

Minutes of the DERP Retirement Board

August 18, 2023 - Meeting #853

Meeting #853 of the DERP Retirement Board was held at the Grant-Humphreys Mansion and via video/audio. The meeting began at 9:00 a.m. DERP Retirement Board Members present: Guadalupe Gutierrez-Vasquez, George Delaney, John Dominguez, and Lisa Ramirez. DERP Advisory Committee Members present: Heather Britton, Roberta Monaco, Danielle Sexton, and Maro Casparian. DERP staff present: Heather Darlington, Executive Director; Jake Huolihan, Finance and Technology Director; Roni Kirchhevel, Benefits and Membership Services Director; Julie Vlier, Marketing and Communications Director; Randall Baum, Chief Investment Officer; Pamela Watson, Deputy Chief Investment Officer; Michelle Binns, Membership Services Assistant; and James E. Thompson III, General Counsel. Others present: Leandro Festino and Mika Malone from Meketa.

1. The Minutes of Meeting #852 were approved by a unanimous vote of the Retirement Board members.
2. Roni Kirchhevel presented the Semi-annual Retiree Survey Results. She presented a brief overview of the process, describing how new retirees are sent a survey once they complete the retirement process. She reported that DERP generally gets a rating of “strongly agree” and “agree” from retirees when asked about positive experiences. She explained that “disagree” and “strongly disagree” ratings recently received were from retirees who were unhappy with disability and the way they separated from the city. She reported that the overwhelming majority of members feel they are receiving a high level of support and customer service from the membership services team. George Delaney asked what percentage of retirees participate in the survey. Ms. Kirchhevel replied that about 18 percent participated in the last survey, but she hopes that number will increase over time.
3. Leandro Festino and Mika Malone from Meketa presented the Mid-year Investment Performance Review. Ms. Malone began with an economic and market update, reporting that asset returns were positive in June, with US and non-US equities posting gains, while most fixed income sectors sold-off on expectations for further interest rate hikes later this year. She noted that, with the exception of commodities, most public market asset classes remained up for the year. She noted the paths of inflation and monetary policy, slowing global growth and the war in Ukraine will all be key factors this year. She concluded that, after a particularly difficult 2022, most public market assets are up in 2023, building on gains from the fourth quarter of 2022 and that risk

sentiment has been supported by expectations that policy tightening could be ending soon, as inflation continues to fall, and growth has slowed. George Delaney asked how consumer spending could affect growth and a potential recession. Ms. Malone explained as of right now the markets have not been as concerned about consumer spending, but with student loan payments set to resume in the fall and higher interest rates, it has been a looming question mark.

Mr. Festino continued the presentation to report on DERP's performance. The DERP portfolio had a market value of approximately \$2.45 billion at the end of the second quarter, an increase of approximately \$37.5 million since the end of March. He highlighted that the fund had investment gains of approximately \$56.2 million in the quarter and net cash outflows of approximately \$18.7 million. He reported the portfolio returned 2.5% for the quarter, tracking the policy benchmark, with quarterly performance slightly trailing peer median returns of 2.6%, while over the trailing three-year period, the total return ranked in the top quartile of peers. He also noted that the since inception return of 8.3% continues to rank favorably versus peers, ranking in the top third of the respective peer group.

4. Pamela Watson presented the asset class review of fixed income and securities lending. Ms. Watson first provided an overview of the core fixed income allocation as well as the risk exposures. She then described the core fixed income and interest rate environment over the last ten years. Next, she reviewed the core fixed income outlook and expectations for the next few years. She noted the core fixed income performance has been in line with the policy benchmark over the long term and is currently outperforming in the short term. She described how the core allocation has fulfilled its role of providing safety and liquidity.

Ms. Watson moved on to the non-core fixed income allocation and described the several strategies with differing risk and return characteristics. She reminded the Board that the non-core allocation is expected to produce returns accretive to the overall DERP portfolio. She also reviewed the non-core fixed income environment, outlook, and performance over the last ten years. She reported that DERP staff continues to be pleased with the resilience and performance of the private debt allocation and, although disappointed with historical performance of emerging markets debt (both the asset class and the previous manager), DERP staff believes the portfolio is positioned prospectively for improving performance as the asset class recovers. She stated that DERP staff is comfortable with the current lineup of investment managers, their processes, and positioning. John Dominguez asked questions about the since inception IRR and liquidity and lock-up periods for DERP's investments in this asset class.

Ms. Watson concluded her presentation with an overview of securities lending. She described strategy, income and risk, cash collateral reinvestment, environment, and the program results. She reported overall income generated from the securities lending program has declined due to: DERP's decisions (passive management, commingled funds, private investments) which have reduced the available pool of securities to lend and changing conditions within the securities lending marketplace (demand,

reinvestment rates, rebates). She reported staff's position that BNY Mellon has consistently delivered good results in shifting environments and there is little administrative burden or risk exposure involved in maintaining the program.

5. Heather Darlington presented the Executive Director's report. Ms. Darlington notified the Board that it is time for the annual executive director review. Lisa Ramirez solicited volunteers for the executive director review committee. Heather Britton, Guadalupe Gutierrez-Vasquez and Roberta Monaco were appointed to the committee.

Jake Huolihan requested the Board approve an extension of the actuarial services contract with Cheiron. Mr. Huolihan recommended a five year extension, with cost increases for the first year of approximately \$7,000 and a 2.5% increase each year thereafter, mirroring the inflation assumption built into the plan's assumed rate of return. DERP is pleased with the pricing and would like to contract with Cheiron for another 5-year term. John Dominguez moved to approve the recommended contract extension, subject to successful negotiations with Cheiron. George Delaney seconded the motion. The motion passed unanimously.

Randall Baum updated the Board on the investment consultant RFP. Mr. Baum noted that DERP received responses back from five interested firms, including Meketa, and that the investment team is in the process of reviewing the responses. He described the evaluation process and offered the response materials to any interested Board members. He reported that he expects finalists will be selected by next Thursday and DERP will begin the process of scheduling onsite visits.

6. Lisa Ramirez opened the floor for advisory committee member comments. No comments were received.
7. Lisa Ramirez opened the floor for public comment. Retiree Lynn Segal expressed gratitude and appreciation for everyone's advice and efforts in managing the retirement funds.
8. After a short break, the Board voted to enter into executive session pursuant to Section 18-417(b)(2) of the Revised Municipal Code of the City and County of Denver to hear the appeal of Lynn Segal.
9. After returning to regular session, the Board discussed the appeal of Lynn Segal. The Board voted unanimously to deny the appeal of Lynn Segal and delegated the rendering of a written decision to Board Chair, Lisa Ramirez.
10. The next regularly scheduled retirement board meeting is Friday, October 20 at 9:00 a.m.



11. The meeting was adjourned at 11:19 a.m.



DERP Retirement Board Chair



DERP Executive Director