

## Minutes of the DERP Retirement Board

November 17, 2023 - Meeting #855

Meeting #855 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 Diane Barrett, 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 Representative; and James E. Thompson III, General Counsel.

1. The Minutes of Meeting #854 were approved by a unanimous vote of the retirement board members.
2. Randall Baum presented the Third Quarter Investment Performance Review. Mr. Baum reported that further interest rate increases contributed to losses in fixed income, equities, and real estate. He noted the DERP portfolio lost 1.2% for the quarter in this environment, a smaller loss than experienced by most public plans. Mr. Baum stated this was a typical outcome as DERP historically defends well in down markets but is prone to lagging when equity markets surge. He further noted that active management in both domestic and international equities helped keep losses smaller than that of the broad markets, and conservative positioning in core fixed income avoided losses for the period. He informed the retirement board that, despite the quarterly loss, the fund remains positive year to date, with a 4.5% net return.
3. Randall Baum presented the annual investment policy update. He noted the only changes this year were the previously approved ESG policy change and an investment policy exception for options held by Franklin Templeton Investments. He explained that Franklin Templeton received options when Chinook Therapeutics was purchased by Novartis, and the options vest if certain milestones are met by 2030. He noted that these options are illiquid and not marketable. Mr. Baum asked the retirement board to approve the exception for the options through 2030. Diane Barrett opened the floor for questions, George Delaney moved to approve the recommendation; John Dominguez seconded the motion. All retirement board members were in favor and the motion passed unanimously.

4. Pamela Watson presented the asset class review on natural resources. She informed the retirement board that the natural resources asset class has a target allocation of 3.5%, and is currently 5.6% of the DERP portfolio, or \$135.9 million, with strong recent performance causing the overweight position. She noted the current split is about 70% energy and 30% timber. She explained the role of these investments is to generate enhanced returns while increasing diversification through low correlation with other asset classes. Additionally, she added, private investments are expected to deliver an illiquidity premium above publicly traded securities. She noted the natural resources composite is benchmarked to CPI + 3% annually. She then discussed the environment and outlook for the energy and timber sectors.

Ms. Watson then presented an analysis of performance. She reported the natural resources composite lost value during the past year, largely due to a decline in commodity prices, and over the longer term, the natural resources composite performance has been disappointing. She mentioned that performance has consistently resulted in returns falling between those of the public market energy sector and direct commodity exposure. She explained that, although the composite has succeeded in its objective of providing diversification and produced significant returns in recent years, the composite has not consistently enhanced returns and has not provided the desired illiquidity premium. She noted the outlook for future performance is positive, but that DERP staff does not foresee future returns strong enough to significantly impact since inception results. No additional private energy investments are anticipated.

5. James Thompson presented a proposed resolution for the Insurance Premium Reduction (IPR) program. He informed the retirement board that the IPR program is running smoothly and compliant with all rules and regulations, but he recommended formal board adoption by resolution. Mr. Thompson presented the retirement board with a proposed resolution formalizing the IPR program and asked the board to vote to approve same. Lisa Ramirez opened the floor for questions. Diane Barrett moved to adopt the resolution; George Delaney seconded the motion. All retirement board members were in favor and the motion passed unanimously.
6. Jake Huolihan presented the 2024 budget. Mr. Huolihan started with an overview of the budget process, including the fact that the board is required by ordinance to adopt a yearly budget by November 30 for the succeeding calendar year and a copy of the budget must be filed with the city mayor and council. He identified two annual limits established by ordinance: investment management expenses are limited to 0.25% of the average market value of trust assets and administrative expenses are limited to 0.125% of the ending asset value of trust assets. He noted that the board is authorized to, and has, created a budget committee to review both budgets in depth with DERP staff prior to presentation and adoption. Mr. Huolihan went on to discuss the budget cycle, which



included the timeline and the participants. Next, Mr. Huolihan reviewed the 2024 proposed budget summary, operating budget, building budget, and investment management budget, highlighting any areas of significant year-over-year increases. After explaining the 2024 budget, Mr. Huolihan opened the floor for questions and comments. He asked the retirement board to approve adoption of the 2024 budget. Diane Barrett made the motion; John Dominguez seconded the motion. All board members were in favor; the motion passed unanimously.

7. James Thompson presented the results of the DERP Retirement Board Self-Evaluation survey. Mr. Thompson explained the purpose of the survey was to identify areas that are working well and areas that may need improvement with the board. He noted that for the most part the survey indicated board members feel things are functioning well. Mr. Thompson provided a brief background of the retirement board structure and meeting structure before he began to share the results of the survey. He explained that, in 2017, there was a year-long effort to analyze the retirement board's role and responsibilities, which resulted in the adoption of a board charter that identified 8 keys areas of responsibility: governance, funding and actuarial matters, finance and accounting, investments, benefits administration, personnel, legal matters, and operations. He also informed the board that the statement of delegation to the executive director was adopted at that time.

Mr. Thompson then reviewed self-evaluation survey questions. He commented on the results of each survey question, spent extra time on areas identified in the survey that needed improvement or had noteworthy comments and opened the floor for questions and comments when necessary. The retirement board members and DERP staff had a robust discussion about all survey questions and committed to continuing to support one another and tweaking processes where necessary.

8. Heather Darlington presented the Executive Director Report. Ms. Darlington reviewed the 2024 Retirement Board Calendar and Work Plan, highlighting items that were discussed during the board self-assessment presentation. She opened the floor for suggestions and comments about the tentative 2024 calendar, as well as the logistics of the meeting times, dates, location, board packets, and technology. Ms. Darlington also opened the floor for discussion about continuing to stream virtual meetings in 2024. The retirement board members and advisory committee provided feedback on all the aforementioned topics. The board chair, Lisa Ramirez, confirmed all board members and advisory committee members understood that board meetings in 2024 would no longer be broadcast to the public, but virtual participation may be available to any special guests, board members, or advisory committee members who are unable to attend the meetings in person. Heather Darlington requested approval of the 2024 Retirement Board Calendar and Work Plan. Lisa Ramirez motioned to approve the 2024 Retirement

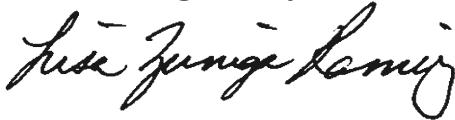


Board Calendar and Work Plan. George Delaney seconded the motion. All retirement board members voted in favor, and the motion passed unanimously.

Next, Ms. Darlington presented the status of ordinance changes. She reported that the two bills DERP had put before City Council on the reduction of the assumed rate of the return and clean-up language went through committee and a first reading before City Council. She advised that they will go through a second reading shortly, then will be sent to the Mayor for signature.

Randall Baum then updated the retirement board on the status of the new investment consultant. Mr. Baum informed the board a contract was signed with NEPC and they are scheduled to formally begin their engagement on December 1, 2023. He noted there will be some overlap with Meketa as it completes some 2023 work through February 2024.

9. Lisa Ramirez opened the floor for advisory committee comments. Roberta Monaco provided feedback on a recent training she attended regarding retirement planning and the psychological aspects of retirement readiness. The retirement board members, advisory committee members, and DERP staff commented on this valuable feedback.
10. Lisa Ramirez opened the floor for public comment. No comments were received.
11. The next regularly scheduled retirement board meeting is Friday, January 19th at 9:00 a.m.
12. The meeting was adjourned at 11:40 a.m.



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DERP Retirement Board Chair



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DERP Executive Director

