SPRING 2023

INNOVIEWS

Making Retirement Work

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

IN THIS ISSUE

NEW INSTITUTIONAL CLIENTS

Brown & Caldwell
City of Tempe
Colorado School of Mines
Jacksonville Orthopaedic Institute
McClure Concrete
National Environmental Health Association
Pueblo Water
University of Colorado

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.

Is it Time to Retire the 'Normal' Retirement Age?

Troy Jensen, QKA, APA
Principal

British satirist C. Northcote Parkinson famously noted that "all work expands so as to fill the time available for its completion." A corollary might be that a worker's capacity expands much like a balloon, giving more space (productivity) in proportion to how much air (career) is added. Of course, even the stretchiest of balloons eventually pop, so that career-length capacity shouldn't be viewed as limitless.

When should we expect that working life 'pop' to happen? Normal retirement age has long been conventionally held to be 65, a number we owe mostly to the Germans from a policy they derived around World War I. Most of the world adopted roughly the same end-of-work age and have stuck with it since. In the U.S., Social Security, Medicare, and most employer-sponsored retirement plans cluster around 65 as the assumed end of a fulltime working career.

In an era where more American workers are retiring each day than ever before – Boomers, that's you – a great deal of analysis and electronic ink has been put to examining whether that age is still the appropriate target. If we're living longer, on average, then we can expect more years of life post-65, requiring more savings to supply enough income. Put another way: the longer we live, the more likely we are to run out of money, individually and collectively.

From a public policy perspective, there are few life numbers more sacrosanct than the age at which we retire. Protests erupted across Paris and other

Continued on Page 2

Continued from Page 1

parts of France in late March of this year as the French government put in place plans to increase their national retirement age from 62 to 64, reducing or delaying benefits accordingly. French citizens, as they do, took to the streets in opposition to the change, setting occasional fires and generally voicing their stark opposition. Any suggestion of changes to benefits in the U.S., typically focused on the Social Security "start date," is met with similar disdain, albeit with generally less fire-setting.

The topic is undeniably vast and nuanced, so let's examine these two things: Social Security benefit solvency and the forward viability of a normal retirement age of 65.

"Social Security won't be around by the time I need it anyhow…"

The younger you are, the more likely you are to share the lament above. From the figurative Social Security "lockbox" to the "third rail of politics," there is no shortage of alarmism and discussion around our governmental retirement safety net. Social Security is a fiercely debated and staunchly protected entitlement for most U.S. citizens. We are mandated by law to contribute a portion of our paychecks – our employers pony up for their share as well – and so we rightfully expect that we'll benefit from those contributions at some point in our future. That was the goal when it was established in 1935, and it remains so today.

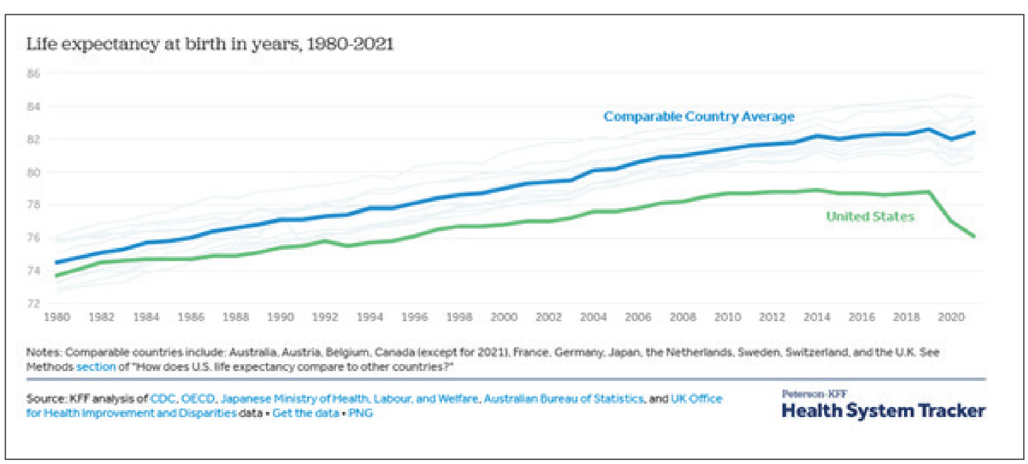
Enter the U.S. Congress, a body that never met a pool of money it didn't want to dip into. The promise of Social Security remains, but the inherent guarantees of it have wavered over time as commitments made haven't always matched the projected money to pay them. Borrowing against or from the dollars set aside for late-life entitlements has been too appealing as time has passed. But even the most pessimistic of assessments show looming shortfalls, not bare cupboards. In other words, without formulary changes or similar the Social Security trust will run short of the ability to pay benefits fully, but it won't run dry anytime soon.

This is, in the barest terms, a math problem. When Roosevelt and his contemporaries enacted the New Deal, life expectancy was about 60 years, and benefits kicked in at 65. The average individual didn't even live to see their start date, let alone collect benefits for 30-40 years thereafter. As years have gone by, advances in nutrition, health, and safety have meant we live longer. Population growth can only offset so much of the resulting shortfall, so something will have to give: increased contribution rates, reduced benefits, or later benefit start dates. Whether the trust is protected by Congress or "borrowed" and repaid, the numbers won't add up the same way they did in Social Security's early years.

Great (Life) Expectations

Conventional wisdom is that we are living longer than our parents, and certainly longer than our ancestors. That's functionally true, overall: in 1900, life expectancy was 47 years. That number reached a peak of 79 in 2019, but then dropped in both 2020 and 2021, to 76. A 2.7-year drop may not initially seem all that large, but it effectively puts us back 26 years, to levels not seen since 1996. The COVID-19 pandemic and its aftermath are certainly an obvious and key factor, but prescription and illicit drug overdoses have had an understated role in curbing our longevity among coincident rises in heart disease, cancer, and suicide rates. Each illustrates the point that even our best projections are guesses at best, and subject to the inevitable and unpredictable wildcards, whether impactful historical events or other disruptions.

All of which brings us back to the question of age 65. Aggregate statistics are useful, but all questions of life, longevity, and savings are *individual* – it doesn't matter how long the *average* person lives, or how much income they'll need; it matters how much you will need. While retirement plans and government authorities may or may not stick with 65, each of us must adjust our savings and expectations in planning for sufficient retirement income, potentially for more years than we think. Retirement savers and employers who offer tax-advantaged savings as a benefit both must carefully consider the ramifications of living longer, needing more income, and perhaps expecting less from government retirement entitlements.



Introducing...

Temple Emanuel

As a provider of investment advice to numerous nonprofit organizations, Innovest has the privilege of introducing you to some of our fantastic clients. This month we are proud to feature Temple Emanuel.

Temple Emanuel is the largest and oldest synagogue in the Rocky Mountain region, with approximately 2,000 member households. As a welcoming Jewish community, they hope everyone can find a comfortable spot in their congregation. Their clergy and teachers help congregants exercise the responsibility and freedom to pursue the Jewish way of life most comfortable for them.

Temple Emanuel's early beginnings lie in a burial and prayer society that was organized in 1866. The congregation was officially incorporated by 22 members in 1874, two years before Colorado became a state. The congregation has since grown and prospered with the community. Their present building includes a congregation, school, and social areas. The offer many different groups, activities, and events for all ages and interests.

To learn more about their incredible work, please visit their website at emanueldenver.org.org.

Hard Landing, Soft Landing, or No Landing at All?

Steven Fraley, CFA, MBA
Principal, Director

Nancy Rimington
Vice President

Equity and bond markets are often impacted by global events and the overall health and direction of the economy. This has been increasingly relevant over the last few years amidst a global health pandemic, a war in Ukraine, and the highest U.S. inflation in more than 40 years. Recent failures of Silicon Valley Bank and Credit Suisse have contributed to an understandable dip in consumer sentiment. This shaken confidence can lead to increased concerns and fears about what's to come and cause a ripple effect in investment markets.

While inflation in the U.S. appears to be under less pressure than just a few months ago, fears of sustained higher interest rates and, ultimately, a recession are still on the minds of many. The markets are climbing a wall of worry and consumer sentiment is near an all-time low. But it ins't all doom and gloom ahead, and where markets go from here really depends on a few possible outcomes.

The first consideration is whether we experience a hard landing, where the economy experiences a sharp contraction, ultimately leading to a deeper recession. This scenario is often precipitated by a financial crisis and would result in significant declines in corporate earnings and economic growth, likely pushing interest rates and equities meaningfully lower.

A soft landing is also possible, where the Fed successfully maneuvers the economy into a gradual slowdown, with inflation moving towards the long-term target of 2%. In this scenario, the economy would probably enter a mild recession or potentially avoid a recession all together. Rates would likely move sideways or come down slowly and equities could potentially move higher. While this is certainly the most desirable outcome, the deep inversion of the yield curve this year puts the odds of a soft landing more diminished.

A third scenario would be where there is essentially no landing at all, where the economy remains relatively strong, inflation remains above trend, and the Fed is forced to hike rates more than expected. However, the deep inversion of the yield curve this year may be telling us that the odds for this scenario are relatively low. For each of these outcomes, the impact on client portfolios and asset allocation could be very different.

We don't know what will happen from here, but history has demonstrated that when investors have reached low points in optimism about the direction of the economy, stocks have typically ended much higher, on average, just one year later. Additionally, following substantial declines in the stock market (over 25%, peak to trough), patient investors have been rewarded with very robust long-term performance (3-, 5-, and 10-year) in subsequent periods. While we can't predict future returns, there is an increased likelihood of strong stock performance after periods of market declines, and that recessions ultimately set the stage for the next period of economic growth.

January economic data seemed to give investors more confidence in a possible soft-landing scenario, though February data caused investors to wane, indicating a more resilient economy and stickier-than-expected core inflation. As we entered March, central bank policy and geopolitical uncertainty were key themes still dominating headlines, with continued concerns over the possibility of a recession in the coming months.

What does all this mean for your investment portfolio? Our approach with clients has always been focused on process, not prediction, and reiterating the importance of diversification and a long-term mindset. While traditional stocks and bonds serve an important role within a diversified portfolio,

	Hard landing (deep recession)	Soft landing (mild or no recession)	No landing (no recession near term)
Inflation	• Disinflationary process slows	• Eases and returns to pre-2022 levels	• Inflation remains high despite aggressive fed policy action
Fed	• Overtightens policy or acts too aggressively; subsequent cuts could be needed	• Pauses rate hikes, then slowly lowers back down to neutral	• Further hikes necessary and higher for longer rates
Labor	• Spike in unemployment	• Moderate increase in unemployment, but no spike • Job openings decline	• Tight and resilient labor market; absorbs rate increases
Consumer	• Broad pullback in spending, credit and increased delinquencies	• Mild spending declines	• Spending remains resilient, driving sticky inflation
Economy	• Steeply negative GDP growth	• Moderate, but positive growth	• Positive GDP growth, but uncertainty around a recession persists
Market	• Increased volatility and price pressure	• Restored price stability	• Increased volatility; potential for sideways/choppy price action

Source: Lincoln Financial

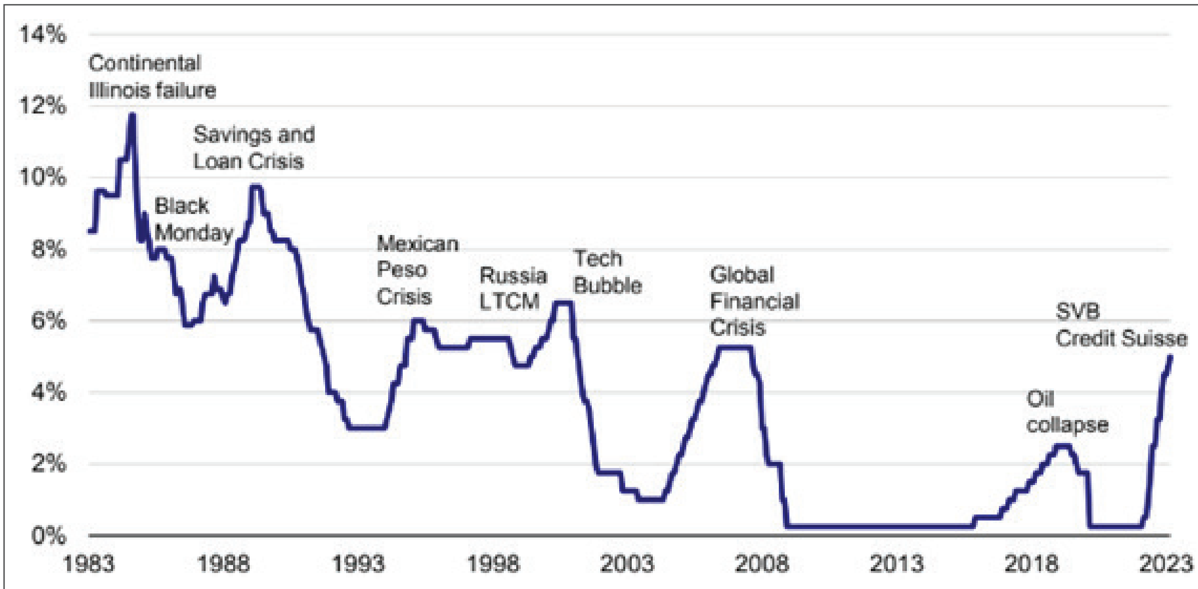
alternative asset classes can help volatility and provide a different return stream than traditional asset classes. Inflation-hedging assets like mid-stream energy, infrastructure real estate, and other real assets can play a huge part in portfolio exposure; they provided significant downside protection in 2022.

Exposure to high quality fixed income and cash not only can help provide downside protection during an economic contraction or hard landing scenario, but now provides meaningful income generation in portfolios. Deflation hedges are more commonly found in areas like fixed income and are perhaps more attractive now due to the rise in interest rates, especially within high-quality/intermediate and long-term fixed income investments.

To date the Fed has raised its benchmark rate by 4.75% since March of 2022, marking the fastest pace of rate hikes since the early 1980s. Almost all previous rate tightening periods have resulted in some sort of financial crisis, and this time appears no different; evidenced by some significant stresses in the broader banking system.

Economists are debating whether the aggressive action by the Fed will steer the US economy towards a hard landing and ultimately drive the economy into a recession. As the German economist Rudi Dornbusch said, “economic expansions do not die of old age; they are murdered by the Federal Reserve.” Will this time be any different? Can the fed successfully bring down inflation without a significant economic downturn and navigate us towards a soft landing scenario?

History suggests that this might be a difficult objective, as the U.S. has entered a recession following the last five periods when inflation peaked above 5%. No matter the outcome, our clients can benefit from following a prudent investment process that reinforces the importance of asset allocation, downside risk mitigation, and a long-term focus.



Sources: (Chart) Invesco, US Federal Reserve. Data as of 03/31/2023.

Introduction to ESG in Retirement Plans

Dustin Roberts, MBA, QKA, AIF®
Vice President

Investors are increasingly interested in factors beyond those most traditionally cited in investment risk and return assessment. The industry labels these in various ways, the two most common being socially responsible investment (SRI) and environmental, social, and governance (ESG) investing. The range of potential topics is enormous, from labor standards to board composition to carbon emissions, among many others. The possible ways to meaningfully measure and weigh respective values or areas of focus are equally vast.

ESG investing has been a popular topic in recent years as companies pursue more initiatives to align with employee and customer values. The regulatory climate has become more complex and contentious. While the landscape is evolving, there are signs of buy-in from companies, investment managers, and regulatory bodies that these factors will be important to long-term success.

Fiduciaries are guided by a duty of loyalty, acting solely in the interest of plan participants, and a duty of prudence, monitoring plan investment options with an expert level of care and skill. It is important to consider how these core principles can be applied. Defining the subject, exploring available information, and navigating diverse perspectives about factors involved are some of challenges inherent to the topic.

ESG investing involves consideration of a set of factors in the investment decision-making process alongside more traditional financial factors. The additional analysis weighs business practices, policies, and competitive positions that could impact financial risks and opportunities for a company, or for a mutual fund investing in those companies. Like traditional investing, financial returns are the primary objective for ESG investing, pursued with broader motivations.

By comparison, SRI refers to an approach of actively excluding or screening out specific practices, industries, or themes deemed undesirable. The approach is less nuanced, as identifying what one should not do is often simpler. Impact investing, another term often used in this discussion, implies investing where the intended non-financial impact takes priority over the financial return.

Investment managers largely report incorporating ESG factors in their analysis to build actively managed mutual fund portfolios. Many are signatories of the United Nations Principles for Responsible Investing (PRI), a public commitment to responsible investment that does include some reporting requirements but does not stipulate specific investment practices. Importantly, this is not limited to funds explicitly focused or branded as such but could apply to any actively managed fund.

Managers select underlying securities by first identifying an investment theme, then analyze financial fundamentals and data points to find material risks and opportunities. Similarly, managers using factors that fall into ESG categories are analyzing these data points to determine where risks and opportunities exist within the applicable segment. The goal is to construct a portfolio of securities with more risk-efficient returns coupled with a more favorable, sustainable, long-term impact.

The information available to assess ESG factors is also progressing. The difficulty is less about the quantity of data and more about the quality, consistency, and relative importance of different metrics. For investment managers, data can come directly from individual companies or from third-party ratings providers. The latter use research to score individual companies and to score mutual funds based on those underlying holdings.

Two of the largest examples of these ratings providers, based on number of investments covered, are Morningstar Sustainability Rating and MSCI ESG Rating. Both measure company exposure to material ESG risks and how well those risks are being managed, but they do not use the same methodology. Like individuals, ratings providers apply different relative importance to the many factors underlying the total score. As a result, a company or a mutual fund can score differently across different ratings. Seeking a competitive advantage, research firms and investment managers alike apply their expertise to determine which factors are relevant and how to weigh them relative to each other. For retirement plan fiduciaries, ratings can provide an additional metric about investment managers, while due diligence of a manager's investment process can illuminate how it integrates ESG factors.

The Securities and Exchange Commission (SEC) has proposed regulations to enhance and standardize related disclosures for investors. Funds that consider ESG factors would need to report additional information, depending on the role those factors play in the investment process. For example, to protect investors from exaggerated marketing claims, "ESG-focused" funds require more disclosure than funds that are not being marketed as such. Globally, agencies such as the International Financial Reporting Standards Foundation (IFRS) are also pursuing sustainability and climate disclosure standards.

The Department of Labor's (DOL) most recent statement on the topic, in late 2022, reiterated prior guidance that fiduciaries should not subordinate the economic best interests of plan participants to unrelated objectives, but should base decisions on factors relevant to an investment's risk and return analysis. Importantly, it clarifies that these factors could include an investment's "economic effects of climate change and other ESG factors." If competing investments equally serve the plan's economic interests, then collateral factors could be considered to select one. The DOL also specifies that fiduciaries may also consider participant preferences when creating an investment menu for participant-directed accounts, as accommodating investor preferences can lead to greater participation, savings rates, and retirement security.

Plan sponsors seeking to meet participant interest sometimes consider adding a mutual fund that is focused on ESG or SRI characteristics. While this might be right for some plans, it is important not to rely on fund names to determine focus or validity. It is equally important to note that retirement plan fiduciaries oversee plan assets, not employer funds, and are tasked with providing investment options in the best interests of all plan participants. Therefore, a specific ESG strategy at a plan level is often difficult.

One solution could be to utilize a self-directed brokerage option, allowing participants access to a broader array of investment options that may better fit their specific interests, where appropriate. Another is to incorporate ESG information into employee education, as many are unaware that some factors already play a role in many actively managed funds. In all cases, best practice is to establish investment strategies based on stated plan objectives and to document the decision-making process.

Employee Spotlight

Nancy Rimington

Tell us about yourself:

I am the youngest of four girls, so my father had to have the patience of Job. We moved around throughout my childhood, eventually settling in Kansas City. Moving three times before the age of nine pushed me to adapt new schools, meet new friends, and get familiar with new cities. Those experiences helped form some of my unique gifts – identifying people's defining qualities, seeing how different people can work together productively, and learning to work with others in all situations.

I am a big Kansas City Chiefs fan, and I love watching hockey, baking and cooking, and sharing wine with family and friends. My zeal for throwing a great party has led friends to say I should have been an event planner. Travel invigorates me, and I love to visit a new place every year, but I also go back to my favorites, Paris and Italy. Outside of Christmas, Thanksgiving is a favorite holiday. Gathering around a table with family and friends and recognizing the joy, laughter, smiles, and love that circles the table is such a great way to celebrate the things we are grateful for.

My passion for helping others build on their mission of financial development and stewardship of their capital also came from my father, and I will be forever grateful. He often told me this quote from Winston Churchill , "We make a living by what we get, but we make a life by what we give." Giving comes in many forms, not all of them monetary. As I grow older and wiser, I think back to those times around our thanksgiving table. Not just a family gathering, it was inviting those less fortunate and realizing we can give back in ways that you may never know the outcome or impact it has on others.

I support organizations providing mentorship and financial literacy to children and young adults, including the Economic Literacy Colorado, Global Children's Financial Literacy Foundation, and Strong Women Strong Girls. I have a passion for helping others find their place and learn about saving for a solid financial future. Conducting financial literacy nights, helping with a stock market experience program, invest in girls programs, mentoring young girls, and teaching the basics of investing and financial stewardship have all been fulfilling ways to live out my values in my community.

What attracted you to Innovest?

The most rewarding parts of my work are helping clients find great investments, solving problems, and building on retirement plans through various strategies. For the next chapter in my career, I wanted to find an investment consulting firm that resonated with me in caring for their clients and being good stewards of clients' capital. Helping with asset allocation and enabling plan participants to retire and reach their investment goals is a great way to give back. Innovest stood at the top of the list, hands down. Innovest is more than an investment consulting firm; they truly are thoughtful stewards responsible for their clients, professionals, and community. Everything I have done in my career, what I have learned, grown from, and accomplished, has led me here.

How would you describe your expertise and experience?

I have over 25 years of investment experience across all asset classes. My background in the investment industry, in business development and client-facing roles across multiple asset classes and investment vehicles, working with retirement and government plans and nonprofits, and understanding the landscape of various plans provides me with a solid footing to help Innovest grow and continue to help their clients invest successfully. I bring experience in strategy and finalist presentations, manager research, on-site due diligence visits, and multiple asset classes and investments.

Tell us something about you that we might be surprised by?

I was a contestant on The Price Is Right, with Bob Barker as the host. I spun the big wheel and everything!

Around the Firm

Team Updates and Progressions

Innovest celebrated Scott Middleton's fifteen years of service to Innovest and a terrific career. Happy retirement to Scott, and we will miss him!

We have some exciting team updates! Help us welcome our new team members Paul D'Alessandro (Vice President), Nancy Rimington (Vice President), Matt Foster (Analyst Assistant), Marisa Joseph (Analyst Assistant), and Natalie Kuzia (Analyst Assistant)! Innovest is also excited to announce that Joanne Cinalli has progressed to Senior Manager, Stephanie Dufano has progressed to Manager, Peter Girard has progressed to Lead Senior Analyst, Sydney Aeschlimann, Alexandra E. Johnson, and Brian Curran have all progressed to Senior Analyst, Sarah McGuire and Denise Rice have progressed to Analyst.

We are always thrilled when our employees pursue further education and credentials. Sydney Aeschlimann passed the Series 65 Exam. Also, Natalie Kuzia passed Level II of the CFA exam, and Brett Minnick passed Level III of the exam making him a CFA charterholder. The CFA charter designation represents one of the highest levels of recognition financial professionals can earn and demonstrates a finance professional's work ethic, analytical skills, and grounding in ethics.

Each month, Innovest employees recognize one team member who is an exemplary model of our main mission of stewardship. The recipients of the Service to Others monthly awards were Matt Popish in January, Abigail Thomas in February, and Eileen Pohs in March.

Awards and Publications

Innovest was honored to have been recognized this quarter by external organizations. Innovest President and Co-founder Wendy Dominguez was named a finalist for the 10th Annual Family Wealth Report Awards in the category of Women in Wealth Advisory. Congratulations Wendy! Innovest has again been named to the National Association of Plan Advisors' (NAPA) top defined contribution (DC) advisor teams ranking us 12th in the Nation with assets under advisement of at least $100 Million.

Innovest is also in the media this quarter! Innovest Consultants Dustin Roberts, MBA, QKA, AIF and Franklin Cornett , CFP® authored "Your 7 Point Year End Retirement Check List," which was recently published by 401K Specialist. Innovest Vice Presidents Brett Minnick and Kyli Soto authored "Does your 401k Plan Offer the Best Cash Options: What do employers need to know about capital preservation," published by BenefitsPro. Innovest CEO Richard Todd's article "Secular Firm Created a Christian Culture," was recently published by the Central Florida Christian Chamber of Commerce. Innovest Vice President Paul D'Alessandro's article, "Donors: Beware of Nonprofits," was published in NonProfitPRO.

Lastly, congratulations to Innovest intern and Arrupe Jesuit High School Senior Jose Huerta on being awarded one of the Daniels Scholarships for the Class of 2023. Way to go, Jose!

Innovest on Mission

We are proud to be a charitably focused firm and look forward to service opportunities each quarter. Innovest employees helped assemble and deliver healthy meals for Project Angel Heart. This organization continues to have a profound influence on the health outcomes of individuals living with life threatening illnesses. Our team also collected baby items for Marisol Homes. Marisol Homes provides safe and secure emergency and community-based housing for pregnant women and single women with children who are experiencing homelessness. Additionally, Innovest hosted Michael Connors and his dog, Brian, from ConnorsK9-Academy – P.A.W.S. (Pups Assisting Warriors to Succeed) at our recent Rocky Mountain Benefits Conference! Participants of the conference were encouraged to support P.A.W.S. during the lunch time break. Lastly, Innovest employees helped sort through donations and prepared and served meals for Volunteers of America Colorado (VOAC)! VOAC is a nonprofit, faith-based organization dedicated to helping those in need transform their lives.

Conferences, Speaking, Events, and Sponsorships

Innovest was out and about in the community this quarter with some exciting speaking opportunities. Wendy Dominguez was interviewed at NAPO's 34th Annual Police, Fire, EMS, and Municipal Employee Pension & Benefits Seminar in Las Vegas, NV. Also, Innovest was a proud sponsor of the Christian Leadership Alliance conference in Chicago. Sloan Smith, CAIA, CPWA® spoke on "Building a Biblically Responsible Portfolio," while Nancy Rimington delivered the "Economic Update - Looking Ahead in 2023 and Beyond: Key Implications for Portfolio Design." Rich Todd led the CFO Roundtable with insights on aligning vendor values.

We were thrilled to co-host the Rocky Mountain Benefits Plan Conference (RMBC) in Denver, CO with CliftonLarsonAllen. Innovest's Rick Rodgers and Dustin Roberts were featured speakers at this year's RMBC. The conference focused on the SECURE Act 2.0, ESG investing, the ESBA plan correction program, an economic update, and more. Thank you to all the attendees who joined us. It was great to be back in person this year!

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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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