

# **Innovest Portfolio Solutions, LLC**

## **Form ADV Part 2A**

### **The Brochure**

March 25, 2023

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This Brochure provides information about the qualifications and business practices of Innovest Portfolio Solutions, LLC (“Innovest”). If you have any questions about the contents of this Brochure, please contact us at 303-694-1900. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority.

Innovest is a registered investment adviser. Registration with the SEC as an investment adviser does not imply a certain level of skill or training.

Additional information about Innovest is also available on the SEC's website at [www.adviserinfo.gov](http://www.adviserinfo.gov). Innovest's CRD# is 106110.

## **Item 2 - Material Changes**

The date of our last Brochure was March 25, 2022.

Innovest's business activities have not changed materially since that date.

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## **Item 4 - Advisory Business**

Innovest Portfolio Solutions, LLC (“Innovest”) is an independent, fee-only provider of investment consulting services to retirement plans, foundations and endowments, nonprofit organizations and high net worth individuals and families.

Innovest is an investment adviser registered with the U. S. Securities and Exchange Commission. It is incorporated in the state of Colorado. Innovest was founded on July 1, 1996. Innovest is headquartered in Denver and has satellite offices in Arizona, California and Florida.

Innovest Holdings, Inc. owns 86% of Innovest. Richard M. Todd owns 56% of Innovest Holdings. Wendy Dominguez owns 26% of Innovest Holdings. Innovest Holdings is 100% employee owned.

### **Investment Consulting Services**

Innovest provides investment consulting and reporting services to approximately 363 clients with assets totaling approximately \$33 billion as of December 31, 2021.

Innovest advises the vast majority of its clients on a non-discretionary basis. Clients may delegate authority to Innovest to take specific investment related actions on their behalf. See “Item 16 – Investment Discretion” in this brochure.

Our advice is specific to each client’s goals, time horizon, risk tolerance and investment objectives. As the coordinator of each client’s investment program, Innovest can be the single contact in the ongoing management of the client’s investments.

Investment consulting services provided by Innovest may include:

- Comprehensive investment program review and detailed fee evaluation (provided at inception of the consulting relationship and as needed)
- Custody evaluation and recommendation (as needed)
- Investment manager evaluation, recommendation and/or selection (as needed)
- Investment policy development and maintenance (annually)
- Asset allocation and modeling (annually)
- Performance measurement, attribution, and reporting (quarterly)
- Ongoing monitoring (daily)
- Spending policy evaluation (annually and as needed)
- Portfolio accounting (daily and monthly)
- Alternative investment evaluation and selection (as needed)
- Technology assistance (as needed)
- Fiduciary and Trustee education and workshops (as needed)
- Retirement plan vendor selection (as needed)
- Cash flow planning for individuals and families (as needed)

Clients may impose restrictions on investment in certain securities or types of securities.

## Friends and Family Investment Program

In contrast to the investment consulting services described above, Innovest also provides the Friends and Family Investment Program. (Friends and Family was previously called the Select Investment Portfolio Program.) Friends and Family is available to individuals, IRAs and revocable living trusts. In this program, a client completes an Investor Profile Questionnaire on the Charles Schwab & Company (“Schwab”) website. The questionnaire results generate a recommended portfolio for the client. Innovest reviews the recommendation and then selects a specific investment portfolio from several model portfolios that Innovest has constructed and manages. The model portfolios are specifically designed for either taxable or tax-exempt portfolios. Within the portfolios for taxable or tax-exempt accounts, there are five portfolio models available with risk tolerances ranging from conservative to all equity. The model investment portfolios invest in mutual funds.

A Friends and Family client’s portfolio is held in a brokerage account opened by the client at Schwab. Innovest uses Schwab’s Institutional Intelligent Portfolio® Platform (“Platform”). The Platform includes the Investor Profile Questionnaire. The Platform also includes an automated investment engine through which Innovest manages the client’s portfolio on an ongoing basis, including automatic rebalancing and tax loss harvesting (if the client is eligible and elects).

Innovest is the client’s investment adviser and primary point of contact with respect to the Friends and Family Investment Program. Innovest is solely responsible, and Schwab is not responsible, for determining the appropriateness of the investment program for the client, for selecting a suitable investment strategy and portfolio for the client, and for managing the portfolio on an ongoing basis. Every Friends and Family client will have an investment policy statement and will receive a quarterly performance report from Innovest, in addition to communications directly from Schwab.

## **Item 5 - Fees and Compensation**

Innovest is compensated on a fee-only basis. Innovest receives no compensation from any source other than the fees paid to it by its clients.

Innovest fees for clients are custom and are dependent on the amount of work involved and any client-specific consulting needs. Fees can be either a percentage of assets or a fixed fee. Fees are generally payable in advance at the beginning of each calendar quarter. A client can choose to have fees deducted from assets under management or billed on a quarterly basis. Fees for an account opened during the calendar quarter are prorated to reflect the amount of time Innovest provides services.

Either party may terminate the consulting agreement upon thirty (30) days written notice. If the agreement is terminated, the client will be refunded for pre-paid fees based on the termination notice period and actual services provided during the billing period.

Innovest's consulting fees do not include investment management fees, custody fees, transaction costs, retirement plan administrator costs or any fees charged by other service providers. In its role as a fiduciary, Innovest uses its knowledge of and presence in the marketplace to work diligently to identify and negotiate to obtain the best services, at a reasonable cost, from third party service providers.

## **Item 6 - Performance-Based Fees and Side-By-Side Management**

Innovest does not offer a performance-based fee structure.

## **Item 7 - Types of Clients**

Innovest provides investment consulting services primarily to retirement plans, foundations and endowments, nonprofit organizations and high net worth individuals and families.

Clients eligible to enroll in the Friends and Family Investment Program are limited to individuals, IRAs and revocable living trusts.

## **Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss**

Innovest applies an innovative thought process with the objective of designing portfolios that provide our clients the opportunity to meet their goals while minimizing unnecessary volatility. Our approach to portfolio design and money manager selection emphasizes forward-looking analysis. Our investment philosophy and process have been structured on the following principles:

1. Over 90% of the variability of portfolio performance is attributable to asset allocation.
2. A forward-looking, thoughtful and methodical approach to asset allocation is imperative.
3. Quantifying the downside risk of a portfolio is the best way to communicate and measure portfolio volatility.
4. Proper benchmarking is critical in evaluating investment performance.

Innovest's investment philosophy and process are based on the following tenets:

### **Diversification**

- Diversification is key to capital preservation
- Proper diversification can reduce investment risk
- Portfolios must be designed based on prudent assumptions and projections

#### **Strategy**

- Market inefficiencies can be exploited with active management
- Passive investment management may be appropriate in certain circumstances
- Proven strategies and managers should be utilized
- Expenses and taxes should be minimized

#### **Implementation**

- Proper benchmarking is key to performance evaluation
- Consistent managers perform better in the long run
- Risk management is integral at every step and on every level

Innovest works with its clients to establish mutually agreed upon risk and return parameters for their investment portfolio. Innovest will advise the client subject to those risk and return parameters and subject to objectives, conditions and guidelines set forth in an Investment Policy Statement prepared for and approved by the client.

Through the asset allocation process, Innovest assists the client in the design of an investment portfolio consisting of selected asset classes. Innovest incorporates Modern Portfolio Theory to construct well-diversified client portfolios with a focus on risk adjusted return. Modern Portfolio Theory does not eliminate risk, but it does attempt to reduce portfolio volatility through optimal diversification. After an asset allocation is identified, Innovest then assists the client in identifying investment managers to be used in the various asset classes in the portfolio. In some cases, clients delegate authority to Innovest to take certain actions on their behalf. See “Item 16 – Investment Discretion” in this brochure.

Innovest’s Capital Markets Committee is responsible for the development of forward-looking capital market projections that are the basis of the asset allocation modeling process. Innovest’s Investment Committee and Due Diligence Team are responsible for selecting securities for client portfolios from a broad universe of mutual funds, exchange traded funds, separately managed stock or bond portfolios and limited partnership investments. Innovest generally does not recommend or monitor individual stocks or bonds.

Investing in securities involves a risk of loss that clients should be prepared to bear.

## **Item 9 - Disciplinary Information**

Innovest is required to disclose material facts regarding any legal or disciplinary event that is material to a client or prospect's evaluation of the integrity of our firm or our management personnel.

Neither Innovest nor any of our personnel has had any reportable legal or disciplinary events.

## **Item 10 - Other Financial Industry Activities and Affiliations**

Innovest and its management do not have any relationship or arrangement with any financial services company or other organization that creates a conflict of interest with respect to its clients.

## **Item 11 - Code of Ethics**

Innovest has adopted a Code of Ethics that governs several potential conflicts of interests it or its employees might have when providing advisory services to its clients. This Code of Ethics is designed to ensure that Innovest and its employees meet their fiduciary obligation to clients and to establish a Culture of Compliance within the firm.

Our Code includes the following:

- Requirements regarding our fiduciary obligations to our clients;
- Standards of business conduct
- Requirements related to the confidentiality of client information;
- Prohibitions on insider trading based on material, non-public information;
- Prohibitions on the acceptance of gifts and entertainment or expense reimbursement that exceed our policy standards;
- Prohibitions on investment in certain securities that Innovest maintains on a restricted stock list;
- Pre-clearance of certain employee transactions;
- Quarterly reporting by all access persons of all personal securities transactions involving reportable securities as mandated by SEC rules; and,
- Annual reporting by all access persons identify all accounts that hold securities in which they have a beneficial interest (e.g., accounts of members of the employee's household).

Innovest had structured its business model to eliminate or minimize material conflicts of interest. Innovest is compensated for its services solely by client fees and Innovest has no proprietary investment products.

To mitigate any potential conflicts of interest, Innovest and its employees do not have a material financial interest in any security that they recommend to clients.



Innovest employees may invest in some of the same securities as Innovest recommends to clients, including, for example, mutual funds and exchange traded funds. As noted above, Innovest's Code of Ethics has procedures to monitor employee trades to detect any potential conflicts of interest.

Certain recommendations could potentially pose a conflict of interest. For example, a recommendation to open an account or add to an existing account could potentially create a conflict of interest because it could result in additional compensation to Innovest. All Innovest recommendations to existing or prospective clients are supported by substantial research and discussion with a client to ensure that investment recommendations are in the client's best interest.

Our Code is comprehensive and distributed to each employee at the time of hire, and annually thereafter if there are changes. Innovest also supplements the Code with annual training and ongoing monitoring of employee activity. Compliance with the Code is monitored by Innovest's Chief Compliance Officer.

Any client or prospective client may request a complete copy of our Code of Ethics.

## **Item 12 - Brokerage Practices**

Innovest may, at the request of a client, recommend a custodian and/or broker-dealer. Recommendations are based on quality of client service and reporting, technology capability and costs. Ultimately, the decision rests with the client.

Innovest does not receive any compensation, revenue, soft dollar benefits or incentives from client brokerage.

Client accounts enrolled in the Friends and Family Investment Program are maintained at, and receive the brokerage services of, Schwab.

Schwab Advisor Services™ is Schwab's business unit that services independent investment advisory firms like Innovest. Through Schwab Advisor Services, Innovest and its clients receive access to its institutional brokerage services, which are typically not available to Schwab retail customers. Schwab also makes available to Innovest various support services. Innovest does not pay for Schwab services if its clients maintain a total of at least \$10 million of assets in accounts at Schwab. As a result of this arrangement with Schwab, Innovest may have an incentive to recommend that our clients maintain their accounts with Schwab based on our interest in receiving Schwab's services. Innovest believes, however, that our recommendation of Schwab is in the best interest of our clients, based on the scope, quality and price of Schwab's services.

The minimums which are required to receive Schwab's Advisor Services may give Innovest an incentive to recommend that clients maintain an account at Schwab, which is a potential conflict of interest. Innovest clients currently custody approximately \$2.2 billion of assets at Schwab, so

Innovest easily meets the \$10 million of client assets needed to meet the requirement for Schwab Advisor Services. As a result, Innovest does not believe there is a material conflict of interest in recommending Schwab's brokerage services.

Client accounts enrolled in the Friends and Family Investment Program are maintained at, and receive the brokerage services of, Schwab.

### **Item 13 - Review of Accounts**

Innovest consultants review client accounts quarterly and more often based on deposits, withdrawals or investment market performance.

For most clients, there is a quarterly meeting to review the client's performance report. Our custom quarterly performance report is a comprehensive tool for communicating with clients each quarter. It covers macro-economic and investment market conditions, the client's investment policy goals, a comparison of each client's actual asset allocation to the target allocation, total portfolio performance and detailed investment level information.

A comprehensive written report is provided to each client each quarter even if there is no in-person meeting.

### **Item 14 - Client Referrals and Other Compensation**

Innovest does not receive any economic benefit, other than the consulting fees paid by its clients, for providing investment advice to its clients.

Innovest will, on limited occasions, compensate persons who have referred clients to Innovest by paying to such referrers a portion of the consulting fee paid by the referred client. All clients whose accounts are subject to referral fees will be fully informed in writing of the terms and conditions of the referral fee to be paid and consent in writing thereto in advance of the engagement. The consulting fee paid to Innovest will be the same amount whether or not the client became an Innovest client because of a referral.

### **Item 15 - Custody**

Innovest does not maintain custody of client assets. Clients establish accounts with a qualified custodian, although certain privately offered securities held by clients that meet specific criteria set forth by the SEC do not require a qualified custodian.

For certain individual clients, Innovest or an Innovest employee, will serve as trustee of a trust, in which case Innovest has custody of the trust assets.

Qualified custodians used by Innovest clients are independent of Innovest and send quarterly or more frequent account statements directly to clients. Clients should carefully review those statements. Clients should also compare the account statements they receive from the qualified custodian to the account statements, such as the quarterly performance report, they receive from Innovest.

As an exception to the above, Innovest does have custody of client funds and securities but only to the extent that it has the ability, if the client chooses, to deduct its fees from the client's account.

## **Item 16 - Investment Discretion**

Innovest advises the vast majority of its clients on a non-discretionary basis. Clients may delegate authority to Innovest to take specific actions on their behalf including, for example, determination of investment portfolio asset allocation and selection of money managers.

Our investment philosophy, internal investment processes, advice and reporting are the same regardless of whether we are working with the client on a discretionary or non-discretionary model. The key differences between the discretionary and non-discretionary models lie in extent of the specific decision-making authority.

## **Item 17 - Voting Client Securities (i.e., Proxy Voting)**

Innovest will, at the request of a client, research proxy materials for securities held in the client's accounts. In the vast majority of cases the proxy requests will be for mutual funds. Innovest will communicate its recommendations to the client. Innovest will (1) furnish a copy of these policies and procedures to the client, (2) maintain documentation of its research to support its recommendations, and (3) maintain documentation of the recommendations communicated to the client.

## **Item 18 - Financial Information**

Innovest has never filed for bankruptcy and is not aware of any financial condition that is reasonably likely to impair its ability meet its contractual commitments to clients.