

## Minutes of the DERP Retirement Board

November 15, 2024 - Meeting #863

Meeting #863 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). Other DERP Retirement Board Members present were Diane Barrett, John Dominguez, and Guadalupe (Lupe) Guitierrez-Vasquez. DERP Advisory Committee Members present were Heather Britton, Maro Casparian, 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, Finance and Technology Director; James E. Thompson III, General Counsel; Julie Vlier, Marketing and Communications Director; Pamela Watson, Deputy Chief Investment Officer; and David Hunter, IT Program Manager. Guests present were Paul Wood and Thomas Lyle from GRS; Rose Dean, Carolyn Smith, Christian McCormick (v), and Francesca LoVerde (v) from NEPC; and Anne Harper (v) and Graham Schmidt (v) from Cheiron.  
(v) Denotes attended virtually.

### Call to Order and Roll Call

The meeting was called to order by Diane Barrett at 9:00 a.m. George Delaney was unable to attend.

### Approval of Minutes

Minutes of meeting #862 were approved by a unanimous vote of the Retirement Board members.

### Full Replication Audit

Paul Wood and Thomas Lyle of GRS presented the results of the full, independent, replication audit. Mr. Lyle outlined the scope and purpose of the replication audit. He indicated that GRS found Cheiron's 2024 actuarial valuation for DERP to be reasonable, based on reasonable assumptions and methods, and generally compliant with actuarial standards of practice. Mr. Lyle also indicated that Cheiron's projected financial condition for DERP is appropriate. Mr. Lyle reviewed demographic, economic and investment return assumptions related to DERP's current funding policy. GRS and Cheiron's calculations for both the pension and health plans were very close in all respects. GRS recommended moving the administrative expense to its own line item instead of being split between cost and amortization. Mr. Lyle shared other suggestions that were mostly stylistic. Heather Darlington thanked GRS for their engagement and invited any comments from Cheiron. Anne Harper replied that Cheiron would take into consideration the recommendations and suggestions from GRS.

## **Executive Director's Report**

Ms. Darlington acknowledged this meeting will be Lisa Zúñiga Ramirez's last with the DERP Retirement Board and thanked her for her service and contributions. Ms. Zúñiga Ramirez expressed her gratitude in return.

Ms. Darlington and the Mayor's office are close to finalizing a nominee and replacement for the Retirement Board she will share those details as soon as possible. Ms. Darlington then invited Roni Kirchhevel to update on open enrollment for DERP members.

Ms. Kirchhevel shared that there were more than 870 changes to medical, dental and vision insurance. Eighty percent of the insurance changes were made directly in the portal and often with assistance from Membership Services. This is an improvement to receiving hardcopy forms and entering the information manually. Ms. Darlington asked for comments or questions on the 2025 Retirement Board calendar and work plan. Hearing no comments or questions, Ms. Barrett asked for a motion, and the calendar and work plan were unanimously approved.

## **2025 Budget**

Jake Huolihan presented the proposed 2025 budget, including an overview of the DERP budget cycle including requirements, limits and reporting. The proposed 2025 budget is a 7.17% increase from the 2024 budget, mostly due to technology upgrades approved by the Retirement Board and other necessary building improvements. Mr. Huolihan showed details on year-to-year actuals and the proposed 2025 budget and spoke to variances. Mr. Huolihan and Ms. Darlington asked for questions. Hearing none, Ms. Barrett called for a motion and the 2025 proposed budget was unanimously approved.

## **Third Quarter Investment Performance Review**

Rose Dean from NEPC indicated that most markets posted strong returns in the third quarter, with virtually all public equity and fixed income asset classes performing well. Large cap stocks were up 6.1%. International and emerging market stocks also performed well, although Chinese markets remain volatile. Interest rates are coming down and with the election results, we may see inflation extending. There is a strong tailwind on all sides of the market including fixed income.

Randall Baum summarized third quarter investment performance noting that DERP's portfolio had a total return of 3.8%. While public equities saw substantial gains for the quarter, DERP's holdings in real estate and private equity were down slightly. Mr. Baum noted that DERP, for the quarter and the year, is lagging peers. He remarked on reasons why DERP investment returns have lagged, including decisions around asset allocation and risk.



Mr. Baum referenced operational, actuarial and legal changes DERP has made in recent years, resulting in improved cash flows, and introduced the idea that DERP could take on more risk to improve returns. Mr. Baum closed with specifics about particular managers and asset classes, including the fact that active management did not outperform passive indexes in some cases.

Ms. Zúñiga Ramirez asked about why DERP may not be seeing the downside protection the portfolio is designed to have. Mr. Baum replied that the downside behavior of the overall portfolio has been quite good. Ms. Zúñiga Ramirez clarified that she was asking specifically about U.S. equities. Mr. Baum replied that it is the allocation size to public equities that is conservative, not the asset class itself, but maybe the managers have not been conservative. Ms. Zúñiga Ramirez asked about the reasons for underperformance on the upside for U.S. equities. Mr. Baum replied that manager performance has been the biggest contributing factor. Ms. Zúñiga Ramirez asked for confirmation that staff has a plan to address the underperformance.

Lupe Guitierrez-Vasquez asked if there was anything to share from prior discussions about risk tolerance. Mr. Baum replied that the prior discussions about risk tolerance indicated a consensus that the Retirement Board could take on more risk in asset allocation, but risk/reward modeling indicated it was not a good time to make drastic changes. Ms. Dean offered that DERP's asset allocation analysis considered forward looking risk, not past realized risk. Mr. Baum closed by commenting on DERP's real estate investment performance, acknowledging challenges but hopeful in a change of direction.

John Dominguez commented on ways DERP can lean into risk beyond merely asset classes and allocations, noting that portfolio structure and manager selection are also points of leverage. He requested that staff consider providing commentary on what is working or not working with manager selection, performance, concentration and other implementation topics. Mr. Baum responded that staff has been focusing on those issues recently in several asset classes, including private equity, private debt and infrastructure and that new commitments will consider where higher risk, higher return implementations make sense.

### **Annual Investment Policy Update**

Mr. Baum recapped the changes made to DERP's investment policy during the previous year. He then proposed a revision to the policy arising from a change made to the investment vehicle for Neuberger Berman. Hearing no objections, Ms. Barrett asked for a motion and the proposed change to the investment policy was unanimously approved. Mr. Baum thanked the Retirement Board and spoke to an overhaul of DERP's investment policy coming in 2025.



Carolyn Smith announced that she is retiring from NEPC at the end of the year. Ms. Dean shared that Christian McCormick would step in. Mr. McCormick is based in Denver and looks forward to working more closely with Ms. Dean and DERP going forward.

### **Asset Class Review: Natural Resources**

Pamela Watson presented a review of the natural resources asset class. She identified the target allocation of 3.5% and the actual allocation of 5.1% or \$137 million, which is comprised of approximately 30% timber and 70% energy funds. Ms. Watson shared a timeline of DERP's investments in energy and timber. She discussed the environment and outlook for energy. She also explained that investments in timber are an effective inflation hedge and provide stable income. She discussed overall investment performance and projections for the natural resources composite.

Ms. Watson then detailed performance by fund and by manager, including income, appreciation, and geographic exposure. Ms. Watson summarized that the natural resources asset class has delivered on diversification, but has not provided the desired illiquidity premium over the long term. She added that no additional natural resources investment are anticipated.

### **Advisory Committee Comments**

Ms. Barrett invited Advisory Committee members to comment.

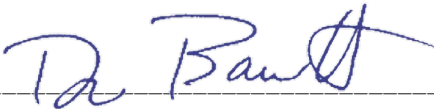
### **Member and/or Guest Comments**

Ms. Barrett 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 on benefit appeal matters and to discuss personnel matters.

I, Diane Barrett, as Chair of the executive session, attest that these written minutes accurately reflect the substance of the discussions held during the executive session.



Diane Barrett



### **Appeal of Kent Sundrup**

After returning to regular session, the Retirement Board voted unanimously to deny the appeal of Kent Sundrup.

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

The next regularly scheduled Retirement Board meeting will be Friday, January 17, at 9:00 a.m.

### **Adjournment**

The meeting was adjourned at 11:21 a.m.

  
DERP Retirement Board Chair

  
DERP Executive Director

