

Minutes of the DERP Retirement Board

February 16, 2024 - Meeting #857

Meeting #857 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, and Guadalupe (Lupe) Guitierrez-Vasquez (v). DERP Advisory Committee Members present were Heather Britton (v), and Danielle Sexton (v). DERP staff present were Heather Darlington, Executive Director; Roni Kirchhevel, Deputy Executive Director 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; David Hunter, IT Program Manager; and Theresa (Terri) Campbell, Office Administrator. Guests present were Rose Dean(v) and Carolyn Smith(v) from NEPC.

(v) Denotes attended virtually.

Call to Order and Roll Call

The meeting was called to order by Retirement Board Vice Chair George Delaney at 9:00 a.m. Retirement Board Chair Lisa Zúñiga Ramirez joined the meeting in person at 9:20 a.m. Roberta Monaco and Maro Casparian were unavailable to attend.

Approval of Minutes

Minutes of meeting #856 were approved by a unanimous vote of the Retirement Board members.

Executive Director's Report

Heather Darlington indicated that Maro Casparian would like to attend the annual *National Conference on Public Employee Retirement Systems* (NCPERS) conference in Seattle in May. Ms. Casparian's request to attend was unanimously approved by the Retirement Board.

Ms. Darlington reminded the Retirement Board of their prior approval for a new position reporting to Julie Vlier, Director of Marketing and Communications. Ms. Vlier is in the process of interviewing finalists. Ms. Darlington also reminded the Retirement Board to watch for emails from Kat Cole regarding DERP's *RetireStrong* educational and training opportunities. All Retirement Board members were invited to attend any sessions, whether in person or virtually.

Ms. Darlington also addressed Denver Mayor Mike Johnston's recent announcements related to budget cuts. DERP members have inquired as to the impacts of these cuts on their DERP retirement benefits. Membership Services Representatives are prepared to respond to members accordingly.

Semi-annual New Retiree Survey Results

Roni Kirchhevel shared new retiree survey results captured between July and December 2023. DERP sent 193 surveys and received 38 completions for a 20% response rate. Overall, the survey response was positive. Ms. Kirchhevel credited Ms. Vlier and Ms. Cole for improving the website information and enhancing the navigation experience for DERP members, as evidenced in the positive survey results. Ms. Kirchhevel shared a selection of survey comments highlighting the consistency and high caliber of delivery from each of the Membership Services Representatives.

John Dominguez inquired if the survey results were shared broadly with members. Ms. Darlington confirmed they were not. Mr. Dominguez noted that sharing the results in full or in summary may be of interest and benefit to DERP and its members.

2023 Investment Performance Review

Randall Baum began the 2023 investment performance presentation by highlighting the two unique elements that most impacted returns for 2023. The first was interest rates, and the second was the surge in the equity markets, particularly in the fourth quarter.

Mr. Baum provided an overview of capital markets performance in 2023. He reported U.S. equity markets gained 12.1% for the fourth quarter, raising the full year gain to 26%. Returns across most major asset classes were positive, with the exceptions of real estate and private equity. Fixed income markets had a year-end gain of 5.5%. Large cap stocks outpaced small cap stocks. The "magnificent seven" (Apple, Amazon, Google, Meta, Microsoft, Nvidia, and Tesla), generated more than 50% of the gains. Results for the Russell 3000 showed positive gains in all sectors except for utilities and energy.

Mr. Baum noted that interest rates ended higher than they began the year, despite some easing in the fourth quarter. He explained that, although inflation has declined in the U.S., it is still higher than the Fed's long-term target of 2%. This suggests that interest rates may be higher for longer.

Mr. Baum then reported on DERP's performance, stating the DERP portfolio returned 4.9% for the quarter and 9.6% for all of 2023. He noted these results trailed the policy benchmark and peers. He explained that any comparison to peer performance should also include a comparison of allocations. DERP has 42% in equities, which is 3% less than the public pension plan median. In any year when equity markets are up sharply, DERP will lag on that basis alone.

He provided additional context that DERP's overall risk is lower relative to peers which results in lower expected return. The Retirement Board will review an asset-liability study and DERP's risk exposure at the May 2024 Retirement Board meeting.

Ms. Zúñiga Ramirez asked if the marks had closed on private equity through December 31, 2023. Mr. Baum verified that private positions lag a quarter and that we should have better marks for these investments reflected in the first quarter 2024 results.

Governance: Investment Oversight and Delegation

Mr. Baum presented materials describing duties and delegation between the Retirement Board and staff specific to investment activities. He incorporated DERP's hierarchy of authority from James Thompson's January governance presentation, and noted that DERP's current delegation of duties parallels best practices in the industry and is a result of positive evolution over many years.

He gave examples of past governance improvements by moving from monthly detailed investment meetings to a focus on allocation, policy, and oversight, with delegation of the details to DERP staff. He explained that the Retirement Board also has responsibility for reviewing and adopting the investment policy, with the information and guidance of consultants and staff, noting the investment policy is reviewed annually in November and during the year as changes occur. Asset allocation and asset-liability studies are also reviewed with the Retirement Board. He continued by explaining that the Retirement Board also fulfills its fiduciary duties by participating in quarterly investment reviews and the selection of investment consultants, including most recently with NECP. Finally, the Retirement Board stays informed through education from consultants and staff, and attendance at conferences.

Mr. Baum identified examples of delegated duties, noting that the Executive Director has been delegated the duty of hiring and firing managers. When reviewing managers, Retirement Board members generally participate in the due diligence process as observers, similarly to the role Mr. Dominguez played in the selection of NEPC. He also provided details about rebalancing and the delegation and transparency around that task.

Mr. Baum concluded by presenting a responsibility matrix. Mr. Dominguez inquired if Ms. Darlington delegates her full authority to DERP staff, or if there are some duties which are exclusive to the Executive Director. Mr. Baum responded that rebalancing transactions are brought to Ms. Darlington for review and sign off. After which, transactions are entered into a custodial computer system, which are further reviewed and approved by Accounting. Anything contractual is reviewed with Mr. Thompson as General Counsel, and in lockstep with Ms. Darlington.

Mr. Dominguez asked Ms. Darlington directly how she vets and approves Mr. Baum's investment recommendations. Ms. Darlington confirmed that she is always involved in the selection and/or



termination of managers. Based on this, Mr. Dominguez suggested that the overview of areas of responsibility be further delineated between the Executive Director and DERP staff to better reflect the governing documents.

Mr. Dominguez requested at minimum quarterly reporting of which activities took place among Ms. Darlington and the DERP staff to ensure that the Retirement Board members are fulfilling their duties to monitor compliance, even if no activities have transpired.

Lupe Guitierrez-Vasquez asked Ms. Darlington and Mr. Baum if they considered including plan costs in the investment activities and decisions. Mr. Baum responded that the asset-liability study, which is conducted every five years, is when the actuary and consultant explicitly partner on cash flows and funded status. Ms. Darlington reiterated Mr. Baum's point around the evolution from monthly, detailed investment-centric meetings to the current construct and format that was expanded to include strategic planning, membership services delivery, etc.

Mr. Thompson referred back to the January meeting and his governance presentation which focused on the Retirement Board's fiduciary mandate to invest, manage, and expend the trust assets. Mr. Thompson indicated that today's presentation shows how the DERP Retirement Board fulfills this mandate, including retaining and relying on experts, and delegating to others.

Mr. Dominguez said that as a new Retirement Board member, he is clear on the mandate to invest the assets, and he feels it is important to have transparency into process, decisions, and delegation by/from DERP staff. Mr. Thompson conveyed his understanding and pointed to the DRMC, specifically Section 18-403(b), which states that those with fiduciary responsibility for the trust will invest "by diversifying the investments of the plan so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so."

Rose Dean from NEPC commented that the DERP governance model is consistent with the best and most efficient practices for delegating authority. Ms. Dean also responded to Ms. Gutierrez-Vasquez that as third-party investment consultants, NEPC reports to the Retirement Board for another independent level of checks and balances.

Ms. Zúñiga Ramirez commented that the Retirement Board has a duty of care to discharge, which can involve the delegation of duties to others and providing oversight based on the information that they are given.

Asset Class Review: Domestic Equity

Pamela Watson presented a review of the domestic equity allocation and DERP's investment managers in that asset class. At the end of 2023, DERP's portfolio had 42% in public equities (target is 44%), 20.7% of which were domestic equities. She reminded the Retirement Board that the target domestic equities allocation is 22%, with a target range of 17% to 27%. The composite benchmark is the Russell 3000 which covers 96% of the U.S. domestic equities market.

Ms. Watson turned attention to valuations of domestic equities and the impact of the magnificent seven on benchmark concentration. Using the Russell 3000 as DERP's benchmark, performance for every sector in 2023 was positive, except for energy and utilities. The technology sector, buoyed by the magnificent seven, was strongest. For 2023, DERP's domestic equity allocation met its goal and was accretive to the portfolio. Ms. Zúñiga Ramirez remarked that 60% of the S&P's performance in 2023 was driven by the magnificent seven.

Ms. Watson then reviewed the strategy and performance of each individual manager and provided details of manager performance since inception. Staff believes DERP has the right mix to withstand volatility and achieve continued growth in 2024.

Mr. Delaney asked Ms. Watson about DERP's target asset allocation of 44% overall, with an even split between 22% in domestic equities and 22% in international equities, and how we arrived at these percentages. Mr. Baum responded the allocation was reached by comparing expected returns and efficiencies in various markets and addressing currency risk. Mr. Baum invited Ms. Dean to weigh in. Ms. Dean said that if we look at the investable universe, U.S. equities make up 61% and the U.S. cap weighted index has increased over time.

Advisory Committee Comments

Ms. Zúñiga Ramirez invited Advisory Committee comments and there were none.

Member and/or Guest Comments

Ms. Zúñiga Ramirez noted that no members were present to comment.

Review of Next Meeting and Call for Topics

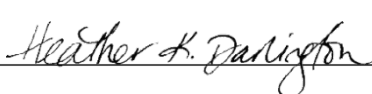
The next regularly scheduled Retirement Board meeting is Friday, April 19, at 9:00 a.m.

Adjournment

The meeting was adjourned at 10:57 a.m.



DERP Retirement Board Chair



DERP Executive Director

