

## Minutes of the DERP Retirement Board

April 19, 2024 - Meeting #858

Meeting #858 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. DERP Advisory Committee Members present were Heather Britton (v), Roberta Monaco, and Danielle Sexton. 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; Katherine Cole, Marketing and Communications Coordinator; Ryan Jeffers, Marketing and Communications Specialist; and Terri Campbell, Office Administrator. Guests present were Stacy Lewis from Sector Brands, Anne Harper and Graham Schmidt from Cheiron, and Rose Dean (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. Chair Lisa Zúñiga Ramirez joined the meeting in person at 9:06 a.m. Maro Casparian was unavailable to attend.

### Approval of Minutes

Minutes of meeting #857 were approved by a unanimous vote of the Retirement Board members.

### Executive Director's Report

Heather Darlington introduced and welcomed Ryan Jeffers, DERP's new Marketing and Communications Specialist. Mr. Jeffers spoke briefly to his professional background.

Ms. Darlington provided an update on one-to-one meetings with Denver City Council members. Overall, the conversations have been engaging and reflect positively on DERP.

Ms. Darlington moved to the quarterly expenditure and demographic review. She noted there are no anomalies, and the budget is trending as expected. She also noted the first quarter



represented DERP's lowest cash burn in recent years, in terms of contributions collected versus benefits paid. Mr. Delaney spoke to the City of Denver's amended budget and inquired about impacts to DERP. Ms. Darlington explained how hiring and retention practices can have both positive and negative impacts on DERP, but for now, DERP has not been negatively impacted and will continue to monitor the situation closely.

Ms. Darlington called on Diane Barrett and Ms. Zúñiga Ramirez to debrief on the conferences they recently attended. Ms. Barrett attended the IFEBP Investment Institute and highlighted persistent talk of ESG issues and the lack of consistent measurable standards. Randall Baum agreed that there is inconsistency on what gets measured, how it gets measured, and how it gets interpreted. Ms. Barrett was impressed by a session covering asset allocation and a chart that presented a clear overview of which asset classes are winners and losers year-over-year. Mr. Baum indicated DERP maintains a similar chart and will share as part of the quarterly review.

Ms. Zúñiga Ramirez attended the IFEBP Advanced Trustees and Administrators Institute and left feeling comfortable with DERP's asset allocation and private equity. Ms. Zúñiga Ramirez was interested in learning about alternatives, including private credit and real estate. Sessions also focused on communications and technology to reach current and future retirees. Overall, the conference was worthwhile in terms of content and networking.

Ms. Darlington shared a request from Mr. Delaney to attend the IFEBP Annual Employee Benefits Conference in November. The Board voted unanimously to approve the request.

Ms. Darlington showed the Board how to navigate the board resources section of the DERP website. Based on survey feedback and an interest in Board members getting to know one another, she proposed planning a lunch immediately following the Board meeting in May.

### **Marketing and Communications Update**

Julie Vlier welcomed Stacy Lewis from Sector Brands to begin the presentation. Ms. Lewis has partnered with DERP since 2019 and introduced results from a branding survey conducted in December 2023. She described how the survey was conducted, including the representation across tiers of membership. The survey measured awareness and effectiveness of communications and assessed understanding and engagement. She presented the 2023 survey results and compared them to benchmarks from 2019. She highlighted statistics regarding member awareness and understanding, DERP messaging and resources, and overall satisfaction. She explained the progress that has been made since the initiation of improved communications efforts in 2019.

Ms. Vlier introduced the second presentation and referred back to 2019 when the objectives for the Marketing and Communications department were established based on survey data from members. Ms. Vlier joined DERP in 2020 and worked with Ms. Lewis for a year to create the



current website and a communications approach for each life stage of a DERP member. The new DERP brand was launched in April 2021, with the goal for the brand to be welcoming, engaging, and modern. In 2022, DERP launched the first video and RetireStrong program for new and early career members. In 2023, staff continued to enhance the website, launched the RetireStrong program for mid to late career members, delivered the Ready to Retire video, and conducted the survey presented by Ms. Lewis.

Ms. Vlier explained the current goals for Marketing and Communications. Short-term goals for 2024 include revamping the annual member statements and including scenarios for early retirement, full retirement, and deferred retirement, expanding the RetireStrong video library to benefit retired members, and creating videos covering DERP Plus Benefits and service credit purchase. Long-term goals include improving DERP's website accessibility, assessing and improving letters and forms, and more efficiently getting this information to members. Ms. Vlier announced the intention to partner with internal and external experts to improve the MyDERP experience, including exploring an app and ensuring that MyDERP is more responsive with mobile devices.

Mr. Delaney asked if RetireStrong seminars are in person or virtual, expressing concern for those active employees who may have challenges for access due to their work schedules and environment. Ms. Vlier responded that because City employees are geographically dispersed, virtual delivery is more efficient, but in-person and virtual options are offered. Roberta Monaco commented that City of Denver Human Resources faces similar challenges in outreach to employees and works with leadership to find and hold specific dates and times for information sessions. Katherine Cole responded that the Membership Services team has received and fulfilled departmental requests for training and presentations.

Ms. Zúñiga Ramirez asked if seminars are recorded. Ms. Vlier indicated they are not recorded due to the dynamics of the information shared, but all information shared in the seminars is available on the website. Danielle Sexton, Heather Britton, Mr. Delaney, and Ms. Zúñiga Ramirez all commended Ms. Vlier and the Marketing and Communications team for their execution and delivery of key milestones.

### **Actuarial Training**

Anne Harper from Cheiron began the actuarial training session by sharing an overview of how pension plans are funded and managed. Ms. Harper explained that there are three policy areas used to manage a pension plan. The DERP Retirement Board has control over two areas – the contribution policy and the investment policy. The benefit policy is determined by the plan sponsor.

Graham Schmidt continued the training by discussing actuarial liabilities. He explained that, to calculate the liabilities, they project the benefits. Actuaries distinguish between active members (still working, still contributing), and inactive members (not working, not contributing, retired or



deferred). DERP is a mature plan with mostly inactive members. Mr. Schmidt explained accrued liability and how it increases as active members earn additional benefits (normal cost) and decreases as benefits are paid out. He described how assumption changes, such as increases or decreases in investment return projections, also impact actuarial liability.

Ms. Harper continued the presentation by explaining how assumptions are used to calculate expected benefits payments. She discussed demographic assumptions including service, salary and contribution changes, and time of retirement, noting that demographic assumptions are driven by member behavior. She also discussed economic assumptions including rate of return, wage inflation, and price inflation, noting that both demographic and economic assumptions determine liabilities.

Ms. Harper then described how, in 2023, Cheiron completed and presented to DERP an experience study. Experience studies look at up to 10 years of data to identify patterns, and compare them to actuals to get to a confidence interval. Cheiron compares patterns and actuals for retirement, mortality, disability, terminations, etc., for each of DERP's membership tiers.

Mr. Delaney asked how actuaries calculate survivor benefits. Ms. Harper explained that Cheiron looks at the member's age at retirement and the survivor's age at retirement and what is expected to be paid year-over-year according to mortality rates and progression of probability. Ms. Zúñiga Ramirez asked how artificial intelligence may benefit such calculations. Ms. Harper indicated that technology has only improved the ability to identify and respond to accurate and complex data.

Mr. Schmidt explained that with technology, demographic assumptions will only improve, barring catastrophic mortality or other unforeseen swings in human behavior. He then discussed economic assumptions, noting they are harder to predict. He provided historical examples of trends in interest rates, discount rates and assumed rates of return.

Ms. Harper reviewed actuarial funding methods for pension funds, including the concept of smoothing. Mr. Schmidt explained how contributions are determined once the liabilities are set. In 2019, the DERP Retirement Board adopted a 20-year closed amortization policy. This can be compared to a 20-year mortgage; however, the expected payments or contributions are not fixed. He explained that the "mortgage payments" are the contributions based on a percentage of payroll. In 2019, the DERP Retirement Board also adopted changes related to how liabilities are calculated and for the smoothing the value of assets. These changes and the 20-year payment schedule help to stabilize contributions over time.

James Thompson asked about the definition of actuarial soundness. Mr. Schmidt explained that actuarial soundness is having an appropriate plan to pay future liabilities, along with the plan sponsor's willingness and ability to make the necessary contributions under the plan.



Mr. Delaney asked if Cheiron used actual DERP mortality rates. Ms. Harper explained that mortality rates are based on national public sector tables.

Cheiron will present the 2024 actuarial valuation for DERP at the next meeting.

### **Asset Class Review: International Equity**

Mr. Baum mentioned how DERP has a cash flow deficit and must use investments to pay benefits. He explained how DERP's asset allocation is set to accommodate that need and how different asset classes serve different purposes for DERP. The need for return must be balanced with the need for liquidity.

Pamela Watson began her presentation on DERP's international equity allocation. Of the total target allocation of 22%, DERP has a 14% target to non-US developed markets and an 8% target to emerging markets. She also identified the benchmarks DERP uses for these asset classes and sub-asset classes. Mr. Baum added that in the past decade, expected returns for emerging markets have been projected higher than non-US developed markets, but have not met expectations. Ms. Zúñiga Ramirez remarked that valuations for emerging and non-US developed markets are increasingly attractive, yet the general results are not aligned. John Dominguez added that the domestic stock market appears to be shrinking. Ms. Watson indicated that the diversification of DERP's portfolio reflects today's global economy.

Ms. Watson turned to international equity manager allocations. She highlighted DERP's tilts towards small cap and value. She also noted that DERP's international equities are unhedged, meaning the relative strength or weakness of the US dollar impacts returns. Over the past 10 years, the strengthening US dollar has had a negative impact on DERP's international equity returns.

Ms. Watson continued by explaining that, while the domestic equity market is trading at valuations above historical averages, many non-US countries are at or below their historical averages. Historically, international equities have traded at a discount to domestic equities, but domestic equity performance over the past ten years has resulted in an even larger discount for non-US equity markets. She then identified headwinds and tailwinds for the international equities market. Tailwinds include valuations, earnings growth, and a potential weakening of the US dollar. Headwinds include geopolitical concerns, central bank actions, global elections, and the continued strength of the US dollar.

Ms. Watson then gave a review of performance for 2023. For 2023, DERP's international equity composite returned 19.5%. The international equity policy index gained 15.2%, thus the excess return on international investments was 3.4%. The excess return for non-US developed markets was -1.2%, and for emerging markets was 13.9%. Ms. Watson then highlighted performance and holdings of DERP's individual managers.



She concluded by noting that staff will review target allocations for domestic and international markets as part of the asset/liability review next month.

### **Advisory Committee Comments**

Ms. Zúñiga Ramirez excused herself from the meeting at 11:05 a.m. Mr. Delaney invited Advisory Committee comments. Ms. Sexton expressed gratitude for support during her recovery from surgery.

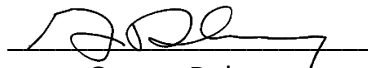
### **Member and/or Guest Comments**

Mr. Delaney noted that no members were present to comment.

### **Executive Session Pursuant to Section 24-6-402(4)(b) and (f) of the Colorado Revised Statutes to Discuss Personnel Matter**

The Retirement Board voted unanimously to enter into executive session pursuant to Section 24-6-402(4)(b) and (f) of the Colorado Revised Statutes to receive legal advice and discuss personnel matters.

I, George Delaney, as chair of the executive session, attest that these written minutes accurately reflect the substance of the discussions held during the executive session.

  
George Delaney

After returning to regular session, the Retirement Board voted unanimously to authorize the Executive Director to reimburse necessary travel expenses of remote DERP employees.

### **Review of Next Meeting and Call for Topics**

Mr. Delaney announced that the next meeting is scheduled for May 17<sup>th</sup>.

### **Adjournment**

The meeting was adjourned at 12:26 p.m.

  
DERP Retirement Board Chair

  
DERP Executive Director

