

## Minutes of the DERP Retirement Board

August 16, 2024 - Meeting #861

Meeting #861 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 (v) 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 Maro Casparian (v), Heather Britton (v), Roberta Monaco, and Danielle Sexton. DERP staff present were Heather Darlington, Executive Director; Roni Kirchhevel, Deputy Executive Director/ Membership Services Director; Randall Baum, Chief Investment Officer; Jake Huolihan, James E. Thompson III, General Counsel; Julie Vlier, Marketing and Communications Director; Pamela Watson, Deputy Chief Investment Officer; Ben Baugher, IT Director; David Hunter, IT Program Manager; Kat Cole, Marketing and Communications Specialist; Ryan Jeffers, Marketing and Communications Specialist; and Terri Campbell, Office Administrator. Guests present were Rose Dean, Carolyn Smith (v), Christian McCormick, and Francesca LoVerde (v) from NEPC, and DERP member David Lu.

(v) Denotes attended virtually.

### Call to Order and Roll Call

The meeting was called to order by Vice Chair George Delaney at 9:00 a.m.

### Approval of Minutes

Minutes of meeting #860 were approved by a unanimous vote of the Retirement Board members.

### Mid-Year Investment Performance Review

Rose Dean provided a market environment update for the quarter ending June 30, 2024. She discussed recent market highlights, including outperformance from U.S. large growth equities and emerging markets, particularly Taiwan and India. The U.S. dollar continues to be strong. She also noted that only a quarter of the S&P 500 is outperforming the index and that the concentration in large cap growth stocks such as Nvidia is unprecedented. She explained that inflation pressures have softened, recession fears are ebbing, and expectations around interest rate cuts are high. She anticipates that sell offs and volatility are likely to continue as normal courses of business.

Mr. Delaney asked if it is usual or healthy for a market to be so dependent on a few mega stocks. Ms. Dean responded that she expects this will normalize over time. Ms. Zúñiga



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Ramirez asked Ms. Dean to update on the current quarter and the potential of the market broadening. Ms. Dean responded that there was rotation out of large growth stocks into small value stocks at the beginning of the third quarter. Some underperforming stocks may never recover, but value stocks, particularly in the finance sector, may experience tailwinds. Ms. Zúñiga Ramirez remarked that the valuations are stretched for the cap weighted index. Interest rate cuts and other factors may improve the performance of other stocks and bring mega stocks into balance. Ms. Dean agreed.

Randall Baum summarized DERP's mid-year investment performance. He reported the portfolio was up 1.2% in the second quarter, and 4.8% year-to-date. As previously mentioned, equities, especially large cap stocks (up 3.7%) and emerging markets (up 6.3%) were the largest drivers of performance. Domestic small cap stocks were down 2.9%, and real estate was down 1.9%.

Mr. Baum introduced a one-page report card and invited feedback. John Dominguez indicated that the report card is helpful and couples well with the asset class reviews and the stories behind the numbers.

Mr. Baum commented on the bifurcation between the good performance of the large cap e growth index and the losses experienced by the large cap value index. Drilling into managers, value manager Eagle posted a 5.4% gain beating its benchmark by 7.6% while growth manager Brown returned 3.0% underperforming its benchmark by 5.3%. Eagle's outperformance was due in part to Taiwanese semi-conductor investments and other value stocks. Brown's underperformance, despite holding a large position in Nvidia, was due in part to stocks that performed poorly in price but performed well in fundamentals.

Ms. Dean remarked that it is difficult to be an active manager in today's markets. One wrong allocation can result in serious underperformance. Mr. Dominguez agreed and said he worries that there are flows in concentrated stocks and forces in the market such as passive investors that are not necessarily based on fundamentals. This is something to watch and Mr. Baum agreed. Mr. Dominguez asked Mr. Baum if Brown is delivering to DERP's expectations. Mr. Baum indicated that Brown has lagged benchmark since inception. There are reasons which are explainable given their process. Nevertheless, active management in large caps has struggled to add value in contrast to active management in small cap which has a better record.

The best performance came from emerging markets manager LSV with a return of 6.3%.



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Though the real estate portfolio declined again in the quarter, managers report fundamentals are strong. Much will depend on looming rate cuts. The target allocation for real estate is 10% of DERP's portfolio and it is currently at 6.8%.

Diane Barrett asked a question about residential mortgage rates and the anticipation that they will be coming down. Ms. Dean and Mr. Baum provided an overview of the rate setting process and assumptions for mortgages. Mr. Delaney asked a follow-up question and Mr. Baum added that expectations can fluctuate more than reality.

### **Allocation Target Ranges**

Mr. Baum presented proposed tolerance ranges for the revised asset allocation approved at the July Retirement Board meeting. The Retirement Board voted unanimously to approve the recommended tolerance ranges.

### **Asset Class Review: Fixed Income and Securities Lending**

Pamela Watson presented an overview of DERP's securities lending program. She noted the objective is to generate incremental income with a low risk, low return strategy. She described the securities lending process, including the roles of the parties involved, and explained the risks and opportunities. She identified the downward trend in securities lending income and explained the reasons for the decline, noting that the reduced scale of DERP's securities lending may eventually lead to unsustainability. She stated BNY has consistently delivered in a changing environment with low administrative burden and costs.

Mr. Baum introduced a proposed revision to the securities lending investment policy to accommodate the new requirement that Treasury repurchase agreements go through the US government's Fixed Income Clearing Corporation (FICC). BNY is offering a commingled fund to streamline the new requirements. Mr. Baum detailed potential risks and benefits and recommended a change to the investment policy guidelines. He noted NEPC has reviewed BNY's commingled fund documentation and has no objections. The Retirement Board voted unanimously to approve the proposed revision to the investment policy guidelines.

Ms. Watson presented a review of the core fixed income and cash management programs at DERP. She identified the target allocation and the components, noting the goal with core fixed income is liquidity and capital preservation. She analyzed performance, both absolute and relative to benchmarks.

Ms. Watson discussed the details of the cash prop fund and workout account, including a history and performance.



Ms. Watson presented a review of the non-core fixed income allocation. She identified the target allocation of 9% and noted the current allocation of 8.6%. The market value as of June 30, 2024, was approximately \$226 million. She discussed the risks of the asset class and identified changes in interest rates and geopolitics as potential tailwinds and headwinds. Ms. Watson reviewed the performance details, strategies, and DERP's assessment of the non-core fixed income managers. DERP will work with NEPC to progress to the new target allocation for private debt. Mr. Dominguez confirmed the benchmark for private debt consisted only of corporate debt obligations. He also questioned whether the fund policy index and composite benchmarks would change to reflect the revised asset allocation targets. Ms. Watson confirmed that would be the case.

### **Executive Director's Report**

Heather Darlington thanked Retirement Board and Advisory Committee members who volunteered for the Executive Director's review, budget, and audit committees. Mr. Delaney indicated that he, Ms. Barrett, and Heather Britton would make up the Executive Director's review committee, Mr. Dominguez, Ms. Zúñiga Ramirez, and Danielle Sexton would make up the budget committee, and Lupe Gutierrez-Vasquez, Mr. Dominguez, and Maro Casparian would make up the audit committee. Committee terms are for one year.

Ms. Darlington reviewed requests from Ms. Britton and Roberta Monaco to attend the annual International Foundation of Employee Benefit Plans (IFEBC) conference in November 2024. The requests to attend were approved by a unanimous vote of the Retirement Board members.

### **Annual Bylaws and Code of Ethics Review/Fiduciary Duty**

James Thompson presented the annual review of the Retirement Board's bylaws, code of ethics and fiduciary duty. He reported there are no recommended changes to the bylaws at this time, noting that DERP's bylaws and code of ethics are combined into one document. He referred back to the governance presentations and discussions from earlier in the year and highlighted that the overarching responsibility of the DERP Retirement Board members, as trustees, is their fiduciary duty to members and beneficiaries. He reminded the Retirement Board members that he and Ms. Darlington are available as resources to answer questions and address concerns around ethics, roles, and responsibilities. Mr. Delaney asked how allegations of unethical behavior are managed. Mr. Thompson referred to the bylaws and code of ethics for the documented process for notification and investigation.



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## **Semi-Annual Membership Overview and Retiree Survey Results**

Roni Kirchhevel provided a review of membership demographics as of August 1, 2024. She reported DERP has 9,927 active members, 3,719 inactive vested members, and 11,466 members who are receiving a monthly benefit. Ms. Kirchhevel shared the volume of member appointments and interactions, noting that DERP is now requiring appointments for in-person interactions. Ms. Kirchhevel provided attendance numbers for DERP's RetireStrong seminars. Ms. Casparian asked if attendance has changed year-over-year. Julie Vlier responded that interest and attendance has remained steady.

Ms. Kirchhevel summarized the redesign and delivery of annual member statements. Danielle Sexton asked if DERP has the capability to track and report if members have accessed their MyDERP.org accounts and/or accessed their annual member statement. Ms. Kirchhevel responded that DERP can track and report on general access, but not specifically on navigation.

Ms. Kirchhevel reported on employee contribution refunds year-to-date for 2024 and compared to 2023 overall. The volume of refunds and the split between lump sum and rollover distributions are consistent year-over-year. DERP has roughly \$14 million of employee contributions eligible for refund for 2,907 for inactive non-vested members. Mr. Delaney asked about the aggregate deposit and if it generates interest. Ms. Kirchhevel replied that employee contributions are refunded at a 1% annual interest rate.

Ms. Kirchhevel shared the volume of retirement applications since 2021 and 2024 year-to-date. Applications have consistently averaged around 400 per year. While applications can be initiated online, the overall process is mostly manual. Staff is working with Sagitec to improve the online process and experience. Retirees are migrating to and leveraging MyDERP.org for routine account changes.

Ms. Kirchhevel provided statistics on retirees who have elected medical, vision and/or dental insurance through DERP, noting that 44% of retirees do not elect insurance through DERP. She reminded the Retirement Board that DERP will continue to offer a benefits fair in October to educate and help members make informed decisions. Ms. Sexton and Ms. Monaco shared their personal experiences in navigating through overwhelming Medicare and retiree health insurance information.

Ms. Kirchhevel highlighted the new retiree survey results starting with an encouraging 25% response rate. The positive responses and comments indicate that the Membership Services representatives and team at DERP are exceeding expectations. Ms. Kirchhevel closed by providing the calendar of events for members to end of year.



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## Marketing and Communications Update

Kat Cole detailed the project scope and outcomes for the redesign of the annual member statements. She explained that the statements have been redesigned to help members understand where they are specifically on their retirement journey, and which benefits are available to them. The project included three phases: discovery, customization, and configuration. Marketing and Communications worked with Sagitec and DERP IT staff to develop and deliver one annual statement template with 10 unique customizations. The new annual statement has greater visual appeal and concise explanations. Each statement includes details on calculations using the member's monthly salary, membership tier multiplier, and service credit. Statements include calls to action to review resources available to members.

Ms. Cole outlined how the new annual membership statements were rolled out through websites, platforms, direct email, and direct mail for inactive members, noting that internal and external feedback on the redesigned statements has been extremely positive. The redesign with customization increased member engagement and has resulted in fewer requests for assistance with the content. Mr. Delaney confirmed that the statements were for active and inactive and non-vested members. Ms. Cole added that there are plans to develop a statement for current retirees to indicate benefits received to date, named beneficiaries, etc.

Several Retirement Board and Advisory Committee members complimented Ms. Cole and all those involved on the redesigned annual statements. Ms. Darlington remarked on the customization effort to exclude non-specific and irrelevant details. Ms. Britton echoed the value add of the information provided on the redesigned statement.

## IT Update

Ben Baugher provided an IT update with an emphasis on cybersecurity. He outlined roles and responsibilities and emphasized the importance of strategic collaboration. Mr. Baugher outlined how DERP's network and infrastructure are protected internally and through third party vendors. Mr. Delaney asked generally about protecting networks and infrastructure with many employees working remotely. Mr. Baugher indicated that for DERP several safeguards are in place for in-office and remote protection.

Mr. Baugher reviewed established safeguards for data protection, asset management, and procedures. These include encryption, data loss prevention, multi-factor authentication, and dual control authorizations for key transactions. He also reviewed pre-emptive disaster recovery and business continuity plans for DERP's network and retirement information system, including data replication, external data centers, immutable backups, and secure storage. Mr.



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Thompson reviewed cybersecurity insurance coverage for DERP and pointed out that the ability to be insured is due in large part to the proactive steps DERP has implemented.

Mr. Baugher spoke to the current threat landscape both broadly and specifically to DERP. This includes proactive training for DERP staff to recognize and avoid threats. IT policies are reviewed annually and updated on an ongoing basis. Cybersecurity audits and third-party compliance checks are conducted annually and as needed.

Mr. Baugher highlighted current IT initiatives including a third-party risk assessment and security enhancements for MyDERP.org, including multi-factor authentication and firewall protection. Mr. Baugher closed by thanking the Retirement Board and Advisory Committee for investing in IT and security for DERP's members and staff. Mr. Delaney stressed the importance of cybersecurity and robust protections. Ms. Britton shared that the City of Denver often looks to DERP for historical data and the need to protect this information. Mr. Dominguez inquired if there have been any critical incidents to date and Mr. Baugher responded that there have not been. The Retirement Board and Advisory Committee discussed the need to protect DERP's members.

### **Advisory Committee Comments**

Mr. Delaney invited Advisory Committee members to comment.

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

Mr. Delaney invited comments from any members or guests. David Lu asked about management fees for DERP's portfolio. Mr. Baum described DERP's philosophy with respect to management fees, noting that DERP keeps a close eye on fees and negotiates to reduce fees when appropriate. He described the fee structures for various types of investments and contrasted DERP's position with that of much larger institutional investors.

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

The next regularly scheduled Retirement Board meeting will be Friday, October 18, at 9:00 a.m.

### **Adjournment**

The meeting was adjourned at 11:52 a.m.

  
DERP Retirement Board Chair

  
DERP Executive Director



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