WINTER 2024

INNOVIEWS

Making Retirement Work

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

IN THIS ISSUE

NEW INSTITUTIONAL CLIENTS

Dyson's Inc.

Newport Center Medical Group

City of Lafayette, CO

City of Goodyear, AZ

Sister servants of the Eternal Word

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.

Acquisitions and Consolidations in Consulting Create Landmines

Rick Rodgers
Vice President

Frank Cornett, CFP®
Vice President

Investment consulting firms are often engaged for their independence, expertise, experience, and innovative solutions. However, the consulting industry itself is not immune to change, with acquisition and consolidation becoming increasingly common. While these mergers can seem like strategic moves on the surface, they often create a host of challenges and potential pitfalls, like hidden landmines. This warrants more exploration of the complexities and consequences of acquisitions and consolidations in the consulting world and how these maneuvers can create landmines for firms and their clients.

The investment consulting industry has seen a significant uptick in mergers and acquisitions in recent years. Large aggregator advisory firms, insurance brokerages, and wire houses have been acquiring independent advisory firms at an unprecedented rate. Some of the acquiring firms are backed by private equity investors and the multiples paid to the acquired firms have been substantial. The primary drivers behind these consolidation efforts include gaining a competitive edge, accessing new markets, acquiring specialized expertise, achieving economies of scale, and, most notably, monetizing the relationships with the acquired firms' clients.

Monetization is generally achieved through cross-selling additional products and services. Ancillary services include wealth management

Continued on Page 2

Continued from Page 1

and advisor-managed accounts, with some advisory practices creating proprietary investment offerings to be recommended to clients. This developing trend to aggressively monetize client relationships runs completely contradictory to the purpose and mission of independent advisors. Historically there was a distinct difference between broker advisors that sell proprietary products and independent advisors that make objective, conflict-free recommendations to their clients. While strategic intentions to grow revenue might appear sound, the execution of mergers is far from seamless, particularly when this kind of selling-what-you-recommend conflicts of interest are in play.

Landmine 1: Cultural Clash

One of the most prominent landmines in consulting acquisitions is the clash of organizational cultures. Each consulting firm has its unique values and way of doing business. When two firms with distinct cultures merge, it can create significant friction within the newly combined entity. Consultants accustomed to one firm's approach may find it challenging to adapt to the practices of the other. For example, many of these acquired firms built their business and reputation based upon a commitment to remain independent, objective, and conflict-free, but the pressure to cross-sell proprietary products and services creates an unfamiliar dynamic for the acquired firms. This cultural clash can lead to a decline in employee morale, decreased productivity, and even an exodus of talent.

Cultural misalignment also impacts clients. They may have chosen a consulting firm based on the compatibility of values and work ethic. When a merger disrupts this synergy, clients may question their continued engagement with the firm.

Landmine 2: Dilution of Expertise

Consulting firms often pride themselves on their niche expertise and specialized knowledge. When firms consolidate, there is a risk of diluting this expertise. The newly formed entity may become a "jack-of-all-trades but a master of none." Consultants who were once subject matter experts in their specific areas may now find themselves working on projects far outside their comfort zone.

This dilution of expertise can have dire consequences for clients who rely on consulting firms for their deep knowledge and insight. They may receive advice and solutions that lack the depth and nuance that they once enjoyed, ultimately diminishing the value of the consulting relationship.

Landmine 3: Client Confusion

Mergers and acquisitions can be perplexing for clients. When a consulting firm they have worked with for years suddenly merges with another, clients may find themselves navigating an uncertain landscape. The profitability of these acquisitions will be dependent upon the ability to leverage new revenue streams through proprietary products and services, something many of the acquired firms' clients were never presented with in the past.

Questions about how the merger will affect objectivity, project timelines, billing structures, and the availability of key consultants often follow.

Clients may feel caught in the crossfire of competition between consulting firms. The newly formed entity may prioritize its own interests to monetize the relationship over those of its clients, leading to conflicts of interest and a lack of transparency. This can erode trust and leave clients feeling like they are walking through a host of potential pitfalls. This can also create liability for retirement plan clients, as there has been an increase in fiduciary breach lawsuits alleging self-dealing and conflicts of interest with advisory firms engaged in recommending proprietary investment products.

Landmine 4: Integration Challenges

The process of integrating two consulting firms is complex and fraught with challenges. It involves aligning technology and systems, merging databases, harmonizing project management processes, and reconciling financial systems, among other tasks. These integration efforts are often time-consuming and resource-intensive, diverting valuable resources from effectively serving clients.

The distractions caused by integration can lead to project delays, miscommunications, and operational inefficiency. Consultants may struggle to access the information and tools they need to deliver quality work, further jeopardizing client relationships. In some cases, clients may become unwilling participants in the integration process, forced to adapt to new systems and processes that may disrupt their own operations.

Landmine 5: Talent Drain

A key asset for consulting firms is their people. Consultants bring their knowledge, experience, and relationships with clients to the table. Many of these top consultants may feel uncomfortable recommending that retired participants roll over their accounts from an institutional retirement plan to a retail IRA with the advisory firm. Others may reject the notion of cross-selling proprietary investment products over independent, objective investment recommendations. During a merger, the new demands of the acquiring firm, with uncertainty and instability, can trigger an exodus of top talent. Consultants who are uncomfortable with the changes or see limited career opportunities in the new organization may seek employment elsewhere.

This talent drain can be detrimental to both the acquiring and acquired firms. The loss of experienced consultants can weaken capabilities and hinder the ability to deliver on client commitments. Clients may also lose trust in a firm that appears to be hemorrhaging talent.

To successfully navigate the minefield of acquisitions and consolidations, advisory clients should consider the cultural integration of an acquired firm and pay meticulous attention to the motives of the acquiring organization. Many of these mergers have diluted the distinction between broker advisors and independent advisors, moving to arrangements fraught with higher fees, conflicts of interest, and the potential for increased liability for clients. Given the recently settled and outstanding litigation related to cross-selling, it seems imprudent for advisory clients to engage in practices that may increase liability.

Innovest is different. We are committed to serving as a steward to our clients – advocating on their behalf and always delivering objective, conflict-free advice. We have not engaged in the distribution of proprietary investment products or advisor managed accounts, nor will we. We see these practices as being in direct conflict with our commitment to serving the best interests of our clients.

Fiduciary Best Practices

Kyli M. Soto, AIF®, CPFA®
Vice President

Joanne Cinalli, CPFA®
Senior Manager

Napolean Hill, renowned author of the influential Think & Grow Rich, writes that "Great achievement is usually born of great sacrifice and is never the result of selfishness." Applying this to the fiduciary responsibilities of overseeing a retirement plan, we are reminded that we must cast aside our personal interests and don the crown that serves the greater good. The concept may not be Shakespearean in origin, but we hope that fiduciaries' heads rest easy when they diligently follow these best practices.

For a refresher, a fiduciary is any individual or organization who has a legal duty to act in the best financial interests of someone else[1]. In the context of overseeing a retirement plan, this duty may include several key figures within your organization, including the CFO, Finance Director, human resources personnel, and anyone who serves as a voting member of an investment committee or board involved in making discretionary decisions. Your financial advisor or investment consultant who aids in the administration of your plan also bear this responsibility.

Hire a Capable Plan Fiduciaries

Fiduciaries have a multitude of responsibilities in both their personal lives and professional roles. The intricacies of fiduciary duties may not come naturally to everyone, making it essential to surround yourselves with individuals truly dedicated to this craft. While not all financial advisors are fiduciaries, at Innovest we take great pride in serving in a co-fiduciary capacity for each of our clients. We commit to safeguarding your financial well-being and prioritizing your best interests throughout our partnership.

Conduct Regular and Consistent Meetings

The phrase, "consistency is key," applies to the role of a fiduciary. We suggest that your committee meets regularly – quarterly at a minimum but at least annually. These sessions do not have to be lengthy and arduous, but establishing a regular cadence for reviewing investment performance, expenses, plan service providers, and operational administration of the plan (auditing & testing) is imperative to the successful management of your retirement plan.

Ensure that Fees are Reasonable and Necessary

Plan service providers and investment managers typically do not proactively reach out to say, "Hey, did you know you could pay us less?" While is not a surprising, it underscores the importance of dedicating time to keeping plan fees current. One prudent step is conducting a request for proposal (RFP) or request for information (RFI) every three to five years for your service providers. It does not mean that you must switch providers, but it is prudent to periodically assess fees to ensure they remain reasonable.

Also, consider regular review of the expense of the investments. Innovest provides this through an annual share class review, a cost comparison of current share classes to available alternatives. Plan assets may have reached a minimum threshold that unlocks access to a lower cost share class or new share classes may have become available. Seizing the opportunity to reduce investment fees should be a continual effort.

Every penny saved in investment expenses is a penny that a participant retain for their balance, which will grow and compound over time when put to work effectively.

Have a Prudent Process

Fiduciaries shoulder a range of essential responsibilities, including the selection and monitorization of investments and service providers, fee monitoring, and ensuring plan compliance with all applicable rules and regulations. How can one effectively manage all of these duties? The answer lies in the old adage that "practice makes perfect." Fiduciaries must approach their role with thoughtfulness along with an understanding of the investments within the plan and the quality of recordkeeping services. Being a fiduciary is not about having a crystal ball, although we have received more than one request for one. Rather it is acting as a prudent investor. That means gathering the information necessary to make a decision and evaluating the facts and circumstances existing at the time, not relying on hindsight. An Investment Policy Statement (IPS) stands as a critical document that illustrates the process a plan is following for selecting and monitoring the investments.

Document, Document, and Document

Establish and maintain a fiduciary file cabinet, whether paper, electronic, or both. Nurses and doctors know the phrase, "If you didn't chart it, you didn't do it." The same principle applies for fiduciaries. Without proper documentation, it is challenging to ascertain whether something ever occurred. Save copies of essential documents, including investment reports, fee disclosures, meeting minutes, investment policy statement, and similar. Document the key decisions that you make in your regular meetings with summaries or meeting minutes. Innovest also maintains a historical timeline that memorializes those decisions and fiduciary action items, including it in the front of every client performance report to help with that documentation.

Avoid Conflicts of Interest

A plan fiduciary is obligated to be loyal and act solely in the best interests of plan participants and their beneficiaries. It is imperative to ensure that guidance is offered and the advice taken is unbiased. Every investment and service provider should earn their place to work with you and invest your money. Make sure that someone is not gaining undue financial benefit from the decisions your committee makes and confirm that co-fiduciaries genuinely align with your goals and objectives, sitting firmly on your side of the table.

[1] Consumer Financial Protection Bureau

INNOVEST *on Mission*

Nonprofit Spotlight: Augustine Institute

Innovest provides Investment advice to many nonprofit organizations. This quarter, we are excited to feature the Augustine Institute.

The Augustine Institute, located in Denver, Colorado, helps Catholics understand, live, and share their faith. Jonathan Reyes founded the institution in 2006 with Tim Gray, the current President, as an answer to Pope Saint John Paul II's call for the New Evangelization at the 1993 World Youth Day in Denver, Colorado. The New Evangelization calls for all Catholics to evangelize and deepen their faith.

To answer this call, the Augustine Institute is a leading Catholic graduate school of theology. Since its founding, the institution has expanded with the goal of giving Catholics the resources to understand their faith. The Augustine Institute acquired Lighthouse Catholic Media just ten years after their founding. In addition to offering graduate level courses, the Augustine Institute operates an online streaming service that creates award winning films called FORMED, produces books and audio talks, runs a digital prayer app called Amen, and writes curriculum for Catholic formation and sacramental preparation. All these efforts have been established to accomplish the Augustine Institute's mission: to witness to the truth – intellectually, spiritually, and pastorally.

To get involved with the Augustine Institute's mission, you can access their resources at www.augustineinstitute.org. In addition, join thousands by either giving monthly or joining their mission in prayer.

How Quantitative Challenges Shape Investment Evaluation: A Comprehensive Approach to Due Diligence

Peter Girard
Manager

Most investment offerings inevitably encounter quantitative challenges at some point in their lifecycle. Quantitative issues within the realm of investment due diligence encompass all measurable aspects that might signal problems from an investment management perspective. These issues should not immediately trigger alarm but rather serve as prompts for the crucial question: Why? This answer often comes from a blend of quantitative and qualitative concerns. Quantitative analysis, in isolation, provides only a monochromatic glimpse, like sketching in black and white. A more robust analysis adopts a dual-pronged approach, combining qualitative and quantitative due diligence, which we believe brings deeper comprehension of cause-and-effect dynamics within our industry.

Asset Base

The asset base of a fund, sometimes referred to as assets under management (AUM), can fluctuate due to various factors, including market conditions, organizational or management matters, or prevailing headlines. Examining asset flow across different timeframes offers a more detailed narrative and indicates whether concerns are immediate or longer term in nature. Given the current level of available capital, we primarily inquire about each fund's ability to adhere to its investment process. Our research communicates any looming concern as soon as it becomes apparent that the asset level might affect our client's investment. Significant inflows or outflows can disrupt investment management, whether due to capital constraints, liquidity issues, or a scarcity of viable investment opportunities for the manager to deploy capital.

Performance

We consider investment performance in isolation as, at most, something that gets us interested in the fund. We do not let short-term successes or failures overly influence our judgment of quality. Consistent with our "process over prediction" philosophy, we initially evaluate performance over 3- and 5-year periods, which we believe offers a more tempered assessment. We also scrutinize performance across multiple calendar years and rolling 3-year periods. The 3-year performance metric in particular helps smooth out any abrupt changes observed in annual performance. We compare a fund's performance both against its benchmark and its peers to ensure the most comprehensive assessment possible.

This multi-timeframe analysis promotes objectivity. While our evaluation process may seem extensive, it's merely our starting point. Underperformance is not necessarily indicative of poor portfolio

management. Instead, it prompts us to investigate the "why" and determine the best course of action within our client's best interest. We never want to discourage portfolio managers from adhering to their investment process.

Consider a portfolio management team with a rigorous buy-and-hold process that undertakes extensive due diligence, adding only a few new companies to their equity portfolio over many years. They may experience significant drawdowns if their holdings don't include a given year's hottest stocks. However, if the fund consistently executes its investment process over longer periods, generating excess returns over the benchmark, we should not harshly judge the team for adhering to their investment philosophy, even if it doesn't align with short-term trends.

Fees

Management fees ultimately impact client portfolios and opting for funds with lower fees means more money remains in the client's account. We compare a fund's management fee to its peers to inform our clients about that fee relative to the broader universe comparable investments. When a management fee exceeds 30% of the average fee among peers, we consider it a minor concern and communicate this to our clients, ensuring they are aware of potential cost savings through alternative offerings.

Asset base, performance, and fees are all critical metrics, but our evaluation goes beyond these purely quantitative factors. We understand that investment management is not merely about numbers, but also strategy, philosophy, and adaptability. Our approach emphasizes process over prediction and encourages us to ask the vital question of "why" when confronted with challenges.

Ultimately, our goal is to act in the best interests of our clients. We aim to provide them with a well-informed, responsible, and nuanced perspective on their investments. This approach allows us to confidently navigate the complexities of the financial landscape and support our clients in achieving their financial goals.

Employee Spotlight: Gordon Tewell

Where is your hometown?

I was born in Colorado Springs, Colorado.

Tell us something unique about you.

My first job was as a wrangler at a dude ranch outside of Colorado Springs.

What do you like best about working at Innovest?

I truly appreciate the development of Innovest's Mission and Values over time. Particularly our commitment to our clients, our unwavering client service and to adding value to our clients unique needs. I feel that we add value for every client I work with.

How do you give back to the community?

My wife and I spend lots of time volunteering a Foothills Animal Shelter. Foothills is an open admission facility serving Jefferson County. We also spend time at our local Y.

What are your hobbies and interests?

My wife and I both cycle, still human powered, not electric yet. We typically spend at least one week a year touring a different part of the US on our bicycles and have spent many weeks cycling in France and Italy. I enjoy cooking and home remodeling; I've never been able to spark my wife's interest in those hobbies.

Tell us about your family.

I'm married to my wonderful wife Deb and have family scattered across Colorado, mainly my two older sisters and nephews.

What is your favorite dessert?

Even though I was born in Colorado and the relationship between the states is shaky, I really like Texas Sheet Cake.

Around the Firm

Promotions & Team Updates

We are thrilled to share the latest updates and achievements within the Innovest family. Join us in extending a warm welcome to our newest Analyst Assistant, Ian Gilbert, who graduated from Minot State University Summa Cum Laude with a degree in Finance. Ian will assist Innovest's Retirement Plan Team.

We are delighted to announce Peter Girard's well-deserved progression to Manager. John Brock has risen to the role of Senior Analyst, while Christine Attai, Anna Berdahl, Kristin Grayner, Matt Popish, Jean-Marie Willis, Matt Foster, and Natalie Miller have advanced to the position of Analyst. Their commitment to our clients, team, and mission of stewardship is commendable.

In addition, we want to acknowledge the outstanding accomplishments of our colleagues who received Innovest's esteemed annual awards. Eileen Pohs' dedication secured her the Annual Service to Others Award, Rick Rodgers was distinguished with the William Fender Mentorship Award, Joanne Cinalli received the 212 Degree Award, and Kathy Lalone accepted the Founder's Award.

Austin Cleveland, Cheryl Wilks, and Marisa Joseph earned the Service to Others award for October, November, and December 2023 for their dedication to their fellow employees.

Awards & Publications

Innovest was named a "Best Place to Work" by Pensions & Investments, earning this achievement for the ninth time in ten years. This is a testament to the collective efforts and dedication of our hardworking team members and reflects our ongoing commitment to fostering a positive and supportive work environment.

This quarter, several publications showcased Innovest professionals. Analyst Assistant Austin Cleveland's thoughts on fixed income functions was highlighted in Citywire.com's Due Diligence Report. Principal Troy Jensen and Vice President Kyli Soto's piece, "Should They Stay or Should They Go?" was published by 401K Specialist. Vice President Brett Minnick and Lead Senior Analyst Sydney Aeschlimann contributed "The Case for Mid-Cap Equities," featured in Financial Advisor Magazine. Vice President Paul D'Alessandro's insights on disaster preparedness were shared by NonprofitPRO. Principal Sloan Smith explored the topic of cash returns in Family Office Magazine's Autumn edition. Finally, Principal Troy Jensen's article, "Is it Time to Retire the 'Normal' Retirement Age," was published by TEXPERS.

Service

On Colorado Gives Day, Innovest finished in 2nd place in the Corporate Challenge. A special thanks to our dedicated employees!

Because service is the cornerstone of our culture, Innovest employees volunteered at Project C.U.R.E.'s Denver Distribution Center, amplifying the impact of sending donated medical supplies to developing countries.

In addition, all Innovest employees participated in the annual Joy Drive for the Little Flower Assistance Center contributing much-needed supplies for families in Aurora, Montbello, and Green Valley Ranch. Finally, Innovest employees assisted families in finding gifts at the Denver Santa Claus Shop, supporting the nonprofit's mission, "A Toy for Every Girl & Boy."

Conferences, Speaking, Events, & Sponsorships

In November, Innovest hosted the Arizona Defined Contribution Conference (AZ/DC) in Scottsdale, Arizona. This conference offers networking opportunities for Arizona public plan professionals and a forum for the exchange of industry knowledge and expertise.

Innovest Principals Troy Jensen and Jared Martin took the stage at the 2023 Colorado Government Finance Officers Association (CGFOA) Annual Conference in Breckenridge, Colorado to give a presentation titled "Back to the Future? Monetizing Retirement Plan Participants."

At the NAGDCA Conference in Seattle, WA, Innovest Principal, Paul Nacario, skillfully moderated a roundtable discussion, and Innovest President, Principal, and Co-Founder, Wendy Dominguez, showcased her expertise as a panelist in the Solutions to Fiduciary Challenges discussion.

Innovest proudly sponsored the Colorado Professional Firefighter Foundation L900 Golf Tournament in September, helping the organization surpass last year's fundraising goal by an impressive $10,000. The CPFF Foundation provides crucial support to Colorado firefighters, their families, and communities.

In alignment with our focus on education, Innovest also sponsored the Focus on Finance Gala with Economic Literacy Colorado (ELC). ELC empowers students with crucial life skills focusing on economic and personal finances and equips teachers with the tools and knowledge to teach these concepts in schools. Additionally, ELC offers hands-on opportunities for students to explore careers in the financial industry.

INNOVEST

CliftonLarsonAllen

April 4, 2024 | Denver, CO

ROCKY MOUNTAIN BENEFITS CONFERENCE

INNOVEST

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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Principals

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