

WINTER 2023

# INNOVIEWS



## Making Retirement Work

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

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### NEW INSTITUTIONAL CLIENTS

Kiddo! Mill Valley Schools Community  
Foundation

The Archdiocese of Denver

Air Force Academy Foundation

*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.*

## A Tale of the Tape for 2022



**Richard Todd**  
Principal, CEO, and Co-founder

With over 35 years of investment consulting under my belt, 2022 was, in my view, the worst year for investors. Stocks were down -18.04%, the 2nd worst calendar year in history. \* Bonds, historically complementary to stocks, suffered the worst calendar year decline in history, losing -17.34%, almost three times further in the red than the previous largest decline. Inflation ravaged the economy, prompting the Federal Reserve to push rates up at a record pace, which caused bonds to get crushed.

Consequently, an investor with a 70% global stock/30% bond portfolio lost -16.59% in 2022. While few investors were left unscathed, our approach to diversified portfolios allocated to alternatives – hedge funds, real assets, private

debt, and equity, among others – into most portfolios, created a much better experience than a typical stock and bond investor.

2022 held some positives despite the markets taking more than they gave. Thanks to incredible client trust and loyalty and robust new business growth, Innovest experienced a record year. The promise we make to our clients is that they will benefit from our growth. 2022 resulted in several new professionals joining our firm, plus improvements in portfolio accounting, performance reporting, and technology. In addition, we moved across the street to a new office, artfully designed by President and Co-founder Wendy Dominguez. Both beautiful and functional, it

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has significantly improved the work environment for our team of 56 employees. Keeping our professionals long-term and creating a quality culture is key to our success and ultimately leads to a great experience for our incredible clientele!

For the seventh time in eight years, Innovest was awarded a “Best Places to Work in Money Management” by Pensions and Investments. Each year, our professionals provide P&I with very detailed survey responses on our culture and practices. We are compared to hundreds of other firms, with just a select few chosen as “Best Places to Work.” We are humbled by the recognition and are always seeking ways we can improve. We are proud of the way Innovest stacks up in the industry.

We are also very proud of our team. Many were progressed to new positions throughout the year. Abigail Thomas, Claire DeLine, Brett Minnick, Sydney Aeschmann, Marleen Zakovich, Cos Braswell, Peter Girard, Joe Lemming, Christine Hudek, Kathy Lalone, and Frank Cornett all made advancements within the company.

Annual awards are given to top team members as well. Cos Braswell received our 212 Degree Award, Stephanie Dufano was recognized with the Service to Others Award, Joanne Cinalli was the recipient of the Bill Fender Mentorship Award, and our top yearly honor, the Founders Award, was given to Joe Lemming. We are privileged to work with such outstanding professionals.

We continually strive to be thought leaders in our industry. In 2022, we gave 26 speeches at a variety of conferences for business leaders, investors, and fiduciaries, and our thoughts were published 22 times in journals, magazines, and blogs.

Our stewardship culture is thriving. Collectively, we gave more than

3500 service hours to the community. According to Colorado Gives Day, Innovest ranked 4th in Colorado in dollars donated to charities over that week in December. We are much, much smaller than the three firms ranked ahead of us. Innovest supports monthly volunteer events, and our team continues to be a corporate work study partner with Arrupe Jesuit High School. We employ four Arrupe interns, with their pay offsetting part of their tuition cost. The success of students at Arrupe, all on the margin, is unprecedented.

We have a great business development team. It has become easy for them to sell our advice and services on the strength of a reputation that has been steadily enhanced over the years.

Succession planning is an exciting topic for us as we add to our partners, who have all made a big commitment to Innovest. Pam Cruz, Paul Nacario, Troy Jensen, and Steven Fraley were all made partners this year! Innovest is committed to remain independent as a fee-only fiduciary in a year where many of our competitors sold out to the Wall Street firms and industry aggregators looking to monetize the very clients they purport to serve. We are convinced that our fiduciary model is better, as Wall Street conflicts have never been so egregious as they are currently.

As 2022 closes and the new year begins, we owe tremendous gratitude to our clients! For the last quarter century, the primary source of growth has been client referrals. Thank you! Our young partners have made a sizeable investment in our firm, and we are committed to make the investment a great one!

I wish you all a wonderful 2023!

\*MSCI All Country World Index All Cap

\*\*Bloomberg Global Aggregate Index

# 2022 Employee and Client Survey Results



Wendy Dominguez  
Principal, President, and Co-founder

As we reflect on 2022, a difficult year for investors, we nonetheless have much to be thankful for. We are extremely grateful for our team and the care they take in serving our clients. We are also incredibly humbled and thankful for our clients. If it wasn't for their longstanding support, we would be nothing. It is with this focus on reflection that we surveyed both our employees and our clients around how we can build on those partnerships.

Our 2022 employee survey won us recognition as a "2022 Best Places to Work" from Pensions & Investments, an honor bestowed on Innovest for the seventh time in eight years. Some of our highest scores were around our team liking the work they do, affection for the people they work with, quality of physical working conditions, leadership of the company, treating people well, and having fun at work. Our lowest scores were around technology and having problems quickly addressed. We have made significant investment over the last two years in technology, and we are taking concrete steps to make it even more reliable and less frustrating for our team.

The best part of the survey are the comments. My favorite was this one:

*"Innovest challenges me on a daily basis, and I live for that. I also love that we are constantly pushing to improve our processes and client deliverables. I appreciate that my work is a place where I can share my ideas, values, and perspective freely. The volunteer opportunities that we can do promote team building. It is always good to help others. I know that the leaders of Innovest live their values and that makes this a best place to work."*

We are very proud of the survey results and award because we work hard

to create a positive environment for our employees.

We also ask our clients to let us know how we are doing and if and how we can get better. Our average score for overall satisfaction was 4.8 on a 5.0 scale, equaling the best score that we have ever received. Our customer service score was 4.9, our highest individual score ever! Through the survey, our clients also help us with ways that we can improve, and a large majority are interested in Innovest becoming more digitally oriented and improving our ability to deliver information quickly. We are continually working on both, and 2022 was a big year of investment in technology for us.

As with our employee survey, my favorite part of the client survey is reading the comments. My favorite was:

*"All I can add is thank you to Innovest for providing security, oversight, and guidance, especially in this current market!"*

Each year we also measure our Net Promoter Score (NPS), a gauge of client loyalty, by asking this key question: "How likely is it that you would recommend Innovest to a friend or colleague?" The NPS has been widely adopted, including by over two-thirds of Fortune 1000 companies. Scoring ranges from -100 to +100, with anything above 70 deemed to be exceptional. The industry average for financial services companies is 44. We are proud of the Innovest NPS for 2022, at 81.

We are humbled by this feedback and remain indebted and to the people and partners who have placed their personal and financial trust in what we do. Our livelihood depends on delivering on that trust. Our satisfaction comes from the wonderful people we get to work with. 2023 holds tremendous promise as we continue to build on that foundation.

## Nonprofit Spotlight

# Christian Care Ministry

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 Christian Care Ministry.

Christian Care Ministry's mission is to connect people to a Christ-centered community wellness experience based on faith, prayer, and personal responsibility. In 1993, a formalized approach to sharing healthcare burdens began with their Medi-Share® program, a healthcare sharing ministry where members share each other's medical bills and pray for each other's medical challenges. From small beginnings, this big idea took root. More than 28 years later, the Medi-Share program serves around 400,000 members, and more than \$5.6 billion dollars in medical bills have been shared and discounted.

Christian Care Ministry also provides a Christian Disability Sharing program called Manna® where members make voluntary monthly contributions to



help other members replace lost income due to accident or illness. According to the US Census Bureau, 20% of working people age 45 or older will suffer a disability that lasts 90 days or longer during their career. Working adults are three times more likely to become disabled than they are to die before the age of 65, according to the Social Security Administration.

All of Christian Care Ministry's programs are supported by prayer and a faith-filled community. Christian Care Ministry's method is modeled after the early Christian church modeled in the bible (Acts 2-3). To learn more about their incredible work, please visit their website at [mychristiancare.org](http://mychristiancare.org).



# Retirement Plan Advisor M&A Activity Continued at a Rapid Pace in 2022



Rick Rodgers, AIFA®  
Principal

Several investment advisors providing services to retirement plans, wire house brokerage firms, wealth management firms and insurance brokerages have focused on acquiring retirement plan advisory practices in recent years, activity that continued in 2022. In some cases, the acquisitions are backed by private equity funding, and the multiples paid for the firms being acquired are reported to be at record levels.

With the purchase price on these deals being at astonishing amounts, it raises questions about how the acquiring firms will generate sufficient revenue to justify the large acquisition investments they have made. Most retirement plan advisory firms charge either a flat or asset-based (percentage) fee to provide fiduciary investment advice, often including retirement plan design and consulting support at the plan level. However, it appears that most of these acquiring firms will attempt to monetize the retirement plan advisory firms' relationships with participants, most likely achieved with one or multiple proprietary offerings.

Several firms have reported employing a concerted effort to turn retirement plan participants from retirement plan clients into wealth management clients, which tend to be far more lucrative. The advisory firm may encourage retired or terminated participants to move

their money out of the plan to an IRA managed by the investment advisory firm. These newly established wealth management clients then pay investment management fees, typically to the mutual funds recommended by the advisor, along with an advisory fee that is generally an asset-based fee.

Another developing trend among retirement plan advisors is proprietary "advisor-managed account" (AMA) services. These are much like traditional managed account services offered by most retirement plan recordkeeping providers. Participants typically pay an asset-based fee for investment advice delivered through a computer algorithm that considers time horizon and risk tolerance along with other criteria. Some services also allow participants to add investments held outside of their employer-sponsored retirement plan to create a more holistic approach to investment advice, though we have observed that most participants utilizing a managed account service do not add outside investments and the advice is limited to their employer-sponsored retirement plan.

AMAs combine traditional managed account technology with the investment advisor, creating and maintaining plan level portfolios for the managed account service. Participants pay investment management fees to mutual funds or other investments options recommended by

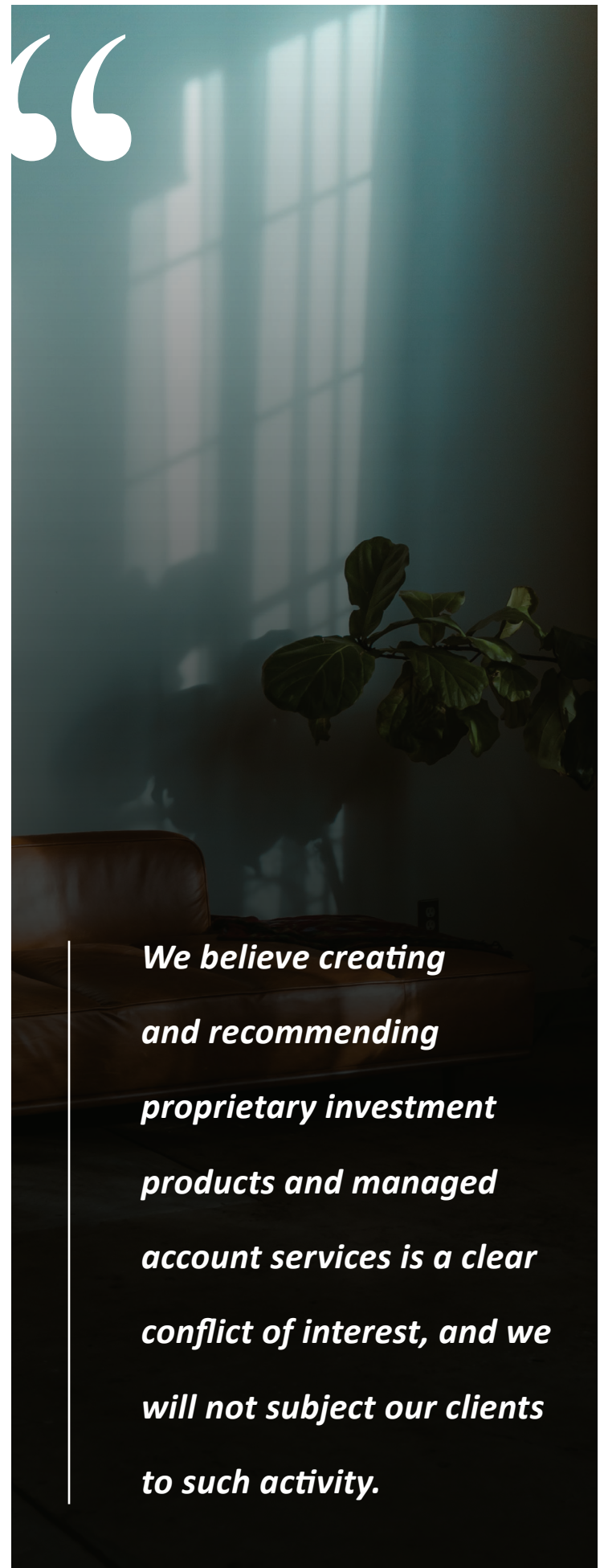
the managed account service, along with an additional fee for the AMA service itself. This fee is allocated among the managed account technology provider, the recordkeeper, and the advisor, which allows the advisor to monetize the relationship with the plan participants, thereby generating additional revenue for the advisory firm.

Yet another developing trend to monetize an advisor's relationship with the plan is the proprietary investment option. Some fiduciary retirement plan advisors (consultants) have created proprietary investment offerings and then recommended them to their retirement plan clients to be offered to participants in the plan. Under this arrangement, the advisor typically selects and manages a group of sub-advisors that each manage a portion of the investment pool. Participants pay an investment management fee that is allocated among the sub-advisors and the consulting firm, which allows the retirement plan advisor to monetize the plan participants.

For fiduciary advisors, all recommendations must be conflict-free and in the best interest of plan participants. That advisors are seeking to generate additional revenue through wealth management, AMA, or proprietary investment options raises questions about conflicts of interest and the appropriateness of these products and services.

There are also many questions regarding a plan sponsor's duties related to selecting and monitoring the same. If the plan's advisor is soliciting wealth management services to participants, does the plan sponsor have a duty to conduct due diligence on the wealth management service? Likewise, if the advisor recommends its own AMA and receives compensation from the same, wouldn't the plan sponsor need to conduct due diligence on the AMA? Would the plan need to hire another consultant to conduct due diligence on the AMA or do they simply rely on the advisor providing the AMA to conduct due diligence on themselves? If an advisor recommends its own proprietary investment option(s), does the plan sponsor expect the advisor to ever terminate its own investment due to poor performance, style drift, or other criteria?

While these practices may be incredibly effective in generating additional revenue for the retirement plan advisor, Innovest believes that there are many potential conflicts associated with the same. We believe creating and recommending proprietary investment products and managed account services is a clear conflict of interest, and we will not subject our clients to such activity. We've declined offers from advisory aggregators and Wall Street firms seeking to acquire our business only to monetize participant assets. We remain one of the few fiduciary advisory firms in the U.S. that adheres to an objective, transparent, and conflict-free approach to retirement plan and investment consulting.



***We believe creating and recommending proprietary investment products and managed account services is a clear conflict of interest, and we will not subject our clients to such activity.***

# 2022 in Review and a Look Ahead to 2023



Kristy LeGrande, CFA, MBA  
Principal



Frank Cornett, CFP®  
Senior Client Manager

Consistent negative headlines throughout 2022 were tough on investors. We experienced the worst bond market in modern history, by a wide margin. We also experienced the worst year for the S&P 500 since the global financial crisis in 2008 and the fourth worst period on record since the index expanded to 500 companies in 1957. The popular FAANG stocks of the 2010s, Facebook (Meta), Apple, Amazon, Netflix, and Google, were down an average of 46%. The S&P 500 recorded its third most volatile year in the last 40, as 87.3% of all trading days in 2022 had swings of more than 1%. As we look ahead into 2023, many questions remain unanswered, but we believe investors should focus what they can control: reaffirming investment objectives, understanding downside risk, rebalancing to policy targets throughout the year, and maintaining exposure to strategies that will do well in various economic outcomes.

## Equity markets – reducing exposure now could result in missed up-side

No one can predict when the stock market will bottom. 2022 is also not the first time we have seen negative stock market returns. While past performance never guarantees the same results in the future, previous downturns have often been followed by strong subsequent returns, as depicted in the chart below. Down markets provide periods of opportunity over a longer time horizon. To ensure our clients experience the upside of economic expansion, we recommend maintaining current equity allocations, assuming that risk tolerance has not changed and long-term investment objectives remain intact.

Diversified global equities are a pillar in most portfolios, providing growth over the long term. They can be critical in helping investors to meet long-term return objectives. The U.S. Stock market has cumulatively outperformed international markets for the last 15 years,

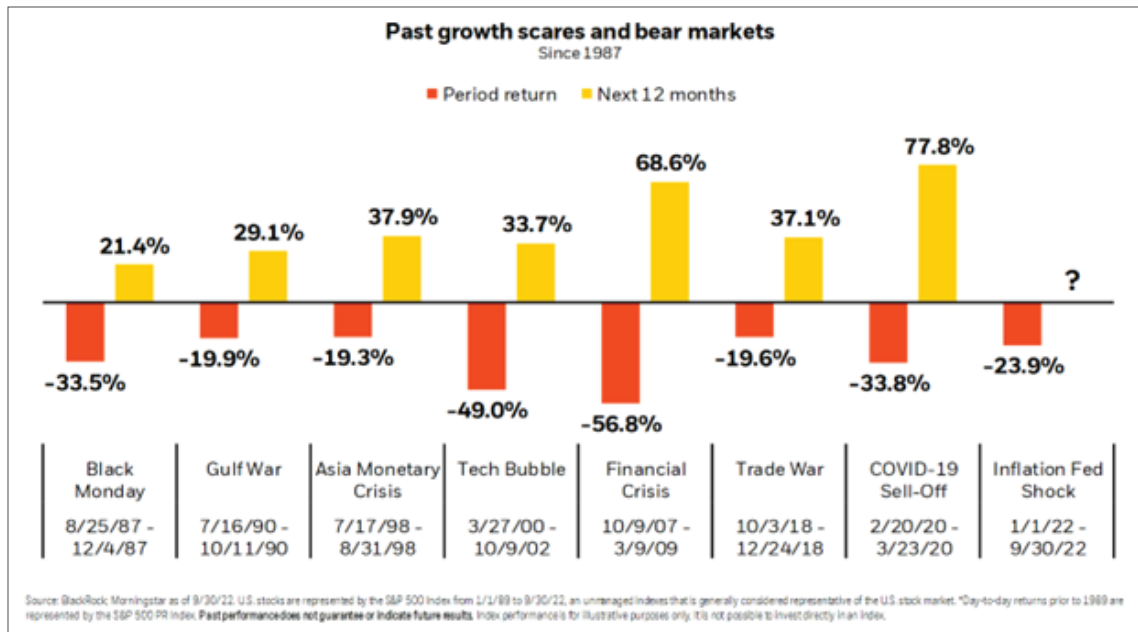
and geopolitical tensions abroad have lead some investors to question the benefit of international equities in their portfolios. However, from a valuation perspective, many international companies are still more attractive than their U.S. counterparts. The U.S. stock market is trading just above its 25-year average, based on a price-to-earnings ratio (P/E) – essentially, how much an investor is willing to pay for every \$1 of company earnings. Europe, Japan, China, and other emerging countries are all trading at or below their 25-year average P/E. Trading at these levels presents potential undervaluation, creating optimism and opportunity for positive future returns. International and emerging market equities should continue to play a role in portfolio construction moving forward.

## Bond market yields are attractive once again

Interest rates have been at or near historic lows for the better part of the last three years, and expectations had been for rates to increase slowly over time. However, as inflation rose to 40-year highs in 2022, the Fed embarked on one of the fastest tightening cycles in history. In 2022 we saw seven rate increases totaling 4.25%. The listed rate hikes negatively impacted the face value of bonds, as the U.S. Bond Aggregate Index fell approximately 14% during the calendar year. But there is a sense of optimism in the bond markets, looking forward. While a rising interest rate environment decreases the bonds' face value, as those bonds mature, the proceeds are reinvested into newly issued bonds that pay their investors a larger coupon (or yield) back. For example, 12-month bank Certificates of Deposit (CDs) currently pay a yield of above 4%. In years past, bonds have been primarily used as a tool to mitigate and potentially reduce volatility in portfolios; looking forward, we expect bonds also to provide attractive income generation.

Diversifying strategies provide protection in different economic environments

Investment advisors typically recommend a diversified portfolio to optimize its risk/return profile. Many of these strategies have lower volatility than equities and relatively low correlations to equities and bonds. It's also helpful to think about these strategies in terms of their role in portfolios and how they typically perform in different economic environments. We believe a basket of inflation-hedging





strategies – such as midstream energy, diversified infrastructure, timberland/farmland, and real estate – is prudent when constructing portfolios. They can add value to the portfolio should inflation continue at high levels and can also provide growth and income should inflation levels normalize.

We also utilize specific hedge fund strategies with the objective of providing better-than-bond returns over a complete market cycle. These hedging strategies are still attractive, but investors with a high allocation may consider reducing exposure into 2023, since the overall outlook for bonds is more promising.

In addition, allocation to the private markets – both equity and debt – can improve the overall risk/return profile of portfolios. Investors should pay close attention to overall portfolio liquidity as well as appropriate vintage year diversification.

### Focus on what we can control

Investors can't control geopolitical risks, economic outcomes, or market performance, amongst other factors, so we should focus on what we can control and what matters to portfolio performance in the long term. As we ease into our "new normal," understanding our current place in the economic cycle, forward-looking portfolio construction becomes necessary. At Innovest, we value process over prediction and remain focused on the things that we can control and that ultimately matter in the end. We remain focused on confirming investment objectives and downside risk tolerance, asset allocation to appropriate markets, ongoing portfolio rebalancing, tax loss harvesting where possible, and providing excellent customer service. We are looking forward to working with you in 2023.

## Employee Spotlight

# Steve Karsh

### Where is your hometown?

Denver, Colorado

### Tell us something unique about you.

I don't look as old as I am – at least I think so, which is all that matters.

### What do you like best about working at Innovest?

Besides the colleagues I work with, I get to help my clients meet their investment and financial goals

### How do you give back to the community?

Along with participating in Innovest service days, I like to donate money and time to organizations that help military veterans, sick children, and dogs.

### What are your hobbies and interests?

I love to golf and go to live sporting events (Avs and Broncos)

### Tell us about your family.

I'm fourth generation Coloradan. My grandfather was a cattle farmer up in Longmont/Brighton area (there is a street named Karsh Drive



up there). I have two brothers that I'm very close with, and a lot of relatives on my wife's side of the family are also a big part of my life.

### What is your favorite dessert?

Anything chocolate!

# Around the Firm

## PROMOTIONS & TEAM UPDATES

Innovest is honored to again be named a “Best Place to Work” by *Pensions & Investments* for 2022! We are so thankful for our hardworking team members.

The following employees received Innovest’s annual awards: Stephanie Dufano received the Annual Service to Others Award, Joanne Cinalli received the William Fender Mentorship Award, Cos Braswell received the 212 Degree Award, and Joe Lemming received the Founder’s Award.

The recipients of the Service to Others monthly awards were Cos Braswell in October, Stephanie Dufano in November, and Kathy Lalone in December.

Innovest’s Natalie Kuzia 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.

Congratulations to Innovest Principal Paul Nacario for being elected to NAGDCA’s Industry Committee. The NAGDCA Industry Committee offers a unique opportunity for their private sector partners to use their skills to make an impact in the government defined contribution market.

## AWARDS & PUBLICATIONS

Innovest’s Peter Girard authored “Consumer Sentiment and the Value of Long-Term Investing,” published by Advisor Perspectives.

Innovest’s Dustin Roberts and Franklin Cornett authored “Your 7 Point Year End Retirement Check List,” published by *401K Specialist*.

Innovest CEO Richard Todd and his wife Joanie were presented with the Sr. LaVonne Guidoni Award at the Seeds of Hope Gala for their dedication to Catholic education throughout Colorado for over 25 years.

## SERVICE IN THE COMMUNITY

Innovest employees had the opportunity recently to volunteer with Project Angel Heart. Our team helped to build breakfast packages and



delivered meals.

Innovest employees volunteered at the Denver Santa Claus Shop (DSCS), a nonprofit that collects and gives families the opportunity to shop for free toys each December.

Innovest employees participated in Colorado Gives Day and raised \$20,060 making Innovest the fourth largest company contributor in the state.

Innovest employees made their annual contribution to Adopt-a-Family in December. The Catholic Charities’ Adopt-A-Family program has been helping the Colorado community for over a decade, matching donors with families and individuals who need a little help this holiday season.

## CONFERENCES, SPEAKING, EVENTS, & SPONSORSHIPS

Innovest was a proud sponsor of the 3rd Annual Bustin’ Clays, held at Colorado Clays in Brighton, Colorado. The event benefited the Navy SEAL Foundation.

Innovest was a proud sponsor of Juicing the Harvest, held at Balistreri Vineyards in Denver, Colorado. The event benefited A Precious Child and the Marshall Fire families.

The 2022 Arizona Defined Contribution Conference (AZ/DC) was a great success! Innovest President and Co-founder Wendy Dominguez was a featured panelist for a fireside chat.



**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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