

INNOVEST'S RESEARCH REPORT

A NEWSLETTER BY ▼ INNOVEST

WINTER | 2019

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NEW CLIENTS

Innovest was recently selected to provide investment consulting services for:

City of Brighton

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.

TOUGH 2018 MARKET FINISH, BETTER YEAR FOR INNOVEST



Richard Todd
Managing Principal, CEO

The markets started 2018 with a bang, but ended in bear market territory. Both stocks and bonds were down; there was no place to hide. However, we are confident that our approach to thoughtful portfolio design – diversification, forward thinking, patience, rebalancing, and manager due diligence – wins out in the long run.

Innovest fared better than the markets in 2018. Our revenue and profit margin expanded in the year. We added 27 new clients in '18, the same number as in '17. The promise that we make to our clients is that they will benefit from our growth. There is no doubt that we are a much better firm than we were even five years ago, and our client retention is over 97 percent. The promise that we make to our employees is that they will benefit from our growth as well. Promotions and new responsibilities emerge from growth, and exciting career paths emerge for our professionals. Employee retention over the last three years is around 90 percent, a significant accomplishment

in the very competitive Denver employment market. We finished 2018 with 46 employees, with two more having joined us in January.

A highlight for us in 2018 was once again being named as one of the national "Best Places to Work" by *Pensions & Investments* magazine. We've won the award in four of the last five years. We attribute our success in being a great place to work to our client-centered, rewarding culture that we've created over the years. Our professionals complete a very extensive survey which not only determines the *P&I* award winners, but also gives us feedback on improvements that we can make at Innovest. The survey leads us to a strategic objective for the year.

We continue to focus on our mentorship program, the genesis of which came from the aforementioned employee surveys. Mentors received special training in '18, and for most of our mentees the experience has been highly rewarding and influential. We credit our mentorship program for 12 of our professionals studying for advanced professional designations!

In order to improve our firm's leadership, we created our NexGen Society. The NexGen program designed to give high-caliber, young professionals specialized leadership training and personal development.

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We will begin with a course from leadership consultant, John Maxwell. Our inaugural members, chosen by the firm's partners, are Jared Martin, Christian O'Dwyer and Sloan Smith. Additional Innovest professionals will be selected annually to join this esteemed group. Please see page four for more information.

Speaking of partners, we are excited to announce two new partners at Innovest. Nancy Swanson and Kristy LeGrande are very high-quality professionals, as I am sure that our clients attest! They are very thoughtful and will bring their expertise and experience to the partners' table.

Eileen Pohs was awarded the 2018 "Service to Others Award" for giving great service to teammates. Joe Lemming won the "212° Award" for giving that extra degree of effort for Innovest and our clients. Kenny Senour was awarded the "Founders Award" for best exemplifying our core values of hard work, dedication to the client, and honesty and integrity. Bill Fender won the "Innovest Mentorship Award" for his great mentoring example, specifically to me and Wendy, for over 20 years. The award will be renamed the "William Fender Mentorship Award" into perpetuity.

Each year, Innovest surveys our clients to not only gauge our performance, but to learn how we can improve. The 2018 survey provided our best results ever – our overall score of 4.7 on a 5.0 scale. Our highest scores were the knowledge and experience of our consultants at 4.8, and treatment by our entire team at 4.8. We also calculated our Net Promoter Score (NPS) based on responses to a single question: "How

likely is it that you would recommend our company/product/service to a friend or colleague?" The Net Promoter Score is an index that ranges from -100 to 100, and an overall score of +50 is deemed to be excellent. The Innovest score was 85.6!

Being involved in the community is a very important principle of Innovest. Insights from our professionals were published 11 times by periodicals ranging from *Real Assets* to *ColoradoBiz*. Our professionals spoke at 11 different conferences as well. In addition, employees eagerly participated in 12 philanthropic events sponsored by Innovest, ranging from a clothing drive for Christ in the City to painting a house for Brothers Redevelopment. In addition, we also hosted nine different events for our clients and friends.

Committed to our independence and objectivity, we are confident that our business model leads to better client advice and solutions. We are co-fiduciaries with our clients and understand that selling investment products taints investment advice. Consequently, 100 percent of Innovest's revenue is from fees our clients pay. Firms that accept commissions (many can be completely hidden from the investor) only do so to line their own pockets at the expense of clients, driving up the cost to clients. We are convinced that our fee-only, co-fiduciary approach is the right way to serve our clients. Our clients are our life blood and we are humbled by, and deeply appreciative of, our clients' loyalty. We look forward to serving in 2019 and for many years to come! Thank you! ▼

NEW

PARTNERS

NANCY SWANSON

Nancy is a member of Innovest's Client Service Team, responsible for managing client transitions, interfacing with asset custodians, and providing ongoing client service and support. Her other responsibilities include performance measurement and special projects.

KRISTY LEGRANDE, CFA, MBA

Kristy is a consultant and member of Innovest's Investment Committee, which oversees the firm's investment-related research and due diligence. Kristy is also the director of our Capital Markets Research Group, which monitors the global macroeconomic environment, asset allocation modeling and portfolio construction. She works primarily with high net worth families and foundations. Kristy has 20 years of experience in the investment industry.

CLIENT

SURVEY

We are pleased to share with you the results of Innovest's 2018 Annual Client Survey. Thank you to all who responded.

Our annual client survey helps us to continue to look for ways to serve you better, and we will continue to identify ways to make your experience with our firm even more valuable to you.

4.7

Overall Satisfaction

4.8

Treatment by Our Entire Team

4.8

Knowledge and Experience of Our Consultants

(1=poor, 2=fair, 3=average, 4=good, 5=excellent)

TIPS TO AVOID INVESTMENT COMMITTEE PITFALLS



Christian O'Dwyer, CFA
Vice President

In many organizations Investment Committees have become essential to help meet the goals and objectives of the institutions they serve. Rather than having a single individual manage pools of assets, a committee is formed to serve in a fiduciary capacity and carry out the responsibilities delegated to them by a board of directors, trustees or governors.

Innovest's consultants have observed the activities of scores of committees as their advisor, as well as by volunteering as committee participants for various organizations. Based on our experiences, the following items are potential pitfalls that can derail investment committees, and, more importantly, potential ways to overcome the dangers.

Membership Diversity

Committees should ensure that members are diverse across many factors including education, professional experience, gender, and other factors. The fiduciary process and coming to a consensus can benefit from committee members' differing talents and perspectives. However, each member's personal philosophy and opinions need to be subordinate to the best interests of the institution.

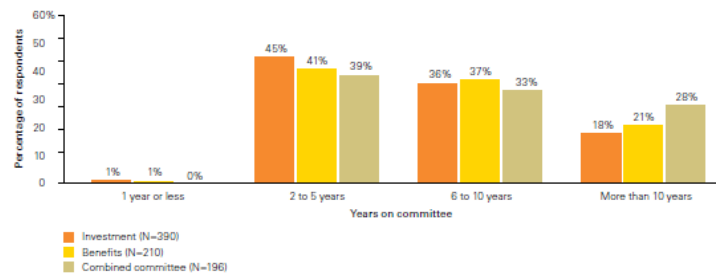
Committee Size and Tenure

Each organization can benefit significantly from an institutional memory of how a portfolio has been managed over time and how major decisions have been reached. These factors point to the merits of committee members serving longer tenures. On the other hand, committees can become stale without new members who may offer differing expertise and creative ideas. A 2015 Vanguard study of investment and benefits committees showed that turnover tends to be low for such committees, including combined committees (see Exhibit A). It is important for the committee to strike a balance between new members and senior members.

Leadership

Committee chairs who encourage members to speak out even if their view is different from others and who foster a mutual respect for all group members can help support effective decision making. These leaders empower members to challenge and debate the issues at hand using facts and data, instead of relying on polarizing forecasts and opinions. Committee chairs can also solicit members' views or conduct a poll in advance of group discussion to facilitate participation and help minimize one or two members dominating the decision-making process.

Exhibit A: Average Tenure of Committee Members



Source: Vanguard 2015 Investment & Benefits Committees Leadership Survey.

Committee Governance

In addition to structuring the composition of the group appropriately, a focus on governance and an adherence to procedural policies helps to boost the effectiveness and improve committees' decision making. An Investment Policy Statement (IPS) serves as the essential written document containing the guidelines that the Board expects the committee to follow. Guidelines, either broad or specific, should be lasting and designed to serve the institution for the long term. The purpose and objectives of the IPS can specify organizational and investment objectives (e.g. 4 percent real return objective for the portfolio), and define roles and responsibilities of all parties, including levels of discretion delegated to advisor, committee, and staff. Asset allocation targets derived from forward-looking projections and manager evaluation best practices can also be contained in the document. Beyond the policy statement, a set schedule for committee meetings with an organized agenda and documented rationale for decisions made are best practices.

Behavioral Biases

Even committees that are diverse, tenured and well governed can encounter pitfalls and biases in their behavior.

Groupthink

While the intent of an investment committee is to implement a sound process of managing the assets and to harness the power of teams, oftentimes groupthink can mitigate the effectiveness and quality of committees' decision-making. Groupthink arises when members avoid conflict and maintain unanimity instead of objectively making rational decisions using all available, relevant information.

Overconfidence and Risk Aversion

Individuals are often susceptible to behavioral biases when making investment decisions. Members can be overconfident as a result of a disproportionate faith in their forecasting ability, or suffer from risk aversion bias stemming from a greater pain of loss than satisfaction of success.

These biases can be amplified if committees are comprised of people with similar backgrounds who approach problems in a similar manner.

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Additionally, individuals participating in a group setting may feel uncomfortable expressing a differing opinion and instead opt to follow the belief of the group. One of the main solutions to these biases is for the chair of the committee and its members to understand the nature of these issues and regularly discuss them during the decision-making process.

A diverse, experienced, effectively governed and bias-aware Investment Committee increases the likelihood of better decision making and meeting the institution's long-term objectives. ▼



DEVELOPING OUR LEADERS

The most important component of the Innovest culture is the emphasis on developing high-character professionals that share the Innovest mission, core values, bedrock principles, and stewardship. The Innovest character is defined as “a calling to give” to our clients, colleagues and greater good. Our professionals must be stewards and servant leaders.

Ultimately, our professionals must see work at Innovest as a vocation and our challenge is to identify, develop and utilize the special talents that people bring. The highest integrity, humility and positive attitude are characteristics of the vocational business professional. It is not a divided life for which they strive where work is not just a means to entertainment and financial needs, but an integrated life where there are no boundaries between work and leisure. What results is integrity, humility and work and leisure are never differentiated. Employees link Sunday and Monday and have a calling to give.

Our vocation-based professionals also differ from careerists. Careerists may have admirable success, but leisure is only a means to “sharpen the saw” to be more productive. Careerism breeds selfishness – whatever it takes to make the goal – and can cause animosity with colleagues that are frequently stepped on in order to meet a goal. In a team environment, careerists are problematic. Career paths have been developed for our professionals; those that will achieve

the greatest success are focused on advancing the firm and those professionals under them. They are the ultimate givers.

Our leaders must have strong trusted relationships with our professionals. Integrity is crucial at the top; they must continually demonstrate that integrity, in order to lead. A firm adherence to mission, vision, core values and bedrock principles must be maintained.

NexGen Society

Innovest is excited to launch the NexGen Society, which provides leadership training and character development for our top non-partner professionals. NexGen Society membership is for our next generation of partners, successors, and leaders. Once selected for NexGen Society, this esteemed group of professionals will participate in leadership courses by author and speaker John Maxwell, and others. They will meet and listen to some of the top professionals and leaders in our community and industry.

Innovest's CEO, President, and COO are responsible for selecting the NexGen Society members based on nominations from fellow Innovest partners. Membership in the society lasts for each person's entire career at Innovest. We are proud to announce that the inaugural members of the NexGen Society are Sloan Smith, Christian O'Dwyer and Jared Martin. New members are selected on an annual basis. ▼

CURVE BALL: IS THE YIELD CURVE SIGNALING THE END OF THE EXPANSION AND THE BULL MARKET? PART 2 OF 2



Scott Middleton, CFA, CIMA®
Principal, Director

The first installment of this two-part article addressed the relationship between the yield curve and economic recessions. In the later stages of economic growth cycles the Federal Reserve has typically raised the short-term Fed funds rate to fight the threat of rising inflation and an overheating economy, leading to yield curve inversions (when 90-day T-bill yields are higher than 10-year Treasury yields). Economic expansions typically end when rising interest rates prompt consumers and businesses pull back on excessive spending and borrowing, which can lead to falling inflation, falling interest rates, and a recession. The lead time between the last three yield curve inversions and the start of the subsequent recessions has ranged from 1.4 years to 2.6 years.

Exhibit A: Yield Curve Inversions and the End of Bull Markets

Yield Curve Inversion	End of Bull Markets	Inversion Lead Time Before the End of Bull Markets
3/27/1989	7/16/1990	1.4 Years
9/10/1998	3/24/2000	1.5 Years
1/17/2006	10/9/2007	1.7 Years
	Average:	1.5 Years

Notably, the last three inversions have not signaled the imminent deaths of the respective bull markets. The average time between yield curve inversions since 1989 and the subsequent end of the stock bull markets was 18 months, with modest variation between the three occurrences. See Exhibit A.

Because each bull market has distinctive characteristics, it is also instructive to learn what percentage of bull market gains have occurred before, and after, yield curve inversions.

As shown in Exhibit B, the average of 25 percent of bull market gains having occurred after the last three inversions conceals quite a bit of variability in the three time periods measured. A range of 10 percent to 44 percent is a very large spread when compared to the average. Nonetheless, the majority of bull market gains have occurred before the last three yield curve inversions.

Exhibit B: Percentage of Bull Market Gains Before and After Inversions

% of Bull Market Gains Before Inversion	Yield Curve Inversion	% of Bull Market Gains After Inversion
56%	3/24/1989	44%
90%	9/10/1998	10%
78%	1/17/2006	22%
Average: 75%		Average: 25%

The analysis in Exhibit C offers a different view of equity returns before and after inversions. This study examined equity returns during various time periods before and after inversions. The time periods of four years prior and four years after were selected for Exhibit C to highlight the differences in returns that occurred before and after the yield curve inversions in two of the three time periods.

Exhibit C: Average Annual Stock Returns Before and After Yield Curve Inversions

S&P 500 Avg. Annual Total Returns the Four Years Before Inversion	Yield Curve Inversion	S&P 500 Avg. Annual Total Returns the Four Years After Inversion
16.7%	3/24/1989	15.3%
22.9%	9/10/1998	-1.4%
4.8%	1/17/2006	-11.1%
Average: 14.8%		Average: 0.9%

There is considerable variability in pre- and post-inversion average annual stock returns. For example, the bear market that followed the 1989 inversion was rather short in duration (less than four months) and was followed by a strong bull market. The average annual returns in the four years after the 1989 inversion were more influenced by the subsequent bull market than the initial bear market.

The investment returns in the four years before the 2006 inversion were modest, in part because they overlapped with part of the steep bear market from 2000 to 2002. Two of the three time periods (the 1998 and 2006 inversions) show a pattern of stronger stock returns in the four years before inversions as compared to the four years after curve inversions. As noted in part one of this article, the analysis covers a very limited sample size of three time periods.

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It is also essential to note that while bear markets have ordinarily occurred in relative proximity to yield curve inversions and economic recessions, there have been notable exceptions. The most recent example is the 33.5 percent decline in the S&P 500 during 1987, which included the -20.4 percent crash on October 19 of that year. The lack of a yield curve inversion or recession between 1983 and 1988 did not prohibit stocks from having a bear market.

// History doesn't repeat itself, but it often rhymes.

-Attributed to Mark Twain //

Conclusion

The yield curve offers a helpful tool to understand economic and investment cycles, including that equity returns tend to be more subdued when moving

from the later stages of economic growth through the inevitable recessions and bear markets. That said, the yield curve is not a precise instrument to time either economic or market cycles.

It currently appears that the yield curve will eventually invert, perhaps within the next couple of years. At that point, history

suggests that both a bear market and a recession could occur approximately one to three years thereafter.

At all times, including when facing inversions and eventual bear markets, the vital tasks for investors are to:

- Determine in advance the appropriate balance of long-term return objectives and tolerance for short-term losses.
- Diversify among and within asset classes using high-quality, proven managers and strategies.
- Rebalance the portfolio back toward strategic asset allocations to keep risk/reward in line through both good and disappointing markets.
- Look for long-term opportunities to improve diversification and risk/reward balances.

Adhering to these tasks will serve investors well in both pleasurable and painful economies and markets. ▼

Acknowledgements: The author's appreciation goes to Kenny Senour, lead senior analyst, and Brooks Urich, analyst assistant, for their research contributions to this article.

NONPROFIT SPOTLIGHT WINTER WEEK OF GIVING

Fostering a spirit of community service is an essential aspect of Innovest's culture and is especially evident during our "Weeks of Giving" in July and December. As part of our annual Winter Week of Giving, more than 20 Innovest employees volunteered at the Denver Santa Claus Shop. The shop is designed to ensure every boy and girl will receive a toy for Christmas. Employees were also proud to donate to more than 60 nonprofits on Colorado Gives Day. To round out the week, every employee purchased an Adopt-a-Family gift, providing 45 kids and adults with a gift for the holidays.

Innovest is privileged to support our community as we realize continued success. ▼



Photo (above): Innovest employees volunteer at the Denver Santa Claus Shop.



Photo (above): Innovest employees volunteer at the Denver Santa Claus Shop.



Photo (above): A collection of presents for Adopt-a-Family.

AROUND THE FIRM

RECENT EVENTS

Innovest was named a 2018 Best Place to Work in money management by *Pensions & Investments* for the fourth year (2014, 2016, 2017 and 2018). Innovest's family-friendly work environment and personal and professional development opportunities were cited as differentiators among the competition.

Innovest is thrilled to welcome Cos Braswell and Claire Coughlin as analyst assistants.



Cos Braswell

Cos interned with Innovest and recently graduated from the University of Denver with a master's degree in applied quantitative finance. He joins the alternative strategies and portfolio accounting teams. While in college, he was an active fraternity member of Lambda Chi Alpha. He also studied abroad in Viña del Mar, Chile for five months and fully immersed himself by living with a Chilean host family.



Claire Coughlin

Claire is also a former Innovest intern and a recent graduate from Regis University with a degree in economics. Claire spent the summer of 2017 as an intern in London researching the economics of terrorism. She joins the operations and reporting teams. While in college, Claire was the co-organizer and presenter at the Business School's first annual symposium on ending global poverty.

Innovest President Wendy Dominguez was honored to be named a Who's Who in Impact Investing by the *Denver Business Journal*. In addition, *ColoradoBiz* published Vice President Chris Meyer's article, "Mixing Politics and Money - A Sure Thing?" Chief Operating Officer Peter Mustian was named a GenXYZ Finalist by *ColoradoBiz*.

On December 13, Innovest sponsored the Rocky Mountain Benefit Plans Conference. The conference focused on ways to improve the management of benefit plans and participant outcomes. Innovest President Wendy Dominguez presented, "Retirement Plan Fees 2.0: Lawsuits, Leveling and Lessons Learned" and Principal Scott Middleton and Vice President Christian O'Dwyer gave an outlook for the economy and financial markets. Principal Gordon Tewell



Photo: Innovest employees pose at the annual holiday party at Cherry Hills Country Club.

rounded out the day by presenting, "Breaking Bad... Enrollment Habits." The event also featured speakers from Plante Moran (formerly EKS&H), and Alvarez & Marsal Taxand.

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

- President Wendy Dominguez spoke to a Colorado Christian University class about asset allocation studies. She was also a panelist at the Daniels Fund Ethics Summit. Wendy was honored to be chosen to speak at Colorado State University at their inaugural Women in Finance event. Wendy hopes to empower future generations of women in finance.
- Vice President Marianne Marvez spoke on "Intergenerational Communication in the Work Place" at the Colorado Nonprofit Conference.
- Principal Scott Middleton and Vice President Christian O'Dwyer spoke about the outlook for the economy and financial markets to nonprofit leaders at an event sponsored by BKD, LLP.
- Vice President Natalie Roderick attended the Healthcare Financial Management Association (HFMA) Fall Summit.

Innovest will co-host the 19th Annual Rocky Mountain Nonprofit Conference with Plante Moran (formerly EKS&H) on Thursday, March 7, 2019. The mission of the conference is to provide an educational forum on topics of interest to enable board members, trustees, and executive staff to improve management of their organizations and their investment portfolios. Registration for the event is open. Visit www.innovestinc.com/rocky-mountain-nonprofit-conference for more information and to register. If you have questions, please contact Whitney Wilkinson at (303) 694-1900, ext. 331 or wwilkinson@innovestinc.com.

In case you missed it, check out the new Innovest website at innovestinc.com. ▼

EMPLOYEE SPOTLIGHT

JARED MARTIN - VICE PRESIDENT

Jared is a vice president and consultant. He is a member of Innovest's Retirement Plan Practice Group. He provides consulting services to committees, boards and individuals. He also manages the relationships between service providers and plan sponsors and provides ongoing vendor management for Innovest's clients. He also leads many special projects for our retirement plan clients.



WHERE IS YOUR HOMETOWN?

I was born and raised in Fort Collins, CO.

TELL US SOMETHING UNIQUE ABOUT YOU.

My tenth great-grandfather, Michael Hillegas, was the first Treasurer of the United States. During a recent trip to

Philadelphia, I was able to visit his grave site, which is very near Benjamin Franklin's.

WHAT DO YOU LIKE BEST ABOUT WORKING AT INNOVEST?

My favorite part about working at Innovest is helping our clients reach their goals. I also value the culture at Innovest and the teamwork displayed on a daily basis to help our clients. I like learning from my colleagues and keeping our clients ahead of the curve.

HOW DO YOU GIVE BACK TO THE COMMUNITY?

I participate in the many different causes Innovest donates time to. I also coach sports in which my kids participate. I have coached soccer for over 25 seasons and really enjoy helping the kids learn and experience the joy of playing a sport. I have also served on the board of Carson J. Spencer Foundation, which focuses on suicide prevention.

WHAT ARE YOUR HOBBIES AND INTERESTS?

Most days you will find me attending my kids' sporting events (soccer, basketball, baseball, softball and football) and running or biking. In the fall I enjoy attending Bronco's games and cheering them on. As a family, we love all outdoor activities, especially skiing.

TELL US ABOUT YOUR FAMILY.

My wife Erin and I have been married for 14 years. We have three children, Cole (11) Kennedy (9), and Grayson (6). We enjoy supporting each other as a family, and we are on the go all the time. ▼

EDITORS

Whitney Wilkinson and Becca Ellis

INNOVEST PRINCIPALS

Richard Todd

Wendy Dominguez

Bill Fender

Peter Mustian

Scott Middleton

Steven Karsh

Garry Beaulieu

Gordon Tewell

Jerry Huggins

Elizabeth Stemper

Nancy Swanson

Kristy LeGrande

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4643 S. Ulster Street | Suite 1040 | Denver, CO 80237 | 303.694.1900 | www.innovestinc.com