WINTER 2021

INNOVIEWS

Making Retirement Work

Innovest's Latest Updates and Articles from Thought Leaders in the Firm

In This Issue

New Clients

Big Brothers Big Sisters of Colorado

Federal Chiropractic Licencing Board

Christian Care Ministry

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.

2020 Client Survey Results

Overall Customer Service..... 4.7/5

Overall Satisfaction..... 4.7/5

Net Promoter Score 9.4/10

Looking Ahead to 2021: Our 25th Year

Richard Todd
CEO, Co-founder, and Principal

As we look ahead to our 25th year in business, Innovest is a stronger and better firm than a year ago. In 2020 we maneuvered through the Covid-19 crisis, highly volatile markets, emotional and uncertain times, and the scramble to serve clients remotely. Our team worked very hard and served clients well as we focused on a key, core value – "dedication to the client." Communicating effectively and proactively with clients was vital as we mastered virtual meetings and conducted a number of webinars to keep clients informed. Our theme for 2020 was "building relationships." Although no one was fully prepared for the shutdown, we believe that we were able to grow our relationships with clients by working hard and being creative.

While the 2020 investment markets turned out to be good for clients, the year included the fastest 30%+ decline in the history of the S&P 500. Our mantra at Innovest is "Process over Prediction." Our focus on process entailed rebalancing portfolios after a significant decline in risk assets, which added nicely to clients' returns as markets rebounded. Portfolio rebalancing is difficult because it "leans against the wind." In early 2020, we added to equities and other investments that the market had taken down in value, while concurrently reducing what had performed well – high quality bonds. We are confident in our proven approach.

Innovest had a record year in revenue,

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and we maintained our promise that clients will benefit from our growth. Our formula is not complicated. If we keep our clients and grow modestly (35 new clients in 2020), we will continue to offer terrific opportunities to our professionals. The most important way that clients benefit from our growth is by having high-caliber professionals join our firm. At the beginning of the pandemic, we acquired California-based Advisory Consulting Group, and we are excited about the experience and expertise that Robert Stebbins and Rick Rodgers are adding at Innovest. Rick is a former Innovest partner. Retaining our quality professionals is important as well; our historical employee retention rate is over 90%. In 2020, we were pleased to welcome new employees Steven Fraley, Peter Girard, Kendra Jensen, Alexandra Johnson, and Dustin Roberts. We had some key promotions at Innovest as well. Congratulations to those promoted during the year: Cos Braswell, Pam Cruz, Clair DeLine, Zach Heath, Brett Minnick, Sloan Smith, and Brooks Urich.

The Innovest NexGen Society, led by Sloan Smith and Jared Martin, continues to expand. NexGen focuses on developing leadership skills for Innovest's next generation of leaders. Kyli Hanson, Caitlin Markel, Kenny Senour, and Abigail Thomas were selected to join the Society in 2020.

We are excited about a new enrichment program, "Character Strengths," which is benefiting our Innovest team of 52 strong. Each month, small groups concentrate on improving a personal character quality and turning it into a good habit. The program started with a concentration on helpfulness, and December's focus was generosity. Team leaders are Mike Corbett, Kathy Lalone, Christine Hudek, Bill Fender, Eileen Pohs, Pam Cruz, and Cheryl Wilks.

Each year recognition and bonus cash awards are given to our top employees. We are proud of Kyli Soto, recipient of the Bill Fender Mentorship Award, Marleen Zakovich, who won the Service to Others Award, and Nancy Swanson, recipient of the 212 Degree Award. Our top award, The Founders Award, was presented to Sloan Smith.

For the seventh year, Innovest was an Arrupe Jesuit High School Work Study Partner, employing a team of four students. The students' compensation from working at our firm goes directly to the school to offset some of the costs of their high-quality Jesuit prep school education. This program is also a gift to Innovest and our team; we are humbled by the positive influence that we have on these terrific students. Volunteering is an important hallmark of Innovest's culture. Led by Kathy Lalone, we coordinated 15 volunteer events for employees and their families, including a First-Responders Lunch, Project C.U.R.E., Project Angel Heart, Love for Our Elders, and a school-supply drive at Annunciation Catholic School.

Thought leadership and supporting the investment and fiduciary community are important values at Innovest, as well. Our professionals spoke at 12 different conferences in 2020. In addition, 15 times in the year we either authored articles or were interviewed by journals, blogs, or periodicals.

We firmly believe that our culture is key to our success at Innovest. Developing our professionals not only advances their experience, knowledge, and character, but creates an environment that is highly rewarding to them. The Innovest environment is also very attractive to prospective employees. We are confident that our clients are beneficiaries of our culture, which is one of the reasons why our client retention is 97%+.

A positive client experience is the lifeblood of our firm. We are honored by our client relationships and their terrific loyalty and support over the past 25 years. We look forward to the challenges and opportunities of the new year. All the best for a wonderful 2021!

Recordkeeper Consolidation Considerations for Retirement Plan Sponsors

Dustin Roberts, MBA, QKA, AIF®
Vice President

Recordkeepers continue to make news with acquisitions involving some of the industry's largest and most recognized names, a consolidation trend that impacts tens of thousands of employers and millions of participant accounts each year. A carefully considered selection of a provider can be wholly displaced by this now common occurrence when two merge or one acquires another. It is important for plan sponsors to consider how the change will affect the plan and participants, starting with plan governance, timing, service, and technology.

Plan Governance

If a plan's recordkeeper is changing due to an acquisition, one of the first questions that comes to mind is "when." Instead,

begin by asking "if." Plan sponsors can view this in the context of the plan governance strategy and determine how the change fits rather than seeing it as something that is happening to the plan. Selecting a recordkeeper is, after all, a fiduciary function. An acquisition and the related impact to the provider's service model, people, resources, and even fees may undermine the due diligence that led to the current choice.

One best practice is to conduct a Request for Proposal (RFP) or Request for Information (RFI) periodically to assess vendor options or renegotiate fees. If it has been more than a few years, this may be a prudent step to take. For more information on this, read Innovest's Summer 2020 InnoViews article, Crafting Effective Request for Proposals. If an RFI/RFP has been conducted recently or is not currently feasible, some analysis is still beneficial. Plan sponsors can start by asking, "Are we happy with our provider?" and "What do we like most and least about our current provider?" These should consider both plan sponsor and participant experiences. By comparing these answers to the qualities plan sponsors deem most important, they can examine how well the current provider meets their needs.

A transition may also offer an opportunity to resolve service or feature gaps with the current provider without the full undertaking of an RFP and conversion. The chance to test-drive the new provider first may be appealing. In either case, as a plan fiduciary, it is essential to take an active approach to this partnership by gathering those thoughts and documenting the decision-making process.

Timing

A broad timeframe (i.e., 12-18 months) typically applies when a provider announces this type of acquisition, but a specific date for each affected plan might not be. It is helpful to confirm this as soon as possible because it will impact the plan governance calendar and help determine if there is enough time to complete an RFP, if warranted or desired.

The transition communication plan and timing are also important. If considering a proactive change, plan sponsors will need to know when the new provider intends to notify participants, so as to intervene prior. If going ahead with the transition, they can assess how the communication timing aligns with current employee education strategies or schedules.

Migrating multiple retirement plans is a large and coordinated task. A provider might move all plans at one time or use a phased approach. The latter can allow for some flexibility as to the specific date for a particular plan. The phased approach can also give the provider a chance to monitor the process and even gather customer feedback to improve from one group to the next. Plan sponsors should consider if there is flexibility and if other dates offer any advantages.

Service

Plan sponsors often rely on provider personnel that they know and trust to help manage the plan, such as relationship managers, compliance specialists, or education consultants. Team members may transition, and restructuring may be minimal, but some change is likely due to differences between the two providers' service models and coverage needs. A larger or combined provider may divide plans by size differently, and different tiers may correspond to various available services or resources.

Plan sponsors should consider the current service experience and understand how that will look with the new provider. Consumers often look to reviews and ratings to help make purchasing decisions for personal services, and a similar approach can be helpful here. Industry associations and many providers themselves conduct customer satisfaction surveys, though consideration of the source is important, as any self-furnished survey results are likely only to be of the positive variety. Consulting with other service partners and peers that have experience with workplace retirement plans can also be beneficial to get unbiased insight on providers' capabilities.

Technology

Website and mobile experiences predominantly shape the recordkeeper's relationship with participants, so it may help to request a demo or preview of these resources. Technology is vital for a provider beyond the user interfaces, though, down to the recordkeeping platform itself and the cybersecurity protections that surround it.

Plan sponsors and participants should expect some minimum capabilities, so these features and tools are less likely to make a meaningful difference in the assessment. Plan sponsors should note any enhanced or unique functions that they rely on currently, however, as those may expose more meaningful provider differentiation. Examples of this might include payroll integration partners, custom model portfolio recordkeeping, specific or complex eligibility tracking needs, or financial wellness resources.

The commitment and capacity to invest heavily in the recordkeeping business, including service and technology, determines which providers are growing through vendor consolidation. Therefore, the new provider may offer advantages over the current one, but plan fiduciaries should be proactive in that assessment. For over two decades, Innovest has worked with all major recordkeepers and helped clients successfully execute this crucial responsibility.

Who Will Pay for the Federal Debt?

This article is part 1 of a 2-part series

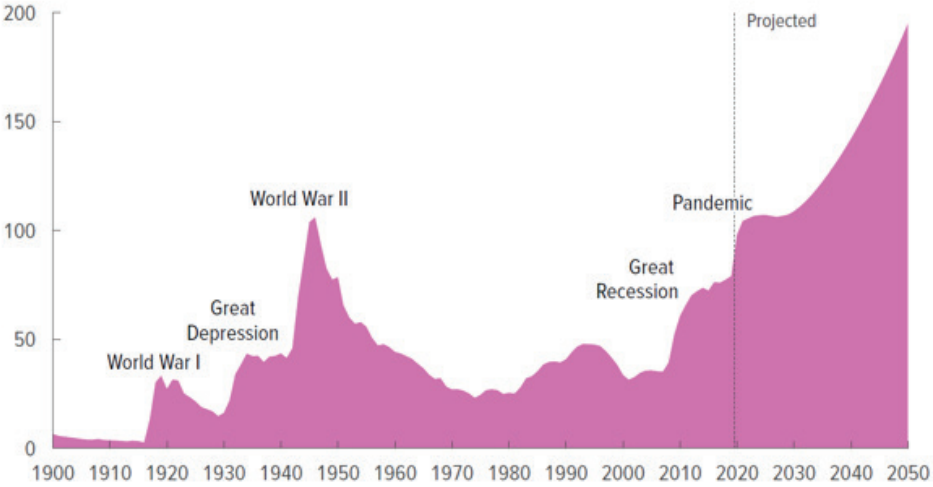
Scott Middleton, CFA, CIMA®
Principal

Brooks Urich
Senior Analyst

The federal government ran a deficit of $3.1 trillion during its fiscal year 2020, more than triple the level of the prior year. Amounting to more than 15% of GDP, the 2020 deficit was the largest as a share of the U.S. economy since 1945. The federal debt, which is the accumulation of all deficits, was over $27.5 trillion at the end of calendar year 2020. As indicated in Exhibit A, the Congressional Budget Office projects that the federal debt as a percentage of GDP will accelerate dramatically in over the next 30 years to unprecedented levels.

How will the U.S. ever get out from under its unprecedented level of debt? Who will pay for it?

EXHIBIT A
Federal Debt as a Percentage of GDP



Source: Congressional Budget Office, The 2020 Long-Term Budget Outlook, September 2020.

Cutting Spending

The most straightforward solution to reducing the debt load is for the government to spend less than it receives in revenue for a long period of time. Making up for the 2020 deficit in the current fiscal year would entail across-the-board cuts in government spending by about 50%. Social Security, Medicare, and Medicaid benefits total about $2.4 trillion in this year's spending, and unemployment benefits amount to an additional $500 billion. Imagine a sudden 50% cut in your Social Security, health and unemployment benefits to offset last year's deficit. Even a 50% cut in these benefits would not make up even one-half of last year's deficit. All other government spending would need to be cut by one-half as well. As the U.S. recovers from the 2020 recession, there is a nonexistent appetite for even modest spending cuts.

Raising Taxes

The other side of the deficit issue is federal tax revenue. During the 2020 Presidential campaign, Joe Biden promised he would not increase taxes on households earning less than $400,000 per year. Instead, higher taxes would be assessed on corporations and higher-income individuals. The Biden plan is projected to raise $2 trillion and $3 trillion over a decade, or about a 6% increase in federal revenue.

If the Biden tax proposals are passed and the above projections are accurate, it would take between 11

and 17 years for the additional government revenue to pay off just the 2020 deficit. Such increases would barely begin to address the accumulated federal debt in excess of $27 trillion. The danger of significant tax increases is that they could choke off economic growth, leading to a recession and more even more deficit spending.

Elusive Surpluses

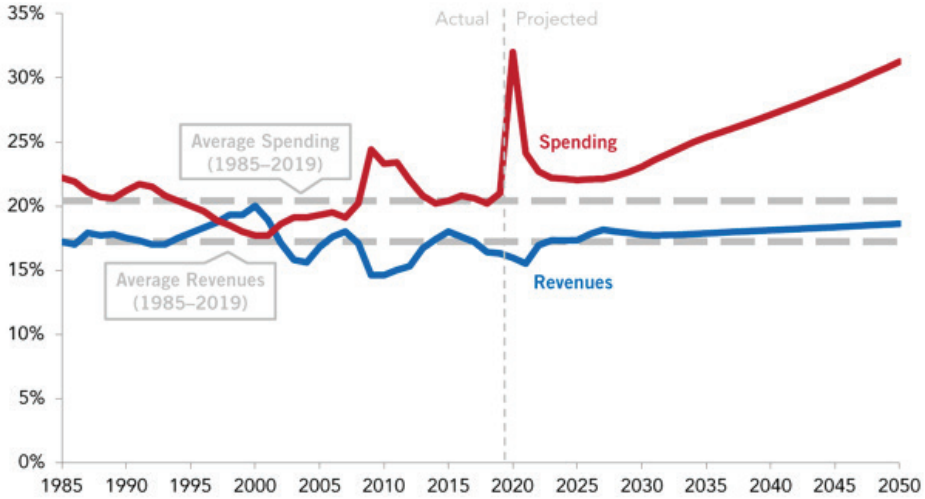
The federal government has a very thin record spending less than its income. Since 1969 there have been only four fiscal years when the federal government ran a surplus: the consecutive years of 1998 to 2001. Those surpluses were due to a combination of deliberate cuts in expenditures, higher tax rates, and especially strong economic growth. The total of the budget surpluses from 1998 to 2001 was $560 billion—relatively modest when compared to the current accumulated debt.

The largest deficit increases over the past 15 years have been from falling tax revenues during two deep recessions (2008-2009 and 2020) and especially from concurrent, massive spending increases to aid those out of work and stimulate economic growth.

Democrats tend to avoid spending cuts, and Republicans tend to shun tax increases. As the adage goes, politicians may know how to solve the debt issue, but none of them knows how to get reelected after doing it.

EXHIBIT B

Federal Spending and Revenues as a Percentage of GDP



Sources: Congressional Budget Office, The 2020 Long-Term Budget Outlook, September 2020; Office of Management and Budget, Historical Tables, Budget of the United States Government, Fiscal Year 2021, February 2020; and Peter G. Peterson Foundation.

Looking Back

Arguably the most important factor in reducing the relative size of the federal debt in the decades after World War II was strong U.S. economic growth. In the 1950s and 1960s the U.S. had strong growth in the number of workers, and even greater growth in real output per worker. The combination of those two factors has not been surpassed in any decade since the 1960s, despite developments in technology.

The U.S. government debt did not pay off its debt after WWII; total debt continued to grow. However, GDP growth outpaced the increase in total federal debt, and the Debt-to-GDP ratio decreased.

A review of the last 120 years or so indicates that Germany, Japan, Russia, Greece, and many other nations have experienced periods of out-of-control debt. Government actions have typically led to either defaulting on sovereign debt or devaluing their currencies, leading to much higher inflation at home. Higher domestic inflation usually makes debt problems worse, not better, as it typically leads to higher interest rates on future government borrowing.

Looking Forward

Every consumer has to pay off his or her loans; individuals' careers and lifespans are finite. However, because the U.S. is projected to have a perpetual lifespan, it is much more critical that it manages the level of its ongoing debt, as opposed to paying it off completely.

The government may be able to manage its interest payments as long as interest rates on government borrowing remain low, which is a serious uncertainty in the coming years and decades.

Ideally the U.S. will be able to manage its indebtedness through an acceleration in economic growth. However, there are two significant, long-term headwinds for U.S. growth. First, research by American economists Carmen Reinhart and Kenneth Rogoff suggest that economies with higher levels of government debt tend to have slower economic growth rates. Second, the U.S. working-age population is projected to grow very slowly in the coming 20 to 30 years. Some of these headwinds could be offset somewhat through higher worker productivity growth and increased immigration.

Now What?

What potential portfolio changes should investors consider in light of the government's long-term debt issues? That topic will be the focus of part two of this article.

Get to Know Natalie Roderick, Vice President

1

WHERE IS YOUR HOMETOWN?

I started life in Texas, quickly moved to Virginia, and then spent most of my younger years in Faribault and Rochester, Minnesota. We made the move to Colorado when I was 13, both my parents having grown up in Grand Junction. I usually tell folks that I am a semi-native -- I married a Colorado native and we now reside in the southeast suburbs of Denver.

2

TELL US SOMETHING UNIQUE ABOUT YOU.

I did my first 14er this summer! I've been wanting to do one for years and am happy this was the year it came together. My girlfriends and I enjoyed some champagne at the top.

3

WHAT DO YOU LIKE BEST ABOUT WORKING AT INNOVEST?

I am continually amazed at how philanthropic Innovest and its employees are. Giving back, not focusing on yourself, and helping others is the prevailing way of life here. It is so impressive to me

4

HOW DO YOU GIVE BACK TO THE COMMUNITY?

I serve on the executive committee for the board of Inner City Health Center. I also enjoy volunteering in a variety of ministries at my church and participating in the many volunteer opportunities that arise here at Innovest.

5

WHAT ARE YOUR HOBBIES AND INTERESTS?

I love to be active outside, whether walking our dogs, hiking, kayaking, biking, or any of the fun sports we get to do outside here in Colorado! I usually try to round up some folks to join me on whatever adventure I'm involved in. I also love to travel and experience new things.

6

TELL US ABOUT YOUR FAMILY?

I've been married to my wonderful husband for over 26 years. We have a 21-year-old son at Creighton, majoring in economics with a minor in biology and planning to be a dentist. Our daughter, 22, graduated this past summer from Franciscan University with a double major in philosophy and theology, followed by her master's degree in theology. In August she entered a religious convent to become a Sister (also known as a nun)! In a recent letter, she let us know that it has been even more amazing than she thought it would be. We are extremely happy for her.

7

WHAT IS YOUR FAVORITE ICE CREAM FLAVOR?

I don't eat a lot of ice cream, but if it's just about any other dessert with chocolate, I'm in.

THE BUCK INSTITUTE

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

The Buck Institute for Research on Aging, once considered a pioneer in research on aging, is now a global leader in the field. The Institute opened its doors in 1999, becoming the world's only research institution singularly focused on the biology of aging, yielding insights into age-related diseases before they start. The Buck hires scientists from a variety of disciplines to attack the problem of aging from all sides since the answers will not come from a single field. To enhance the research process, The Buck worked with world-renowned architect I.M. Pei to create a campus that literally would not allow researchers to work in silos.

The Buck Institute uses cutting-edge science to tackle aging, the #1 risk factor for chronic disease. It brings together the most capable and passionate scientists from a broad range of disciplines in an environment that encourages open collaboration for the purposes of identifying and changing the ways in which we age. Its science is all about increasing human health span and, ultimately, solving some of the biggest problems facing the world today.

The average lifespan of someone born in 1900 was 47 years. Since then, improvements and discoveries in science and medicine have added approximately two years per decade to that average. Remarkably, a child born today can expect to live more than 100 years.

Aging is a progressive process that, until recently, was thought to be accompanied by inevitable degeneration. Research at the Buck Institute is focused on gaining insight into the critical molecular and biological drivers of aging, leading to new therapies which will improve the health span of the global population. Each lab at the Buck has a unique focus in aging or age-related disease. Together, the Buck labs combine their collective wisdom to forge a new path toward a future with reduced disease and improved health as we grow older.

The Institute's mission includes training the next generation of aging-science researchers and sharing our science with the community. Educational opportunities include programs for graduate students as well as community education programs for K–12 students, teachers, and adults. To learn more, please visit https://www.buckinstitute.org/.

Around the Firm

Employee News

Awards, Promotions and Other Notable News

Innovest was named a 2020 Best Place to Work in Money Management by Pensions & Investments for the sixth time in seven years (2014, 2016, 2017, 2018, 2019, 2020). Innovest's stewardship culture, team-based collegial approach, monthly volunteer opportunities for employees, our partnership with Arrupe Jesuit High School, and our family-friendly work environment helped us clinch the win in 2020.

An enduring, firm-wide commitment to philanthropy is woven into the fabric of Innovest's culture. We are honored to be ranked among the top 25 of Denver Business Journal's Denver-Area Corporate Philanthropists. The list is measured by contributions to Colorado-based charitable organizations.

Congratulations to the recipients of Innovest's annual employee awards!

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Marleen Zakovich was recognized for her Service to Others. Kyli Hanson received the William Fender Mentorship Award. Nancy Swanson was honored with the 212º Award, and Sloan Smith received the Founder's Award. We are very proud of these employees for their hard work and dedication to clients and colleagues.

Congratulations are also in order for Cos Braswell, Zach Heath, Brett Minnick, and Brooks Urich for their promotions from Analyst to Senior Analyst. Way to go!

President Wendy Dominguez has accepted an appointment to the Colorado Public School Fund Investment Board, which benefits public schools. She was appointed to the board of this billion-dollar fund by the Colorado State Treasurer.

Christine Hudek was the recipient of the November 2020 Service to Others Award, and Brett Minnick won the October 2020 Service to Others Award.

Peter Mustian, Principal and COO, was named an honoree for the Denver Business Journal's 2020 C-Suite awards. The program honors CEOs, CFOs, and COOs who recognize opportunities, identify, and manage risk, achieve profitable growth, and are vital leaders. Congratulations Peter!

Conferences

Innovest's Rick Rodgers, AIFA®, Scott Middleton, CFA, CIMA, and Steven Fraley, CFA, MBA, were featured speakers at this year's Rocky Mountain Benefit Plans Conference, co-hosted by Innovest and Plante Moran.

Innovest will co-host the 21st Annual Rocky Mountain Nonprofit Conference with Kundinger, Corder & Engle, P.C. The conference will be held March 2-4, 2021, with two sessions daily at 9:00 a.m. and 10:00 a.m. This virtual event will cover the state of the economy, accounting, and tax updates, and how COVID-19 has impacted nonprofits.

The virtual Arizona Defined Contribution Conference (AZ/DC) was a great success. Hosted by Vice President Paul Nacario and City of Mesa CFO, Mike Kennington, the one-hour conference featured three speakers, including Innovest partner Gordon Tewell. Gordon also spoke about retirement plan fees at the virtual AICPA Employee Benefits Conference in November.

CEO Richard Todd spoke with business students at the University of Northern Colorado on "The Innovest Experience with Inspiration from Bill Daniels." The presentation was part of the virtual 2020 Monfort College of Business Ethics Week.

In October, Innovest partnered with Eide Bailly and Snell & Wilmer for the 2020 Southwest Nonprofit Conference. Scott Middleton and Steven Fraley both spoke about the economy, markets, and implications for nonprofits.

Also in October, Karen Winkelman, CEO of the Innovest Family Office, hosted a webinar to discuss best practices, checklists, and important year-end considerations for a family office.

Volunteer Opportunities

As a way to give back to the community during the holidays, Innovest employees donated funds to support seven families of 14 parents and 36 children. Our annual participation for more than a decade in the Adopt-A-Family project has helped the Colorado community through matching compassionate donors with low-income families and individuals.

In December, Innovest employees also volunteered at the Denver Santa Claus Shop. Marianne Marvez, Vice President, sits on the board of this outstanding organization.

Innovest employees contributed 100 cards for Love for Our Elders. The project collects and mails handwritten cards to senior citizens to help fight loneliness and physical isolation.

As a part of #ColoradoGivesDay, Innovest employees made over 80 individual donations to the nonprofits of their choice. We are proud to be a part of this record-breaking year for Colorado Gives Day, which raised over $50 million for nonprofits in Colorado.

Innovest in the News

PLANADVISER recently revisited Innovest's recognition as the 2014 Retirement Plan Team of Year. The article, "15th Anniversary of RPAY: Innovest Portfolio Solutions," highlights Innovest's growth and provides insights from Principal Gordon Tewell about retirement plan industry changes and Innovest's diligence during the pandemic.

Kristin Lee and Joshua Shapiro co-wrote the article "Using Operational Controls to Mitigate Fiduciary Risk," which was published by *BenefitsPRO*.

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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