

Minutes of the DERP Retirement Board

January 17, 2025 - Meeting #864

Meeting #864 of the DERP Retirement Board was held at the Grant-Humphreys Mansion and via video and audio conferencing. DERP Retirement Board Officers present were Vice-Chair George Delaney, Diane Barrett, Carole Buyers, John Dominguez, and Guadalupe (Lupe) Guitierrez-Vasquez. DERP Advisory Committee Members present were Heather Britton (v), 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; David Hunter, IT Program Manager, and Terri Campbell, Office Administrator.

(v) Denotes attended virtually.

Call to Order and Roll Call

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

Approval of Minutes

Minutes of meeting #863 were approved by a unanimous vote of the Retirement Board members.

Election of Retirement Board Officers

Heather Darlington welcomed Carole Buyers to the DERP Retirement Board and opened the annual election for Chair and Vice Chair. Lupe Guitierrez-Vasquez nominated George Delaney to assume the role of Chair, and John Dominguez to assume the role of Vice Chair. The nominations were approved by unanimous vote of the Retirement Board members.

Executive Director's Report

Ms. Darlington reminded the Retirement Board and Advisory Committee of educational opportunities for the calendar year which she will summarize in a follow up email.

Ms. Darlington suggested that the DROP interest rate remain at 1% for 2025. A motion for the DROP interest rate to remain at 1% for 2025 was approved by unanimous vote of the Retirement Board members.

Annual Strategic Action Plan

Ms. Darlington reviewed strategic plan action items for 2025. Actions to ensure the long-term financial health of DERP include modifying the DHHA UAL agreement, educating stakeholders on tier inequity to align employee contribution rates with the benefit, reviewing capital market expectations and asset allocations, and assessing if a 15-year amortization is feasible. Ms. Guitierrez-Vasquez asked how the recent vote on collective bargaining for City employees fits into DERP's long-term financial planning. Ms. Darlington responded that City employees cannot bargain participation in DERP, but could bargain things like employee contribution rate and benefit multiplier. Ms. Darlington assured the Retirement Board that she and James Thompson have been in communication with the Office of Human Resources and City Council members on expectations and impacts and expect to be so in the future.

Actions to evolve education and services include a DERP brand refresh, a retiree insurance survey, expansion of virtual seminars, and an upgrade to the online application process. Finally, actions to uphold DERP's leadership position include adopting recommendations from the Mosaic study, identifying and expanding staff development opportunities, and evaluating and implementing IT security enhancements. Ms. Darlington will report mid-year on the status of strategic action items.

Annual Expenditure and Demographics Review

Jake Huolihan presented the 2024 budget to actual expenditures and highlighted differences in actuarial expenses, employee travel and conference expenses, and computer and IT expenses. Overall, DERP was under budget for 2024. Mr. Delaney asked about investment-related expenses. Mr. Houlihan responded that this budget item covers fees for more than 20 investment managers as well as NEPC, and would probably end up close to the budgeted amount as invoices arrived.

Mr. Huolihan shared that 232 active DERP members retired, and 1,321 vested and non-vested employees separated from the workforce in 2024. There were 1,495 new hires with an average age of 43.5 who joined DERP in 2024. Overall, retirements, separations, and new hires in 2024 represent a year-over-year net decrease to DERP membership. The actuarial impact will be examined mid-year.

Mr. Huolihan closed by reviewing contributions received compared to benefits paid, DROP accounts, and online portal registrations. All trended positively for 2024.



Governance Education: Review of By-laws

Mr. Thompson presented a review of the DERP by-laws. He indicated he will follow up with the specific, red-lined changes noted in his memo to the Retirement Board and Advisory Committee for discussion and vote in February. He highlighted recommended updates regarding financial disclosures, board compensation, changes in the Denver Revised Municipal Code (DRMC), and updates which reflect changes in DERP policy and practice such as remote computer access.

Mr. Delaney asked if the Retirement Board's code of ethics is unique. Mr. Thompson replied that the Retirement Board has its own code of ethics that is separate and apart from a typical government code of ethics. He also noted that, if there is a conflict between DERP's by-laws and the DRMC, the law prevails. He then discussed fiduciary duty and the Retirement Board's role as trustees and directors. He concluded by noting there are no recommended changes to the code of ethics now.

Asset Class Review: Hedge Funds

Randall Baum introduced the hedge fund asset class, indicating that the role in DERP's portfolio is defensive. He indicated DERP's approach has evolved over time and will continue to evolve. He mentioned the recent transition from a fund-of-funds to a direct investment model. He then handed the presentation over to Pamela Watson. Ms. Watson shared that the absolute return target allocation is 7% and it is a diversifier. DERP is in line with the target allocation in four strategic focus areas including global macro, relative value, event driven, and long-short equity. Ms. Watson reviewed the nine managers across each strategic focus area and their 2024 performance. In aggregate, hedge funds for DERP underperformed in the short term and outperformed in the long term. They have performed well against core fixed income. Ms. Watson highlighted the environment for hedge funds. As with other asset classes, the outlook and opportunities for hedge funds are influenced by economic conditions and policy shifts.

Mr. Delaney asked how often DERP changes managers within asset classes. Ms. Watson replied that changes occur as needed. She explained that staff is constantly reviewing manager performance and process. She provided an example that if something at the organizational level would impact the process, staff would look at replacing it. Ms. Buyers remarked on the effort needed to assess individual and collective hedge fund managers and questioned the costs.

John Dominguez remarked that the current managers in the hedge fund portfolio are fairly new, and asked whether their defensive performance has been tested in market downturns.

Ms. Watson cited an example of a manager up 45% in a time of market stress as demonstrating expected results, but concurred there was a brief history with the direct model. Ms. Buyers asked about comparisons to a cash management strategy. Ms. Watson replied that if the markets are down, the returns on hedge funds can be better than cash. Mr. Baum said the way DERP treats hedge funds is a portfolio insurance policy of sorts.

Annual ESG Review

Mr. Baum presented the annual ESG review, noting that staff annually assesses the ESG profile of DERP's public holdings. He described the two ESG scoring frameworks staff uses, Arabesque (formal) and MSCI (informal). He discussed the process used by the ratings agencies, noting difficulties comparing methodologies and a lack of transparency as to how ESG factors are weighted. He also noted studies showing low correlations among rating agencies' scores.

Mr. Baum reviewed DERP's public portfolio, by manager, against the two ESG sources. He summarized that staff is paying close attention to ESG metrics and risk in the overall DERP portfolio, including trying to identify year-over-year trends to identify what, if anything, may be actionable. He concluded the overall ESG risk in the DERP public equity portfolio appears to be equivalent to that of the broad market.

Ms. Guitierrez-Vasquez asked about notable progress or challenges in measuring ESG. Mr. Baum acknowledged that it is a developing concept, but as the industry matures, there may be better methodologies that lead to actions and outcomes.

Mr. Dominguez asked about Arabesque and other service bureaus who measure ESG, and how they access data. Mr. Baum explained that DERP provides data to Arabesque, and for MSCI staff uses manager mutual funds as analogs for DERP investments. Mr. Dominguez asked if Arabesque shares details on how their top managers are performing in ESG. Mr. Baum stated that Arabesque had not provided such information, but spoke to several studies with varying opinions on whether or not ESG-labeled funds, or ESG-focused managers, make a material difference.

Advisory Committee Comments

Mr. Delaney invited Advisory Committee members to comment.

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) of the Colorado Revised Statutes to Receive Legal Advice on Benefit Appeal Matters

The Retirement Board voted unanimously to enter into executive session pursuant to Section 24-6-402(4)(b) of the Colorado Revised Statutes to receive legal advice on benefit appeal 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

Benefit Appeals

After returning from Executive Session, the Retirement Board voted unanimously to hear the appeals of Craig Silverman and Matthew York and directed staff to schedule the hearings for a future Retirement Board meeting.

Review of Next Meeting and Call for Topics

The next regularly scheduled Retirement Board meeting will be Friday, February 21, at 9:00 a.m.

Adjournment

The meeting was adjourned at 11:46 a.m.


DERP Retirement Board Chair
DERP Executive Director