WINTER 2023

INNOVIEWS

Building Relationships that Produce Results

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

IN THIS ISSUE

NEW INSTITUTIONAL CLIENTS

Kiddo! Mill Valley Schools Community Foundation

The Archdiocese of Denver

Air Force Academy Foundation

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.

A Tale of the Tape for 2022

Richard Todd
Principal, CEO, and Co-founder

With over 35 years of investment consulting under my belt, 2022 was, in my view, the worst year for investors. Stocks were down -18.04%, the 2nd worst calendar year in history. * Bonds, historically complementary to stocks, suffered the worst calendar year decline in history, losing -17.34%, almost three times further in the red than the previous largest decline. Inflation ravaged the economy, prompting the Federal Reserve to push rates up at a record pace, which caused bonds to get crushed.

Consequently, an investor with a 70% global stock/30% bond portfolio lost -16.59% in 2022. While few investors were left unscathed, our approach to diversified portfolios allocated to alternatives – hedge funds, real assets, private debt, and equity, among others – into most portfolios, created a much better experience than a typical stock and bond investor.

2022 held some positives despite the markets taking more than they gave. Thanks to incredible client trust and loyalty and robust new business growth, Innovest experienced a record year. The promise we make to our clients is that they will benefit from our growth. 2022 resulted in several new professionals joining our firm, plus improvements in portfolio accounting, performance reporting, and technology. In addition, we moved across the street to a new office, artfully designed by President and Co-founder Wendy Dominguez. Both beautiful and functional, it

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has significantly improved the work environment for our team of 56 employees. Keeping our professionals long-term and creating a quality culture is key to our success and ultimately leads to a great experience for our incredible clientele!

For the seventh time in eight years, Innovest was awarded a "Best Places to Work in Money Management" by Pensions and Investments. Each year, our professionals provide P&I with very detailed survey responses on our culture and practices. We are compared to hundreds of other firms, with just a select few chosen as "Best Places to Work." We are humbled by the recognition and are always seeking ways we can improve. We are proud of the way Innovest stacks up in the industry.

We are also very proud of our team. Many were progressed to new positions throughout the year. Abigail Thomas, Claire DeLine, Brett Minnick, Sydney Aeschimann, Marleen Zakovich, Cos Braswell, Peter Girard, Joe Lemming, Christine Hudek, Kathy Lalone, and Frank Cornett all made advancements within the company.

Annual awards are given to top team members as well. Cos Braswell received our 212 Degree Award, Stephanie Dufano was recognized with the Service to Others Award, Joanne Cinalli was the recipient of the Bill Fender Mentorship Award, and our top yearly honor, the Founders Award, was given to Joe Lemming. We are privileged to work with such outstanding professionals.

We continually strive to be thought leaders in our industry. In 2022, we gave 26 speeches at a variety of conferences for business leaders, investors, and fiduciaries, and our thoughts were published 22 times in journals, magazines, and blogs.

Our stewardship culture is thriving. Collectively, we gave more than 3500 service hours to the community. According to Colorado Gives Day, Innovest ranked 4th in Colorado in dollars donated to charities over that week in December. We are much, much smaller than the three firms ranked ahead of us. Innovest supports monthly volunteer events, and our team continues to be a corporate work study partner with Arrupe Jesuit High School. We employ four Arrupe interns, with their pay offsetting part of their tuition cost. The success of students at Arrupe, all on the margin, is unprecedented.

We have a great business development team. It has become easy for them to sell our advice and services on the strength of a reputation that has been steadily enhanced over the years.

Succession planning is an exciting topic for us as we add to our partners, who have all made a big commitment to Innovest. Pam Cruz, Paul Nacario, Troy Jensen, and Steven Fraley were all made partners this year! Innovest is committed to remain independent as a fee-only fiduciary in a year where many of our competitors sold out to the Wall Street firms and industry aggregators looking to monetize the very clients they purport to serve. We are convinced that our fiduciary model is better, as Wall Street conflicts have never been so egregious as they are currently.

As 2022 closes and the new year begins, we owe tremendous gratitude to our clients! For the last quarter century, the primary source of growth has been client referrals. Thank you! Our young partners have made a sizeable investment in our firm, and we are committed to make the investment a great one!

I wish you all a wonderful 2023!

*MSCI All Country World Index All Cap

**Bloomberg Global Aggregate Index

2022 Employee and Client Survey Results

Wendy Dominguez
Principal, President, and Co-founder

As we reflect on 2022, a difficult year for investors, we nonetheless have much to be thankful for. We are extremely grateful for our team and the care they take in serving our clients. We are also incredibly humbled and thankful for our clients. If it wasn't for their longstanding support, we would be nothing. It is with this focus on reflection that we surveyed both our employees and our clients around how we can build on those partnerships.

Our 2022 employee survey won us recognition as a "2022 Best Places to Work" from Pensions & Investments, an honor bestowed on Innovest for the seventh time in eight years. Some of our highest scores were around our team liking the work they do, affection for the people they work with, quality of physical working conditions, leadership of the company, treating people well, and having fun at work. Our lowest scores were around technology and having problems quickly addressed. We have made significant investment over the last two years in technology, and we are taking concrete steps to make it even more reliable and less frustrating for our team.

The best part of the survey are the comments. My favorite was this one:

> *"Innovest challenges me on a daily basis, and I live for that. I also love that we are constantly pushing to improve our processes and client deliverables. I appreciate that my work is a place where I can share my ideas, values, and perspective freely. The volunteer opportunities that we can do promote team building. It is always good to help others. I know that the leaders of Innovest live their values and that makes this a best place to work. "*

We are very proud of the survey results and award because we work hard to create a positive environment for our employees.

We also ask our clients to let us know how we are doing and if and how we can get better. Our average score for overall satisfaction was 4.8 on a 5.0 scale, equaling the best score that we have ever received. Our customer service score was 4.9, our highest individual score ever! Through the survey, our clients also help us with ways that we can improve, and a large majority are interested in Innovest becoming more digitally oriented and improving our ability to deliver information quickly. We are continually working on both, and 2022 was a big year of investment in technology for us.

As with our employee survey, my favorite part of the client survey is reading the comments. My favorite was:

> *"All I can add is thank you to Innovest for providing security, oversight, and guidance, especially in this current market!"*

Each year we also measure our Net Promoter Score (NPS), a gauge of client loyalty, by asking this key question: "How likely is it that you would recommend Innovest to a friend or colleague?" The NPS has been widely adopted, including by over two-thirds of Fortune 1000 companies. Scoring ranges from -100 to +100, with anything above 70 deemed to be exceptional. The industry average for financial services companies is 44. We are proud of the Innovest NPS for 2022, at 81.

We are humbled by this feedback and remain indebted and to the people and partners who have placed their personal and financial trust in what we do. Our livelihood depends on delivering on that trust. Our satisfaction comes from the wonderful people we get to work with. 2023 holds tremendous promise as we continue to build on that foundation.

Nonprofit Spotlight

Christian Care Ministry

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 Christian Care Ministry.

Christian Care Ministry's mission is to connect people to a Christ-centered community wellness experience based on faith, prayer, and personal responsibility. In 1993, a formalized approach to sharing healthcare burdens began with their Medi-Share® program, a healthcare sharing ministry where members share each other's medical bills and pray for each other's medical challenges. From small beginnings, this big idea took root. More than 28 years later, the Medi-Share program serves around 400,000 members, and more than $5.6 billion dollars in medical bills have been shared and discounted.

Christian Care Ministry also provides a Christian Disability Sharing program called Manna® where members make voluntary monthly contributions to help other members replace lost income due to accident or illness. According to the US Census Bureau, 20% of working people age 45 or older will suffer a disability that lasts 90 days or longer during their career. Working adults are three times more likely to become disabled than they are to die before the age of 65, according to the Social Security Administration.

All of Christian Care Ministry's programs are supported by prayer and a faith-filled community. Christian Care Ministry's method is modeled after the early Christian church modeled in the bible (Acts 2-3). To learn more about their incredible work, please visit their website at mychristiancare.org.

CRYPTO

WHAT WE HAVE LEARNED AND WHERE WE GO FROM HERE

Sloan Smith, CAIA, MBA, CPWA®
Principal, Director

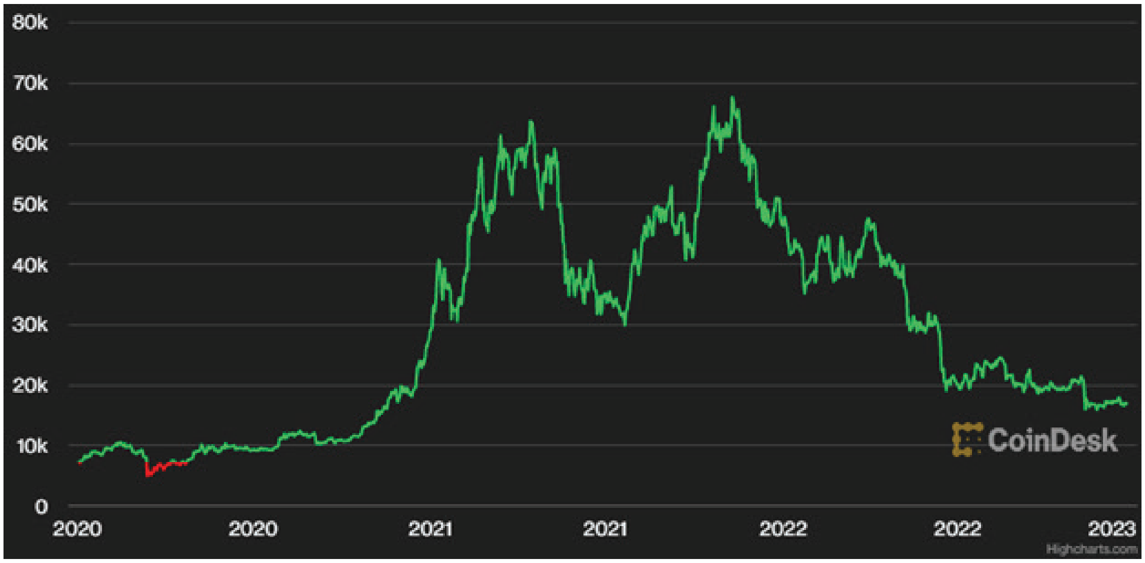
Steven Fraley, CFA, MBA
Principal, Director

It's no secret that 2022 was an incredibly challenging year for global markets. Stocks fell, across the board, by 15% or more and traditional bonds declined by as much as 20%. But there was one asset class that took, arguably, the largest and most painful hit in 2022: cryptocurrency. Most assets in the space fell by 50% or greater throughout the year. It wasn't just the economic and monetary backdrop that caused challenges. In fact, this was just the "tip of the iceberg" that ultimately exposed extensive leverage in the cryptocurrency ecosystem, some notably bad actors, and the need for better regulatory oversight.

Excess Leverage

While crypto assets, specifically Bitcoin, have been around for well over a decade, they really gained in popularity coming out of the 2020 global health pandemic. Spurred by record low interest rates, an expanding monetary policy, and a strong economy, crypto assets grew rapidly in both price and adoption. Money poured into the asset class at an alarming rate as everybody wanted to cash in on the next hot investment. This drove the price of Bitcoin from just over $5,000 in March of 2020 to over $60,000 one year later.

Early in 2022, central banks reversed course and began to raise interest rates and decrease market liquidity. Investors started to lose interest in speculative asset classes like crypto and turned their attention to lower risk investments with increasingly better yields.



Source: CoinDesk.com and highcarts.com

Projects like Terra and its cryptocurrency, Luna, a darling during the crypto bull market, began to implode as investors exited the crypto markets at an increasing pace. Terra's algorithmic stablecoin (UST) completely de-pegged from the U.S. Dollar, causing billions of dollars in investor losses. This started a ripple affect that spread throughout the crypto ecosystem. Centralized finance (or CeFI) institutions like Celsius Network, Voyager Digital, and FTX had lent out significant assets to various cryptocurrency hedge funds. With the continued sell-off and collapse in asset prices, these leveraged hedge funds started to default on loans owed to many of the CeFI companies. Individual user funds held on these platforms were frozen, and investors were unable to access their assets. Unfortunately, several users lost their funds completely.

Bad Actor(s)

One of the primary reasons crypto has risen in popularity over the years is because blockchains are decentralized, meaning banks and governments cannot manipulate the value like they can traditional fiat currencies. Unfortunately, the underlying assets are traded and custodied on centralized exchanges that are vulnerable to corruption, greed, and bad actors.

In November 2022, FTX, one of the most heavily utilized cryptocurrency exchanges in the world, filed for bankruptcy. The firm's founder, Sam Bankman-Fried, allegedly transferred customer funds to Alameda Research, a cryptocurrency hedge fund that he also founded. Once the connection between FTX and Alameda was discovered, withdrawals of approximately $6 billion were requested from the FTX platform. Unfortunately, due to leverage and poor performance in Alameda, FTX lacked the necessary capital to fulfill the requests. Ultimately, these actions led to the firm's insolvency. Currently, Sam Bankman-Fried is facing an eight-count federal indictment that includes charges of wire fraud and money laundering.

The fallout of FTX provided insight into the lack of controls within the cryptocurrency space. For years, cryptocurrency was an asset class that created outsized returns where successful entrepreneurs in the space were viewed as idols. The "return chasing" and "fear of missing out" mentality led to minimal questioning and poor due diligence from prospective investors. Cryptocurrency as an asset class is still in it is infancy and detailed research is required before considering an allocation. Otherwise, investors are susceptible to future scams, frauds, and blow-ups.

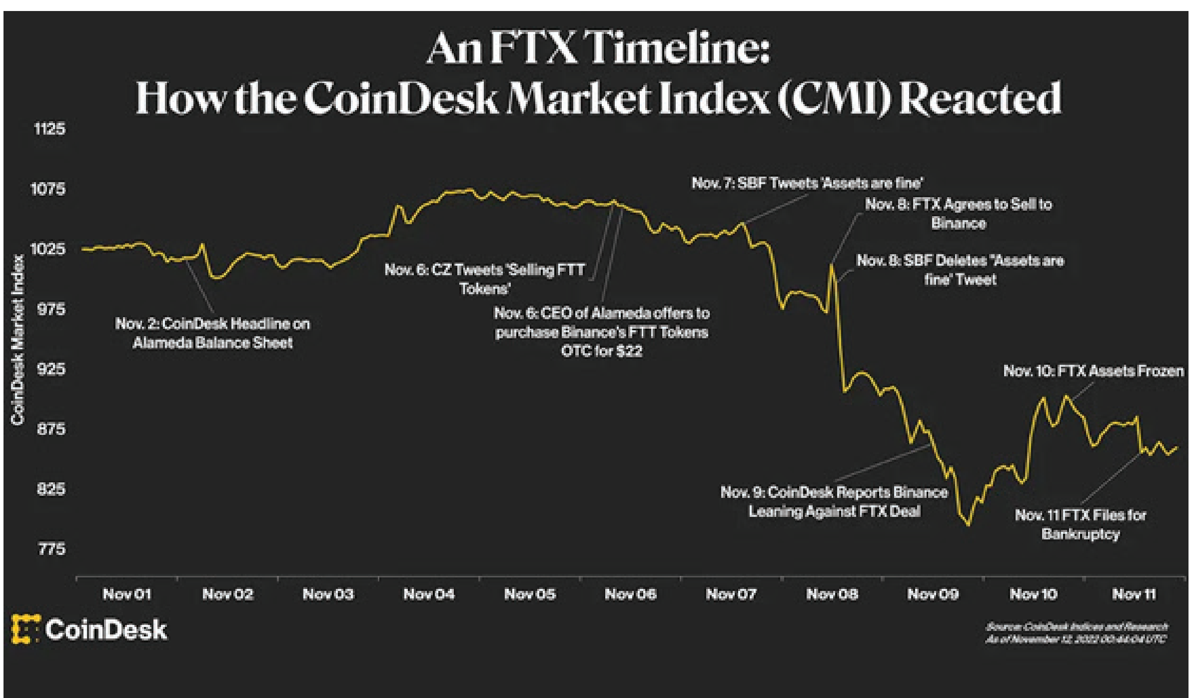
Need for Regulatory Oversight

The long list of failures in 2022 underscores the need for greater regulation. Outright fraud, irresponsible allocation of consumer deposits, and leveraged trading might have been avoided with proper risk controls and government oversight.

For traditional currencies, the issuing authorities are usually central banks. These entities are trusted to manage the production, supply, and distribution of their nation's currency. With cryptocurrencies, there is no central bank or issuing authority. This lack of a regulatory framework enables cryptocurrency businesses to grow but leaves potential customers vulnerable to numerous risks. According to the International Monetary Fund, the objective is "to create a system that is coordinated, so it can fill the regulatory gaps that arise from inherently cross-sector and cross-border issuance and ensure a level playing field; consistent, so it aligns with mainstream regulatory approaches; and comprehensive, so it covers all actors' aspects of the crypto ecosystem."[1] Progress in this area is still an outstanding item.

Conclusion

Crypto has undergone significant growing pains in 2022, but it is important to note that none of the failures were caused by the underlying blockchain technology itself. In each situation, it was poor financial decisions, excess risk taking, and a complete lack of oversight and transparency that led to the end result. These unknowns and challenges are still very prevalent and likely to continue to weigh on the asset class going forward. If the crypto ecosystem can overcome these challenges, it should ultimately lead to continued adoption and a more viable investment in the future.



Annotated chart of the 162-asset CoinDesk Market Index (CMI) over the course of the FTX and Alameda saga. (CoinDesk Indices and Research/Sage D. Young)

Source: CoinDesk.com and CoinDesk Indices and Research

1 Source: "Regulating Crypto"

https://www.imf.org/en/Publications/fandd/issues/2022/09/Regulating-crypto-Narain-Moretti

2022 in Review and a Look Ahead to 2023

Kristy LeGrande, CFA, MBA
Principal

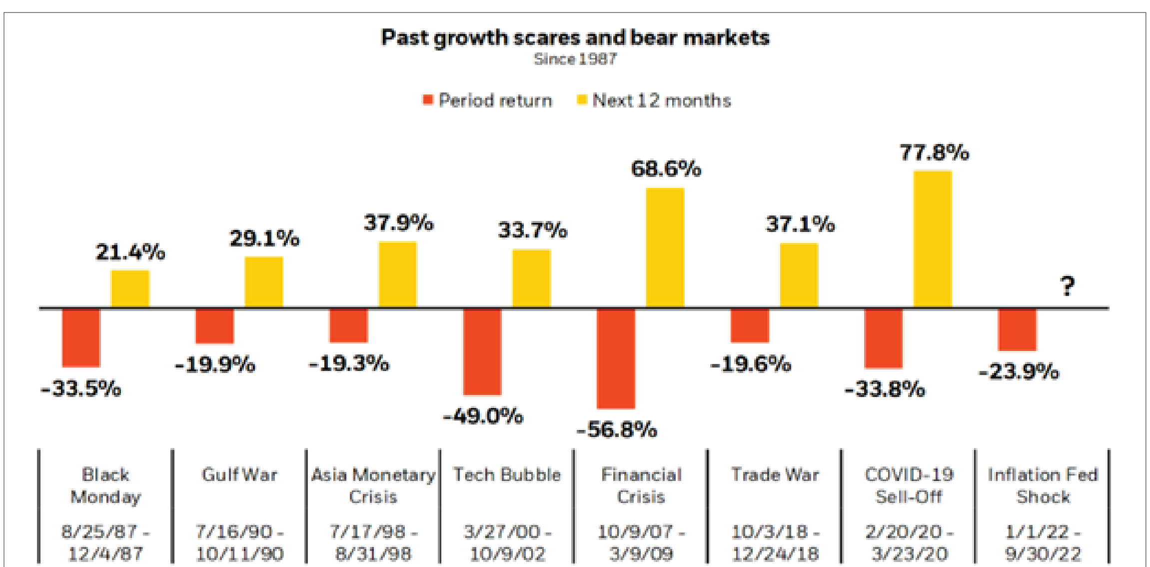
Frank Cornett, CFP®
Senior Client Manager

Consistent negative headlines throughout 2022 were tough on investors. We experienced the worst bond market in modern history, by a wide margin. We also experienced the worst year for the S&P 500 since the global financial crisis in 2008 and the fourth worst period on record since the index expanded to 500 companies in 1957. The popular FAANG stocks of the 2010s, Facebook (Meta), Apple, Amazon, Netflix, and Google, were down an average of 46%. The S&P 500 recorded its third most volatile year in the last 40, as 87.3% of all trading days in 2022 had swings of more than 1%. As we look ahead into 2023, many questions remain unanswered, but we believe investors should focus what they can control: reaffirming investment objectives, understanding downside risk, rebalancing to policy targets throughout the year, and maintaining exposure to strategies that will do well in various economic outcomes.

Equity markets – reducing exposure now could result in missed up-side

No one can predict when the stock market will bottom. 2022 is also not the first time we have seen negative stock market returns. While past performance never guarantees the same results in the future, previous downturns have often been followed by strong subsequent returns, as depicted in the chart below. Down markets provide periods of opportunity over a longer time horizon. To ensure our clients experience the upside of economic expansion, we recommend maintaining current equity allocations, assuming that risk tolerance has not changed and long-term investment objectives remain intact.

Diversified global equities are a pillar in most portfolios, providing growth over the long term. They can be critical in helping investors to meet long-term return objectives. The U.S. Stock market has cumulatively outperformed international markets for the last 15 years, and geopolitical tensions abroad have lead some investors to question the benefit of international equities in their portfolios. However, from a valuation perspective, many international companies are still more attractive than their U.S. counterparts. The U.S. stock market is trading just above its 25-year average, based on a price-to-earnings ratio (P/E) – essentially, how much an investor is willing to pay for every $1 of company earnings. Europe, Japan, China, and other emerging countries are all trading at or below their 25-year average P/E. Trading at these levels presents potential undervaluation, creating optimism and opportunity for positive future returns. International and emerging market equities should continue to play a role in portfolio construction moving forward.



Source: BlackRock; Morningstar as of 9/30/22. U.S. stocks are represented by the S&P 500 Index from 1/1/89 to 9/30/22, an unmanaged index that is generally considered representative of the U.S. stock market. *Day-to-day returns prior to 1989 are represented by the S&P 500 PR Index. **Past performance does not guarantee or indicate future results.** Index performance is for illustrative purposes only. It is not possible to invest directly in an index.

Bond market yields are attractive once again

Interest rates have been at or near historic lows for the better part of the last three years, and expectations had been for rates to increase slowly over time. However, as inflation rose to 40-year highs in 2022, the Fed embarked on one of the fastest tightening cycles in history. In 2022 we saw seven rate increases totaling 4.25%. The listed rate hikes negatively impacted the face value of bonds, as the U.S. Bond Aggregate Index fell approximately 14% during the calendar year. But there is a sense of optimism in the bond markets, looking forward. While a rising interest rate environment decreases the bonds' face value, as those bonds mature, the proceeds are reinvested into newly issued bonds that pay their investors a larger coupon (or yield) back. For example, 12-month bank Certificates of Deposit (CDs) currently pay a yield of above 4%. In years past, bonds have been primarily used as a tool to mitigate and potentially reduce volatility in portfolios; looking forward, we expect bonds also to provide attractive income generation.

Diversifying strategies provide protection in different economic environments

Investment advisors typically recommend a diversified portfolio to optimize its risk/return profile. Many of these strategies have lower volatility than equities and relatively low correlations to equities and bonds. It's also helpful to think about these strategies in terms of their role in portfolios and how they typically perform in different economic environments. We believe a basket of inflation-hedging

strategies – such as midstream energy, diversified infrastructure, timberland/farmland, and real estate – is prudent when constructing portfolios. They can add value to the portfolio should inflation continue at high levels and can also provide growth and income should inflation levels normalize.

We also utilize specific hedge fund strategies with the objective of providing better-than-bond returns over a complete market cycle. These hedging strategies are still attractive, but investors with a high allocation may consider reducing exposure into 2023, since the overall outlook for bonds is more promising.

In addition, allocation to the private markets – both equity and debt – can improve the overall risk/return profile of portfolios. Investors should pay close attention to overall portfolio liquidity as well as appropriate vintage year diversification.

Focus on what we can control

Investors can't control geopolitical risks, economic outcomes, or market performance, amongst other factors, so we should focus on what we can control and what matters to portfolio performance in the long term. As we ease into our "new normal," understanding our current place in the economic cycle, forward-looking portfolio construction becomes necessary. At Innovest, we value process over prediction and remain focused on the things that we can control and that ultimately matter in the end. We remain focused on confirming investment objectives and downside risk tolerance, asset allocation to appropriate markets, ongoing portfolio rebalancing, tax loss harvesting where possible, and providing excellent customer service. We are looking forward to working with you in 2023.

Employee Spotlight

Steve Karsh

Where is your hometown?

Denver, Colorado

Tell us something unique about you.

I don't look as old as I am – at least I think so, which is all that matters.

What do you like best about working at Innovest?

Besides the colleagues I work with, I get to help my clients meet their investment and financial goals

How do you give back to the community?

Along with participating in Innovest service days, I like to donate money and time to organizations that help military veterans, sick children, and dogs.

What are your hobbies and interests?

I love to golf and go to live sporting events (Avs and Broncos)

Tell us about your family.

I'm fourth generation Coloradan. My grandfather was a cattle farmer up in Longmont/Brighton area (there is a street named Karsh Drive up there). I have two brothers that I'm very close with, and a lot of relatives on my wife's side of the family are also a big part of my life.

What is your favorite dessert?

Anything chocolate!

Around the Firm

PROMOTIONS & TEAM UPDATES

Innovest is honored to again be named a "Best Place to Work" by *Pensions & Investments* for 2022! We are so thankful for our hardworking team members.

The following employees received Innovest's annual awards: Stephanie Dufano received the Annual Service to Others Award, Joanne Cinalli received the William Fender Mentorship Award, Cos Braswell received the 212 Degree Award, and Joe Lemming received the Founder's Award.

The recipients of the Service to Others monthly awards were Cos Braswell in October, Stephanie Dufano in November, and Kathy Lalone in December.

Innovest's Natalie Kuzia passed Level II of the CFA Program. 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.

Congratulations to Innovest Principal Paul Nacario for being elected to NAGDCA's Industry Committee. The NAGDCA Industry Committee offers a unique opportunity for their private sector partners to use their skills to make an impact in the government defined contribution market.

AWARDS & PUBLICATIONS

Innovest's Peter Girard authored "Consumer Sentiment and the Value of Long-Term Investing," published by Advisor Perspectives.

Innovest's Dustin Roberts and Franklin Cornett authored "Your 7 Point Year End Retirement Check List," published by *401K Specialist.*

Innovest CEO Richard Todd and his wife Joanie were presented with the Sr. LaVonne Guidoni Award at the Seeds of Hope Gala for their dedication to Catholic education throughout Colorado for over 25 years.

SERVICE IN THE COMMUNITY

Innovest employees had the opportunity recently to volunteer with Project Angel Heart. Our team helped to build breakfast packages and delivered meals.

Innovest employees volunteered at the Denver Santa Claus Shop (DSCS), a nonprofit that collects and gives families the opportunity to shop for free toys each December.

Innovest employees participated in Colorado Gives Day and raised $20,060 making Innovest the fourth largest company contributor in the state.

Innovest employees made their annual contribution to Adopt-a-Family in December. The Catholic Charities' Adopt-A-Family program has been helping the Colorado community for over a decade, matching donors with families and individuals who need a little help this holiday season.

CONFERENCES, SPEAKING, EVENTS, & SPONSORSHIPS

Innovest was a proud sponsor of the 3rd Annual Bustin' Clays, held at Colorado Clays in Brighton, Colorado. The event benefited the Navy SEAL Foundation.

Innovest was a proud sponsor of Juicing the Harvest, held at Balistreri Vineyards in Denver, Colorado. The event benefited A Precious Child and the Marshall Fire families.

The 2022 Arizona Defined Contribution Conference (AZ/DC) was a great success! Innovest President and Co-founder Wendy Dominguez was a featured panelist for a fireside chat.

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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