may consider an allocation to stable value and the return seeker may consider an allocation to a short duration product.



Nonprofit Spotlight

The Investments & Wealth Institute

As a provider of investment advice to numerous nonprofit organizations, Innovest has the privilege of introducing you to some of our fantastic clients. This month we are proud to feature The Investments & Wealth Institute.

The Investments & Wealth Institute, previously known as Investment Management Consultants Association IMCA®, was founded in 1985 in Colorado to provide investment consulting and wealth management credentials and educational offerings for its members. Its eight original investment consultants founded IMCA® to broaden public understanding of investment consulting and increase the professionalism of those providing consulting services through education, ethics, and certifications. The organization was renamed the Investments & Wealth Institute in 2017. Today the Institute is a strong professional association, providing advanced education and standards for financial advisors, investment consultants, and wealth managers who embrace excellence and ethics. The Institute currently serves more than 12,000 members and certificants in 38 countries.

Through their events, continuing education courses, and certifications, the organization offers advanced credentials and highly practical education: Certified Investment Management Analyst® (CIMA®), Certified Private Wealth Advisor® (CPWA®), and Retirement Management Advisor® (RMA®). Innovest professionals hold several of these designations. Innovest believes that these designations add measurable value to clients due to the rigorous education and the high emphasis on integrity; these values are aligned with Innovest's values.

To learn more about the Investments & Wealth Institute, please visit investmentsandwealth.org.

Around the Firm

PROMOTIONS & TEAM UPDATES

Innovest's Colorado office has moved! We are now located just across the street: 7979 E. Tufts Avenue, #1700, Denver, CO 80237.

Congratulations are in order! Senior Analyst Brett Minnick passed Level II of the CFA Program. The CFA charter designation represents one of the highest levels of recognition financial professionals can earn and demonstrates a finance professional's work ethic, analytical skills, and grounding in ethics. Well done, Brett!

Help us welcome Lead Senior Analyst Franklin Cornett, CFP® to Innovest! Frank is a Certified Financial Planner and brings strategic financial planning experience to the firm. Frank moved to Colorado from Texas shortly before starting at Innovest. Welcome, Frank!

Innovest is excited to announce that Brett Minnick has progressed to Senior Client Manager, Constantine (Cos) Braswell and Brooks Ulrich progressed to Lead Senior Analyst, and Sydney Aeschlimann, Jack Schutzius, and Marleen Zakovich progressed to Analyst.

The recipients of the Service to

Others monthly awards were Lori Foster in January, Sydney Aeschlimann in February, and John Brock in March.

AWARDS & PUBLICATIONS

Innovest was ranked by *AdvisoryHQ* as a best financial advisor in Denver, Colorado Springs, and other cities in Colorado for 2022-2023.

The National Association of Plan Advisors (NAPA) ranked Innovest on their list of 2021 Top Defined Contribution Advisor Teams.

Innovest CEO Richard Todd authored "On-site Due Diligence is Going by the Wayside to the Detriment of the Investor," published by *Denver Business Journal* Leadership Trust.

Innovest Principal Scott O. Middleton, CFA, CIMA®, and Analyst Peter Girard co-authored "China: In The Red" published by *Financial Advisor Magazine*.

Innovest Senior Client Manager Brett Minnick authored "Collective Investment Trust Considerations for Plan Sponsors" recently published by *BenefitsPRO*.

Innovest President and Co-founder Wendy Dominguez was interviewed on the *Faith and Finance Podcast*.

An interview with Innovest Principal and Director Sloan Smith appeared in the Allocator Sentiment chapter of the *Hedgeweek Global Outlook* 2022 report.

Innovest Principal Steven Karsh authored "The Ups and Downs of the Stock Market" published in the finance section of *Articulator Magazine's* 1st quarter 2022 issue.

SERVICE

Our team collected baby items for Marisol Homes. Marisol Homes provides safe healthcare and secure emergency and community-based housing for pregnant women and single women with children.

Innovest employees volunteered with Project C.U.R.E., a nonprofit that delivers life-saving medical equipment and supplies to hospitals and clinics throughout the under-resourced world.

CONFERENCES, SPEAKING, EVENTS, & SPONSORSHIPS

Innovest partnered with Denver-based accounting firm Kunding, Corder, and Montoya, PC., to host the 2022 Rocky Mountain Nonprofit Conference. Over 200 nonprofit professionals came to hear from industry experts on cryptocurrency, mission-aligned investing, 2022 fundraising insights, economic

updates, tax and accounting updates. Innovest's Scott Middleton and Sloan Smith gave an economic update for nonprofits while Steven P. Fraley presented on mission-aligned Investing. In lieu of ticket sales, we raised money from attendees for the Kempe Foundation.

Innovest's Sloan Smith, MBA, CAIA, CPWA® held a webinar with Dennis Hammond, Co-founder of Veriti, to review the new U.S. Conference of Catholic Bishops (USCCB) "Socially Responsible Investing Guidelines" for Catholic investors, Catholic dioceses, and Catholic organizations.

Innovest Vice President Steven P. Fraley, MBA, CFA and Eide Bailly LLP's Pam Eggert presented on "Endowments for Nonprofits: Mission-Aligned Investing" as part of Eide Bailly's spring webinar series.

Innovest Vice President and Director Steven P. Fraley, MBA, CFA spoke at the Markets Group 9th Annual Mountain States Institutional Forum. Steven interviewed Wellington Management's Matthew Lipton on "Fintech: Volatility, Opportunities, and Challenges."



At Innovest Portfolio Solutions, we are more than an investment firm. We are thoughtful stewards responsible for our clients, professionals and community.

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Assumptions, opinions, and forecasts herein constitute Innovest's judgment and are subject to change without notice. Past performance is no guarantee of future results. The investment products discussed are not insured by the FDIC and involve investment risk including the possible loss of all principal.

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