INNOVEST'S **RESEARCH** REPORT

A NEWSLETTER BY INNOVEST

SPRING | 2019

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NEW CLIENTS

Innovest was recently selected to provide investment consulting services for:

Adams 12 Five Star Schools

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

CHOICE OVERLOAD: HOW MUCH IS TOO MUCH?

Cheryl Wilks
Senior Analyst

How many decisions does the average person have to make in one day? Getting ready for work in the morning, you turn on the television. If you still have cable, chances are, you have up to 1,000 channels to choose from. On your way to work, you may have stopped at Starbucks where there are 87,000 possible drink combinations. Your beverage of choice in hand, you select your route to work, perhaps guided by a traffic reporter on one of the 1,000 radio stations you had to choose from. Maybe you have satellite radio in your car? For your listening pleasure, your provider has provided you with 130 different stations to choose from. What parking spot do you maneuver into today? You arrive at your desk – do you start with voicemail or email? Or maybe the project you left hanging yesterday afternoon?

There are many types of decisions humans are faced with in the infrastructure of our daily lives. Estimates on the number we are faced with range anywhere from 5,000 to upwards of 30,000 decisions per day. Over a lifetime, the average person will make over 770,00 decisions and will come to regret approximately 140,000 of them. The larger, more imperative decisions, or the inability to make them, can have serious consequences.

Consider the current state of retirement readiness in this country. According to the National Institute on Retirement Security, almost 40 million households have no savings at all. The Employee Benefit Research Institute estimates that Americans have a retirement savings deficit of $4.3 trillion.

Among the many challenges facing plan sponsors today, one of the most important is participant engagement. One of the primary ways plan sponsors can increase participation in their retirement plans is to evaluate the investment menu. The investment menu is ultimately what participants will use to grow their savings for retirement, so it's importance cannot be overstated. The key to crafting a retirement plan investment menu is creating a balance between providing enough options for diversification and keeping the menu simple enough for participants to use easily. This is where choice plays a factor.

Studies have shown that too many choices in an investment menu can lead to poor diversification, procrastination, or "paralysis from analysis" – where participants will make no choice at all.

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After all, they probably had to make around 2,000 choices before coming to work and being presented with information on their retirement plan. Just thinking about making one more decision can be defeating – especially when the participant might not feel they have the expertise to make the right decision

Utilizing an understanding of participant behavior and the daunting number of decisions facing the average human on any given day, plan sponsors should consider simplifying and designing investment menus around key objectives and organizing fund options into "tiers."

TIER 1

Target Date Investments/Risk-Based Models
For investors who want a simple, yet diversified approach to investing

Tier One - Do It For Me

For the majority of participants, the thought of navigating even a simple core menu of funds can be overwhelming. For those participants that want someone to "do it for me," it is best to guide them through the process of making an investment election based on their age or their expected date of retirement and then selecting the appropriate target date fund. Another option is a risk-based model (i.e. conservative, moderate, aggressive). Participants feel assured their account will be professionally managed. The proliferation of target date fund usage over the past 10 years is a sign this tier is suitable for a large portion of the participant population.

TIER 2

Core Investments
For investors who want a more hands-on investing style

Tier Two – Help Me Do It

For the segment of the participant population that have the desire to spend time understanding and building their portfolio, it is a best practice to provide them with a simplified core menu of funds.

The challenge to plan sponsors is to provide enough options to deliver diversification, but also keep the menu easy enough for the average investor to understand. A well-constructed menu might include 10 to 15 choices.

TIER 3

Self-Directed Brokerage Option
Choose from thousands of available options

Tier 3 – Do It Myself

For some plan sponsors with seemingly sophisticated investing participants, they may want to provide additional choice. While this isn't appealing to all plan sponsors, some find the ability to point participants to a brokerage window to purchase almost any investment option a benefit. We find that the amount of participants that actually invest in a brokerage window is about two percent.

Our experience has shown that a streamlined approach to investment menu construction benefits both participants and plan sponsors. Participants can focus on how much to save, which is arguably the most important determination they will make in having a successful retirement, versus combing through dozens of investment options. Plan sponsors can also focus on monitoring the limited number of investment options and creating economies of scale to keep costs down. Together this will create participants that are retirement ready and reduce the fiduciary liability of plan sponsors.

To read more on investment menu construction and future trends, visit www.innovestinc.com/innovest-whitepapers to read our newest whitepaper, "Investment Menu Simplification."

RETIREMENT PLAN FEES 2.0: LAWSUITS, LEVELING & LESSONS LEARNED

Kyli Hanson
Senior Analyst

In a time filled with increasing student loans, consumer debt, and home mortgages, setting money aside for retirement is already challenging as it is. Fiduciaries need to do their best to ensure that the money saved by plan participants for retirement is being maximized toward their investments and not paying fees and other expenses. The more a participant pays in fees, the less money they will have in their accounts for its intended purpose: retirement.

Historically, there has been a lack of transparency around how recordkeepers and other service providers are compensated. Several years ago, if you asked retirement plan vendors how they were compensated or what plan participants were being charged, you might have been told that it was proprietary information or that it could not be disclosed. However, the retirement industry has made significant strides over the last few years. What used to be considered proprietary information has become legally required fee disclosure regulation. As we continue to understand how fees are charged, we have learned a great deal on how our clients can assess and improve the fees they are paying to vendors.

Ignorance is Not Bliss

Some firms in Colorado may have heard of "The Strong Arm" Franklin D. Azar & Associates. No longer is the firm solely focused on personal injury cases. If you visit their website, you will see their latest line of business: compelling 401(k) participants to contact them if their plans have high fees. This is just a local example of the newest trend in retirement plan litigation. Fiduciaries must pay attention to the reasonableness of fees being borne by the participant. To help reduce the potential of litigation, we have identified five best practices for addressing retirement plan fees.

1. Use RFI/RFPs to routinely benchmark fees (every 3-5 years)

The recordkeeping space is becoming extremely competitive and the services being offered to plan participants continue to improve. Additional services may be available within the plan's budget or plans might even be able to save money in other areas, such as payroll services or participant education if this is offered by the recordkeeper. An industry best practice is to routinely send plans out for bid within the marketplace, not just with the existing recordkeeper, but to competing firms. This is the most immediate and accurate way to determine if the fees currently being paid are reasonable.

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SAY WHAT?

Unpacking retirement fee jargon.

REVENUE SHARE

Indirect compensation. Refers to fees generally collected from plan investments & passed through to other service providers. Used to compensate recordkeepers and service providers for marketing and/or account servicing fees otherwise borne by the mutual fund.

12(b)-1 Fees
Payment to a broker for the sale of a fund.

Shareholder Servicing Fees
Paid to a recordkeeper/custodian/third party, in addition to 12(b)-1s for services rendered to the plan (e.g., recordkeeping and administration).

Sub T/A Fees
Payments to a recordkeeper/custodian/third party for the sub-accounting of participant shares for retirement plans.

SHARE CLASSES

Mutual funds have multiple share classes where the only difference is the expenses they charge.

ASSET-BASED FEE

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A fee that is calculated by charging based on the amount of money in a participant's/plan's account balance. As the assets grow, the amount charged also increases.

PER-PARTICIPANT FEE

A fee that is calculated by charging based the number of participants in a plan. The growth of assets is irrelevant to the amount charged.

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Even if the plan sponsor stays with the incumbent provider, there are often cost savings and/or additional services being offered beyond what was being received as a direct result of this process

2. Separate Vendor Fees from Investment Fees

In a plan where the investment selection is participant-directed, a participant can choose to put their assets into the funds available in the plan's investment menu. Some of these funds may have differing investment fees, but they may also have differing revenue share percentages. When a recordkeeper charges based on a certain revenue requirement, the recordkeeper will withhold all of the funds generated from revenue sharing in an escrow account and use those funds to cover their recordkeeping and administration fees (assuming a plan is not fee-leveled). There are two issues with this methodology. One, if participants select different funds that have different amounts of revenue sharing, it is not fair and equitable to each participant. Some participants will be paying more toward recordkeeping fees simply because of the investments they select. Two, if more revenue share is collected than the required amount to the recordkeeper, the money ultimately stays in the escrow account, sometimes not making it back to the participant that generated the funds in the first place. Due to the lag in collection and ultimate rebate, the participant may have left the plan or passed away and their beneficiaries may never receive the funds.

3. Price Administration Fees on a Per-Participant Basis

Having recordkeepers assess their fee based on the number of participants in a plan is transparent, easy to understand, and evenly distributes the cost of the plan across all participants. This also helps the plan sponsor control the costs as the plan grows over time. Is a recordkeeper necessarily doing more work just because the assets in the plan have grown? Or is a participant with an account balance of $100,000 vs. $1,000 100x more difficult? If the plan is charged based on the number of participants, then the vendor's fees can be scaled to the workload. Although it may be a bigger portion of the participant's account at the onset to pay a flat fee, over time it will save them money as their account size grows. If particularly cumbersome, plan sponsors do have the option to implement thresholds for when and how much participants are charged including a per-participant fee aggregated on a pro-rata basis or through setting a minimum account balance before a participant is charged.

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NONPROFIT SPOTLIGHT

COMMUNITY REACH CENTER

COMMUNITY REACH CENTER

The Community Reach Center Foundation supports the services and programs of Community Reach Center. Established in 1957, Community Reach Center provides quality mental and physical health services to enhance the lives of its clients and the well-being of our communities. The Center provides a comprehensive continuum of care for children, families, adults and seniors, with services ranging from substance abuse treatment to crisis services.

The Center, which was the first provider of community mental health care in the Rocky Mountain region, serves the metro Denver area with locations in Commerce City, Westminster, Brighton, Thornton, and Northglenn. In 2018, the Margaret Carpenter Center was opened in Thornton to provide residential treatment for substance use disorders. In addition to adult-centered service locations, the Center operates Mountainland Pediatrics in Thornton, which is a comprehensive pediatric primary care center that provides integrated health services and an Autism Spectrum Disorder Program.

To help fund services for uninsured and underinsured individuals in Adams County, Community Reach Center hosts an annual golf tournament, "Reach for the Green." This year's tournament will be Tuesday, September 10 at Todd Creek Golf Course.

Innovest is proud to provide consulting services to the Community Reach Center Foundation!

BY THE NUMBERS

22,605 people served in 2018

Of the more than 22,000 people, **38%** were youth, **58%** were adults and **4%** were seniors.

$2.5 million in charitable care in 2018

$58,147 raised in the 2019 Reach for the Green Golf Tournament

2018 Community Reach Center Annual Report

4. Benchmark & Negotiate Investment Fees Regularly, Considering Both Fund and Vehicle

Many mutual fund companies offer multiple share classes for the same investment vehicle and each share class will charge differently, usually based on the number of assets being held in the fund or by the amount of extra revenue they are generating for a recordkeeper. These companies certainly are not going to call a participant when they have acquired enough assets and say they would like to charge them less because they have reached a certain price break. Fiduciaries must be active and complete due diligence to find more cost-effective options. Innovest conducts share class reviews for our clients on an annual basis and helps leverage economies of scale to pay the lowest fees possible. Plans with larger assets may even qualify for Collective Investment Trusts (CITs) as an alternate vehicle to consider for reducing investment fees even further.

5. Monitoring Transaction Fees

When conducting a vendor RFI/RFPs or renewing existing contacts, be sure to negotiate transaction fees to reduce the overall cost structure. Certain recordkeepers may charge participants for withdrawals, loans, managed accounts, etc. These fees are in addition to the fees already being paid by participants for investments, administration and recordkeeping. The more a vendor includes these a la carte fees in the base price already being paid, the leakage is prevented from participant's account balances. Fiduciaries should consider reviewing the fees charged to the plan and its participants on an annual basis.

Managing retirement plan fees is a win-win for participants and fiduciaries. The less a participant pays in fees, the more they will have in their accounts for retirement.

WHAT GREAT INVESTMENT COMMITTEE MEMBERS SHARE IN COMMON

Richard Todd
Principal, CEO

Wendy Dominguez, MBA
Principal, President

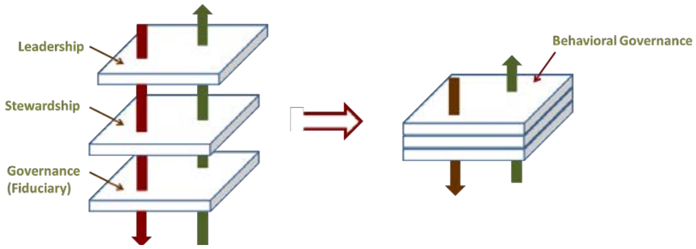
Great investment committee members share the following seven traits.

1. **Do not define themselves by what they do, but rather by who they are and how they do it.**

   They exhibit a balanced continuum between their leadership, stewardship, and governance (fiduciary responsibility). The term ***behavioral governance*** is used to define this continuum.

   Behavioral governance is based on the groundbreaking academic research in neuro-leadership that has identified key neurological and psychological capacities that impact the quality of an effective and inspiring decision-making process.

   Studies suggest that ***behavioral governance*** will have more impact on the success of an investment committee member than any other factor.



2. **Have the capacity to inspire and engage others.**
3. **Look for ways to increase their understanding of their own strengths and shortfalls.**

   They have the capacity to understand their own self within changing roles and requirements. They're committed to self-improvement and life-long learning.

4. **Are passionate and disciplined about protecting the long-term interests of others.**
5. **Can build trust.**

   Behavioral governance informs us that the keys to building trust is the committee member's ability to:

   - Enact a fair, just, and transparent process to resolve moral conflicts, or to allocate limited resources;
   - Provide shared visions and strategies that gain commitment and alignment, and inspire higher levels of performance; and

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- Adjust and adapt behaviors to enact more appropriate responses to ill-defined, changing, and evolving situations.

6. **Demonstrate the ability to manage the details of a procedurally prudent decision-making process.**

   Procedural prudence is a legal term that defines an even higher standard of care than a best interests or suitability standard.

7. **Are not afraid to fail.**

   When they do fail, they have a strong sense of purpose and a defined moral and ethical framework to guide them back to their mission. They're not so much remembered for their fifteen minutes of fame as they are for how they handled their fifteen minutes of shame.

Great investment committee members start each day with a commitment to be a passionate steward of their various leadership roles. They understand that leadership is a privilege, not a right. It's a responsibility; it's a way of life, and not a title. They understand the critical importance of behavioral governance.

EMPLOYEE SPOTLIGHT

MARIANNE MARVEZ - VICE PRESIDENT

Marianne is a vice president and director at Innovest. She has more than 30 years of experience in the retirement plan sector. She is a member of Innovest's Retirement Plan Practice Group. She holds the Certified Employee Benefits Specialist (CEBS) and the Retirement Plan Associate (RPA) designations from the International Foundation of Employee Benefit Plans and the Wharton School of the University of Pennsylvania.

WHERE IS YOUR HOMETOWN?

I was born and raised in Denver and am a proud third-generation Denverite.

TELL US SOMETHING UNIQUE ABOUT YOU.

I went to high school at St. Mary's Academy, in Englewood, CO, and former Secretary of State, Condolezza Rice was in my class. I was the lead soloist in the Glee Club, and Condi was the accompanist. In addition, I was the editor of the student newspaper, and she was my front-page editor and reporter. It has been inspiring to watch her career, and I am hopeful she will attend our 50th class reunion in 2021.

WHAT DO YOU LIKE BEST ABOUT WORKING AT INNOVEST?

Innovest provides the opportunity to share my nearly four decades of retirement plan experience with both our multi-talented staff and our wonderful clients. Through this sharing of knowledge, I have been able to mentor and coach, which has been richly rewarding and truly humbling. I love partnering with our clients while helping them find new ways to achieve their retirement plan goals and objectives.

HOW DO YOU GIVE BACK TO THE COMMUNITY?

I currently serve on two nonprofit boards of directors, the Colorado Zoological Trust, and The Denver Santa Claus Shop. I volunteer at Arrupe Jesuit High School, Junior Achievement, and work with at-risk youth through various programs in the Denver area. I also actively support a fledging foundation, The B.R.I. Project, which educates teachers, parents and children about the choking game, as well as supports suicide prevention education for young people. I lost my oldest son, Nick, to suicide at age 28.

WHAT ARE YOUR HOBBIES AND INTERESTS?

I started singing in public at age seven and haven't stopped since. I currently sing in an adult rock choir known as Voices Rock! We opened for Lady Antebellum at Red Rocks last summer, and we will be singing the National Anthem in June at Coors Field for the Colorado Rockies. Being a Colorado girl, I love to ski, snowshoe, and hike with my husband Ed, and we both love to travel.

TELL US ABOUT YOUR FAMILY.

Ed and I have four wonderful adult children, all of whom live in the Denver area. Katie (42) is a Regional Loss Prevention Manager for Nike, Sarah (38) is an architect with Gensler, Stephanie (34) is a coder for Salesforce, and Michael (32) is a technical specialist for Comcast Spotlight. None of our children are married, so we don't have any grandchildren to spoil just yet. My husband is an organizational development and leadership training consultant for the State of Colorado and is looking forward to retiring in a year or so.

AROUND THE FIRM

RECENT EVENTS

Innovest in the News: Innovest was thrilled to be named to *PlanAdviser's* 2019 Top 100 Retirement Plan Advisers. Innovest Principal Peter Mustian was selected for *ColoradoBiz's* 2019 Top 25 Young Professionals. Additionally, *ColoradoBiz* featured Innovest for its contributions to CollegeInvest in light of the new College Savings Act. For additional industry insight and pertinent articles, please visit the Innovest blog at www.innovestinc.com/blog.

Innovest employees and their families volunteered at Project C.U.R.E. this quarter by packing medical equipment. Project C.U.R.E. works to bridge health resources by collecting medical supplies to send to developing countries to aid in the treatment of diseases, surgeries, vaccinations, and more.

Photos: Innovest employees volunteer at Project C.U.R.E.

In late January, Innovest and Eide Bailly co-hosted CrossFit Training for Your Benefit Plan. Topics included Responding to a Data Breach, How to Avoid Findings in an IRS or DOL Examination, and Financial Wellness for Holistic Retirement Planning.

Innovest employees attended and spoke at several recent events and conferences.

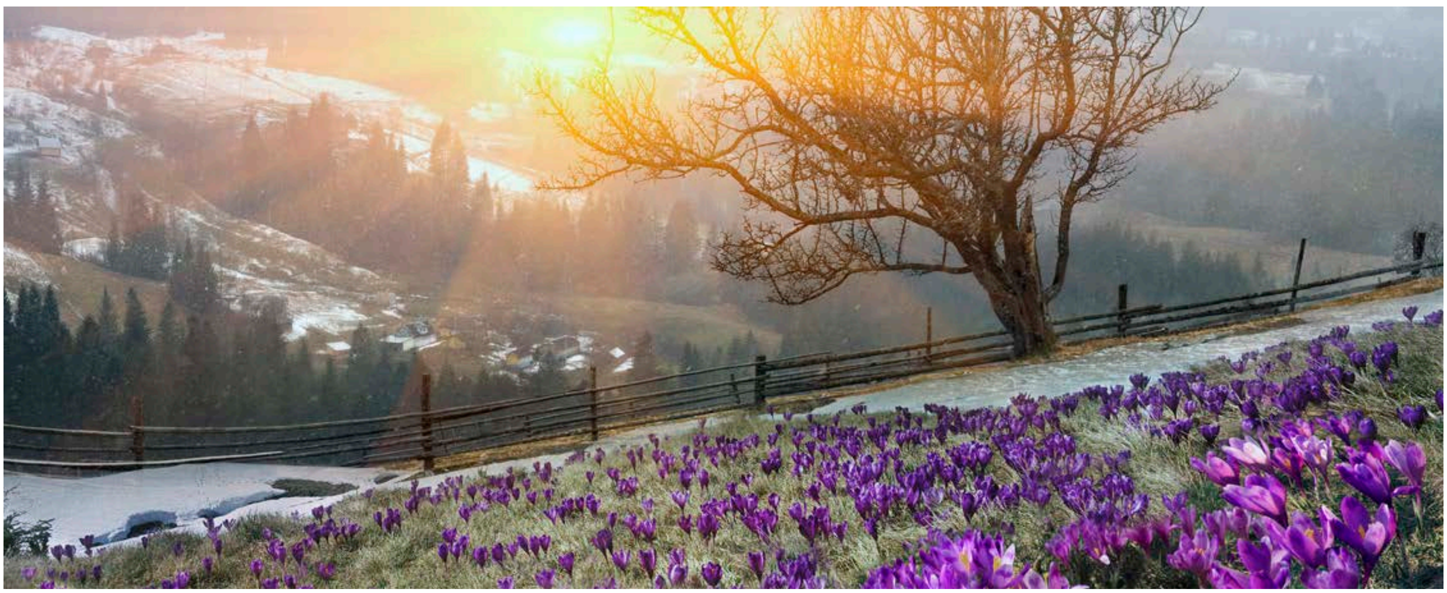
- Vice Presidents Paul Nacario and Jared Martin attended the TEXPERS Conference in Austin, TX.
- Principal Scott Middleton was on an emerging markets panel for the Mountain States Institutional Forum.
- Vice President Jared Martin presented at the Colorado Healthcare Financial Management Association.
- Principal Gordon Tewell spoke at the Phoenix Western Pension and Benefits Spring Conference.
- Vice President Natalie Roderick attended the Association of School Business Officials International in San Diego, CA, the Association of Business Administrators of Christian Colleges in Orlando, FL, and the National Business Officers Association in San Diego.

On March 7, Innovest co-sponsored the 19th annual Rocky Mountain Nonprofit Conference. The conference presentations included nonprofit economic updates, breaking bad investment committee habits, unlimiting your beliefs for greater personal and professional success, tax reform, current legal and accounting topics, and an update on the economy and financial markets.

There was plenty of basketball madness in March as Carol Van Gytenbeek's daughter Jana and the Cherry Creek Bruins won the 5A basketball championship. The winning did not stop there though, as Wendy Dominguez and Eileen Pohs' daughters, Alexa and Megan, respectively, and the Mullen Mustangs took home the 4A title. Jana was named the CHSAA 5A Player of the Year, First Team 5A All-State and Centennial League All-State. In addition, Megan was selected All-State First Team and Centennial League First Team, and Alexa was selected Centennial League Honorable Mention.

Top Photo: The Van Gytenbeek family celebrates the 5A championship.
Bottom Photo: Alexa Dominguez (far left) and Megan Pohs (second from right) celebrate their victory with teammates.

DISCLAIMER



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