NONPROFIT NEWS
Investment Management News Resource

Profiles

Thursday, April 8, 2010

Profile: Richard Todd, Innovest Portfolio Solutions

In order to meet performance objectives, investment consultant **Innovest Portfolio Solutions** believes fiduciaries need to quantify risk, says **Richard Todd**, co-founder and managing principal of the of the Denver-based firm.

Richard Todd

"How much you're willing to lose in a year to meet long-term objectives is one issue all investors face after seeing losses in 2008 and 2009," Todd said. "Institutions were reacting emotionally and making mistakes with investments."

That is why Innovest has stuck to its long-term philosophy of designing client portfolios around spending policies and downside risk, which can significantly change the types of investments that are placed in a portfolio. A typical client falls within the $25 million to $100 million range, he said.

"I think a key element is quantifying that downside risk," he said. "The typical client had already quantified that they could lose up to 20%, which helped ground them when markets were difficult."

Todd added that many nonprofits, which comprise about 20% of the firm's business, questioned having a more conservative bond-oriented portfolio given the risk parameters they set before the markets fell.

"Some had more conservative portfolios, and the issue that a lot of nonprofits had is that the bond market seemingly wasn't attractive (a few years ago)," he said. "One lesson they have learned is a big part of having diversification strategies, although yields are low, is that bonds are not there to produce returns as much as provide a cushion" when other areas of the market perform poorly.

Organization: Innovest Portfolio Solutions
Location: Denver, Colo.
AUA: $3.5 billion
Web site: www.innovestinc.com
Firms: Managers should refer to the Innovest's Contact Us page to speak with members of the research staff.

"Looking Forward" In Assessing Managers

Qualitative assessments of managers take precedence for Innovest, which not only utilizes the **Callan Associates** manager database for information, but also maintains an open-door policy for meeting with managers, Todd said.

"It doesn't mean we'll always have a due diligence meeting, but we do initial work and ask them to complete a questionnaire, and if we do have interest we will delve deeper into the firm," he said.

Todd said that Innovest's research team, which consists of five senior members and underlying analysts, often favors equity managers who add value through securities selection. He said that Innovest is mindful of managers that have performed well by overweighting particular sectors, because their outperformance can often to amount to luck over skill in some instances.

In addition, Todd said Innovest favors longer track records for managers, particularly those in the equity space that are top down and adding value on sector allocations.

"We believe we have to look forward," Todd said. "[Research] is not just looking at a manager's philosophy and process, although that's important with key personnel, it is really delving inside the portfolio to see why they did what they did and the bets they are making."

In the alternatives space, Todd said the firm places a great deal of emphasis on knowing the manager-specific risk involved with the investments. Because the advisor believes there are opportunities for diversification and outperformance in the alternatives space, it needs to make sure managers have strong operations.

In working primarily with fund-of-funds, Todd said that the research staff takes time to analyze their philosophy, with a focus on diversification.

"One of the things we focused on in 2008 was understanding how much credit exposure fund-of-funds have," he said in regards to hedge fund managers. "We didn't know credit markets would go down as much as they did, but we wanted to make sure our fund-of-funds managers were well-diversified between strategies."

In private equity, Innovest said diversification is key to strong returns, and at this point the firm is a strong proponent of fund-of-funds having allocations to mezzanine debt at this time.

Educating Clients in the 21st Century

Some consultants can reach clients through fiduciary training sessions, others will send an array of white papers throughout the year. Innovest not only provides both of those services for clients, but also maintains a blog on its Web site filled with all types of articles and information for its clients.

"We read a lot about what other firms think, whether it's **JPMorgan** or **PIMCO**," he said. "It is part of the way we formulate opinions, and if there is something we like, we can put it in our blog."

More traditional client education comes in the form of its fiduciary training and research papers. Fiduciary training consists of helping clients understand their role as fiduciaries, whether it is through creating a streamlined decision-making process or assisting with litigation support.

"Every quarterly review is an educational process in understanding the markets and why they did what they did and our forward-looking view," he said. "Too many investors look in the rearview mirror whether they are fiduciaries or not."

Todd said the firm's hard work has paid off, as the firm received its highest marks, a 4.7 out of 5.0, in its annual client survey following the 2008 market collapse.

"High marks (for the survey came from) the advice from our consultants and the attention we gave them through the meltdown," he said.