

Minutes of the DERP Retirement Board

January 19, 2024 - Meeting #856

Meeting #856 of the DERP Retirement Board was held at the Grant-Humphreys Mansion and via video and audio conferencing. DERP Retirement Board Officers present were Chair Lisa Zúñiga Ramirez and Vice Chair George Delaney. Other DERP Retirement Board Members present were Diane Barrett, John Dominguez (v), and Guadalupe (Lupe) Guitierrez-Vasquez. DERP Advisory Committee Members present were Heather Britton (v), Maro Casparian, and Danielle Sexton (v). DERP staff present were Heather Darlington, Executive Director; Roni Kirchhevel, Benefits and Membership Services Director; Randall Baum, Chief Investment Officer; Jake Huolihan, Finance and Technology Director; James E. Thompson III, General Counsel; Julie Vlier, Marketing and Communications Director; Pamela Watson, Deputy Chief Investment Officer; Michelle Binns, Membership Services Representative; David Hunter, IT Program Manager; and Theresa (Terri) Campbell, Office Administrator.

(v) Denotes attended virtually.

Call to Order and Roll Call

The meeting was called to order by Retirement Board Chair Lisa Zúñiga Ramirez at 9:00 a.m. Ms. Zúñiga Ramirez noted that Roberta Monaco was unavailable to attend.

Approval of Minutes

Minutes of meeting #855 were approved by a unanimous vote of the Retirement Board members.

Election of Retirement Board Officers

A motion was put forward and seconded for Ms. Zúñiga Ramirez to continue as chair, and for George Delaney to become vice chair. The vote was unanimously approved.

Executive Director's Report

Heather Darlington introduced Terri Campbell as the new office administrator. She also introduced DERP's new investment consultants from NEPC, Rose Dean and Carolyn Smith. She announced that Roni Kirchhevel has been promoted to the newly created role of deputy executive director for DERP. Ms. Darlington invited Julie Vlier to introduce and share a portion of a newly created video entitled *Getting Ready to Retire*. Ms. Darlington reminded the Retirement Board about access to continuing education through the International Foundation of Employee Benefit Plans (IFEBC) and others. She indicated that Ms. Zúñiga Ramirez has requested to attend the IFEBC's *Advanced Trustees and Administrators Institute*

in March 2024. A motion to approve this request was made and seconded.

Annual Strategic Plan

Heather Darlington referred to the strategic plan developed in 2022 and implemented in 2023. She highlighted objectives, noted the items completed in 2023, and focused on the specific action items for 2024 to meet the overarching goals (1) to ensure long-term financial health, (2) to evolve education and service, and (3) to uphold DERP's leadership position.

Annual Expenditure and Demographic Review

Jake Huolihan reviewed 2023 year-end financial results and focused on budget to actual expenditures. He reported that current results show ~\$5.5M underspent, with the caveat that staff are still reconciling and finalizing for fiscal year 2023. New hires, retirements, and separations in 2023 were similar to 2022. He discussed contributions received versus benefits paid and noted that 2023 was the smallest gap since DERP started tracking this metric. For DROP, the interest credited in 2023 was \$650K, down from \$880K in 2022. He noted incremental progress in electronic direct deposits versus processing and distributing hard copy checks.

2024 DROP Interest Rate

Jake Huolihan recommended maintaining the 2023 1% DROP interest rate in 2024. The Retirement Board voted unanimously to approve the recommendation.

Governance Education

Before beginning the governance education presentation, James Thompson noted that while a motion for Ms. Zúñiga Ramirez's travel and education request was made and seconded during the Executive Director's Report, the matter was not put to a vote. A motion was made and seconded, and the Retirement Board unanimously approved Ms. Zúñiga Ramirez's travel request. Mr. Thompson then began his governance education presentation.

Mr. Thompson described the overall governance structure of the DERP Retirement Board, including the hierarchy between the Denver City Council, DERP Retirement Board and DERP staff. He identified the sources of authority for defining the Retirement Board's role and responsibilities. Mr. Delaney asked a question about other laws applicable to DERP. Mr. Thompson replied that there are federal, state, and local laws applicable to DERP as an organization, but that the governance presentation focuses on the DERP Retirement Board and how DERP is governed.

Mr. Thompson emphasized that the Retirement Board's main responsibilities are to administer the plan and to manage, invest and expend trust assets. He highlighted provisions from the DRMC, the Retirement Board Bylaws and Retirement Board Charter. Ms. Zúñiga Ramirez asked a question about delegation of the Retirement Board's responsibility to manage, invest and expend trust assets. Mr. Thompson provided an explanation and examples of delegation of



authority. In particular, he drew attention to the Retirement Board Charter, the Statement of Delegation to the Executive Director, the Advisory Committee Charter, and the specific roles and responsibilities of DERP staff members. Mr. Delaney and John Dominguez asked questions about delegated duties in the investment process. DERP staff gave a brief overview, noting that investment duty delegation would be the topic of a separate presentation at the February meeting.

Annual ESG Review

Randall Baum presented the annual ESG review. He reminded the Retirement Board that this is the second iteration of DERP's ESG policy. When the policy was adopted in 2020, the focus was on investment manager processes. In 2023, the Retirement Board voted to amend the policy to focus on what is actually in the portfolio and measuring exposure to risk. He noted that coverage of the portfolio has expanded from 30% to 52% and every publicly traded position is scored on an ESG metric with the exception of government issued debt. The goal is to figure out what we have and whether it is measurable, and ultimately actionable.

Mr. Baum described the platform and frameworks staff have been using to measure ESG metrics, including Arabesque and the United Nations Global Compact. He compared and contrasted measurements under both frameworks. Overall, DERP's scores tend to mirror the broad market. With this focus and these results, DERP now has the ability to respond definitively about assumption of risk and can ascertain that our ESG risk reflects the market.

Lupe Gutierrez-Vasquez asked about other sources of ESG analytics. Mr. Baum responded that there are other sources, including MSCI and Bloomberg, but Arabesque is one of the largest, and there currently is no clear standard for ESG analytics. Ms. Ramirez remarked that the ESG data could help discern where DERP may be well-aligned with managers and where we may be assuming risk. Mr. Dominguez asked if the ESG data is helping DERP to understand what managers are doing from an investment standpoint. Mr. Baum responded that with this data, we hope to better understand what we own, what our exposures are, and how we might someday manage those exposures.

Asset Class Review: Hedge Funds

Mr. Baum introduced the hedge fund asset class. He identified DERP's target allocation of 7% and explained that the role is defensive. He turned the presentation over to Pamela Watson, who explained that as of November 30, DERP's market value in hedge funds was \$168M or 6.8% of total assets. Ms. Watson reviewed the fund strategies of nine distinct managers across four strategic pillars. She pointed out that transitioning to a direct model rather than a fund-of-funds allows DERP to configure the portfolio as needed. She summarized that for 2023 and despite volatility, DERP's hedge fund portfolio for the trailing twelve months trailed the benchmark, but still met expectations overall. She indicated DERP staff was looking forward to working with NEPC on the hedge fund program.

Ms. Zúñiga Ramirez asked about the Lombard spin-off and impacts to DERP. Ms. Watson

responded that Lombard has been actively hiring and can take on and place more trades. Mr. Baum further explained that Lombard is an incubator of funds, so the changes were not surprising.

Member and/or Guest Comments

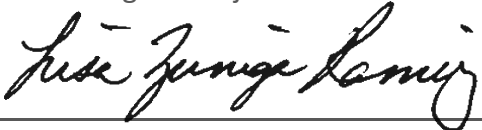
Ms. Zúñiga Ramirez opened the floor for Advisory Committee comments. She then opened the floor for member and guest comments. Bill Obermann, a current city employee with public health and environment, provided his thoughts on the generational challenges facing defined benefit pension plans and recommended DERP increase awareness about inflation and COLAs. He thanked the Retirement Board for their service and indicated that his confidence level in DERP is high.

Review of Next Meeting and Call for Topics

The next regularly scheduled Retirement Board meeting is Friday, February 16, at 9:00 a.m.

Adjournment

The meeting was adjourned at 11:08 a.m.



DERP Retirement Board Chair



DERP Executive Director