

Minutes of the DERP Retirement Board

February 21, 2025 - Meeting #865

Meeting #865 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 George Delaney, Carole Buyers, Vice-Chair John Dominguez (v), and Guadalupe (Lupe) Guitierrez-Vasquez. DERP Advisory Committee Members present were Heather Britton (v), Maro Casparian, Roberta Monaco (v), and Danielle Sexton (v). 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 Terri Campbell, Office Administrator. Guests in attendance were Amy McDuffee, Chris Ailman (v), and Natasha Smith with Mosaic Governance Advisors, and Rose Dean and Francesca LoVerde (v) with NEPC.

(v) Denotes attended virtually.

Call to Order and Roll Call

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

Approval of Minutes

Minutes of meeting #864 were approved by a unanimous vote of the Retirement Board members.

Executive Director's Report

Heather Darlington indicated that the rollout of multi-factor authentication to both retired and active DERP members has gone well. She thanked the DERP staff who were most involved in the rollout for their collaboration and responsiveness. Ms. Darlington reminded the Retirement Board and Advisory Committee members that they are welcome to join DERP education programs. Carole Buyers attended a RetireStrong session and reported that the content and delivery were excellent. Ms. Darlington shared that two open appeals are tentatively scheduled to be heard by the Retirement Board in April. Finally, Ms. Darlington outlined requests from Mr. Delaney, Ms. Buyers, and John Dominguez to participate in external education programs through the International Foundation of Employee Benefit Plans (IFEBC) and National Conference on Public Employee Retirement Systems

(NCPERS). These requests were approved by unanimous vote of the Retirement Board members.

Review of By-Laws

James Thompson referred to the red-lined changes to the by-laws and code of ethics introduced during the January Retirement Board meeting. Mr. Thompson acknowledged that there is a shared interest in understanding how DERP stands against industry best practices. He indicated that DERP's participation in organizations such as NCPERS and the National Association of Public Pension Attorneys (NAPPA), among other organizations, helps staff research and measure. Mr. Thompson noted he reached out to contacts at peer public pension plans while researching the proposed redlined changes for DERP.

Mr. Thompson asked for questions and, hearing none, for a motion to approve. Mr. Delaney asked for a brief explanation of governance and accountability relative to DERP's by-laws. Mr. Thompson responded that governance starts with federal and state laws DERP is subject to, and moves to the Denver Revised Municipal Code (DRMC). The by-laws are specific to DERP and include the code of ethics and charters for the Retirement Board and Advisory Committee. Mr. Delaney put forward the motion to approve the redlined changes to the by-laws. The changes were approved by unanimous vote of the Retirement Board members.

Semi-Annual New Retiree Survey Results

Roni Kirchhevel presented the latest membership services update. Ms. Kirchhevel highlighted the membership demographics as of January 1, 2025, including the fact that DERP has 9,997 active members, 3,724 inactive and vested members, and 11,521 members or beneficiaries receiving a monthly benefit from DERP. She reviewed member appointments (in person and virtual) and emails to the Help ID by month for 2024, noting that phone calls are exponentially higher and not included in the report. She also mentioned there are drivers, such as the roll out of multi-factor authentication in January, which ramp up all methods of contact. Mr. Dominguez asked if all in-person meetings were at the DERP office. Ms. Kirchhevel responded that since the COVID pandemic starting in 2020, all in person meetings have been at the DERP offices.

Ms. Kirchhevel reviewed the attendance for the 12 RetireStrong virtual and in-person seminars delivered in 2024. Where applicable, members from Nationwide Insurance, Medicare, and/or Social Security are included to present and field questions. DERP is planning 17 RetireStrong sessions in 2025, as yet to be scheduled.

Ms. Kirchhevel presented statistics on employee contribution refunds for 2024, as compared to 2023, for those who are inactive and not vested. She showed retirement application

submissions for 2024, as compared to 2023, 2022, and 2021, noting the submissions have remained steady. She announced that, for 2025, DERP plans to improve the online retirement application experience, including the ability to upload documents.

Ms. Kirchhevel reviewed the Insurance Premium Reduction (IPR) Benefit subsidies and retiree insurance for those members enrolled in at least one plan and noted that 4,981 retirees do not have insurance through DERP. In 2025, DERP will partner with the City to conduct a dependent verification audit, and plans to ask members why they may or may not be taking advantage of the IPR.

Ms. Kirchhevel closed by sharing the results of the new retiree survey. The survey is sent to new retirees in the month they start to receive benefits and asks about their experience. For 2024, there was a 20% response rate. Overall, the results were positive and reflected well on the Membership Services team. When a response was neutral or negative, Ms. Kirchhevel drills into the results to understand and improve. Mr. Delaney commended Ms. Kirchhevel and the Membership Services team for their many efforts to contribute to the excellent results. Mr. Dominguez echoed Mr. Delaney's comments.

Asset Class Review: Domestic Equity

Randall Baum introduced the domestic equity asset class, describing it as an offense for DERP's portfolio. He highlighted that, given the efficiencies of the U.S. market, particularly in large cap stocks, DERP bifurcates its domestic equity portfolio between passive and high conviction managers. Pamela Watson then presented specifics on DERP's domestic equity portfolio. She noted that DERP has a 22% target allocation to domestic equity. As of December 31, 2024, DERP was slightly overweight at 24.8%, but still within the policy range of 17% to 27%. She identified the benchmark as the Russell 3000, which represents 98% of the investable domestic equity market. The Russell 1000 represents large caps, and the Russell 2000 represents small caps. The Russell 3000 represents both.

Ms. Watson reviewed DERP's domestic equity portfolio by the five managers. Three managers focus on large cap (84%), and two focus on small cap (18%). Four are active (48%) and one is passive (52%). Two are value focused (27%), two are growth focused (21%), and one is core focused (52%). She noted that the staff is currently reviewing with NEPC the risks and benefits of active and passive investments.

Ms. Watson projected tailwinds, uncertainties, and headwinds for domestic equities in 2025. She shared performance details since inception. Overall, the performance has been accretive to the portfolio. Ms. Watson noted there were no manager changes in 2024, and she reviewed the performance of each, including Eagle Capital, Mellon Investments, Brown



Advisory, Neuberger Berman, and Franklin Templeton. Carole Buyers asked about the evaluation of active versus passive and underperforming managers. Ms. Watson and Rose Dean from NEPC responded that DERP is continually assessing the balance and risk impacts of both.

2024 Investment Performance Review

Ms. Dean shared an overview of capital markets for 2024 and projections for 2025. 2024 was a strong year for investors. For 2025, she reported seeing early signs of consumer distress including delinquencies in loan repayments. She also noted inflation is persistent, interest rates have not decreased as expected, and there are increased global geopolitical tensions.

Ms. Dean shared a 10-year snapshot of asset class performance, punctuating the impact of large cap stocks. While 2024 was mostly positive, we may not see this repeated in 2025. Inflation has slowed, but prices are still elevated. Interest rates are likely to remain high. With the Magnificent 7 representing 30% of the S&P, large cap managers need to invest carefully to meet benchmarks. Early in 2025, non-U.S. stocks are performing well. Cryptocurrencies, while not an asset class, had a banner year in 2024, and are supported by the new U.S. administration.

Mr. Baum reviewed DERP's portfolio performance for 2024 in detail, including large and small cap managers, U.S. and non-U.S. investments, and specific asset classes. He stated that DERP ended the year with a 7.9% return which beat the assumed rate of 7.0% but did not rank favorably compared to peers.

Ms. Buyers asked, and Mr. Baum confirmed that DERP's implementation with hedge funds is defensive in periods of market stress. Mr. Delaney observed that 40% of DERP's portfolio is in public equities with 20% in U.S., and 20% in non-U.S., and questioned why DERP was not more concentrated in U.S. equities given their outperformance. Mr. Baum indicated that staff consistently revisits this balance and has decreased the exposure to non-U.S. Ms. Buyers noted that increasing cash may reduce risk. Mr. Baum and Ms. Dean explained DERP's philosophy on the benefits of hedge funds versus cash allocations.

Ms. Buyers asked about private equity volatility and DERP's energy fund exposure. Mr. Baum acknowledged that DERP's investments in upstream energy have not performed as expected.



Investment Models and Governance Structure Education

Ms. Darlington welcomed Amy McDuffee, Chris Ailman, and Natasha Smith from Mosaic Governance Advisors. Ms. Darlington explained that Mosaic was invited by DERP to assess the current governance and staffing structure for the investment program and to educate the Retirement Board on the pros and cons of alternative models.

Ms. McDuffee gave an overview of DERP's current governance model. She noted that DERP's autonomy, authority, relationships, partnerships, succession readiness, and reputation for good governance make it well positioned to consider alternative models.

Mr. Ailman addressed the Retirement Board's role in investment governance and policy. While employer and employee contributions are a source of revenue for DERP, investment gains are expected to deliver a significant portion of asset growth. It is important, therefore, to understand the portfolio's complexity and the Retirement Board's appetite for risk to evaluate different models.

Ms. Smith introduced factors to consider when debating insourced versus outsourced investment models, based on conversations with providers and peer funds. She emphasized that Mosaic's education is more focused on outsourcing since the Retirement Board is already familiar with an in-house model. Ms. Smith shared survey results discussing asset owners' criteria for using an outsourced chief investment officer (OCIO) model.

Mr. Ailman reviewed the evolution of public pension plan investment governance since the 1970s. He spoke about today's economies of scale, access to talent, high-quality investments, and expansion of private markets. Mr. Ailman outlined Mosaic's research on various comparable in-house and OCIO models, including the growing market of OCIO providers. Mr. Ailman closed by showing and speaking to a comparison of models based on delegation and preservation of duties.

Ms. McDuffee invited questions or comments. Mr. Delaney asked about costs for an OCIO. Mr. Ailman indicated that pricing is based on many variables and is becoming more competitive. Ms. Dean noted that OCIO pricing is mostly based on assets under management. Lupe Guitierrez-Vasquez asked about conflicts of interest and safeguards with an OCIO, and stakeholder management during a transition to the OCIO model. Mr. Ailman said the OCIO provider and client establish guardrails to separate functions and avoid conflicts of interest. As for stakeholder management, Mr. Ailman did not see a reason to solicit public feedback or involvement beyond the Retirement Board. Mr. Thompson reassured Ms. Guitierrez-Vasquez that her questions and concerns around conflicts of interest and procurement were raised with Mosaic during the research process. Ms. Buyers

shared that she had recently been involved with a similar OCIO transition and would be happy to elaborate on the experience.

Mr. Dominguez thanked the Mosaic team and referred to the survey results. He observed that moving to an outsourced OCIO is unlikely to save money but may result in better portfolio performance. Mr. Ailman agreed with this observation and remarked that in-house staff are becoming more expensive as well. Mr. Dominguez believes that DERP could benefit from a deeper dive into the burgeoning OCIO industry and lessons learned. Mr. Dominguez asked Mosaic to define the independent evaluator role presented in the diagram of fiduciary responsibility. Mr. Ailman explained that the independent evaluator is project based and liaises on checks and balances.

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.

Review of Next Meeting and Call for Topics

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

Adjournment

The meeting was adjourned at 11:36 a.m.


DERP Retirement Board Chair


DERP Executive Director