DERP Denver Employees Retirement Plan
Powering Futures, Together.

Minutes of the DERP Retirement Board

April 18, 2025 - Meeting #866

Meeting #866 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, Diane Barrett, Carole Buyers, Vice-Chair John Dominguez, and Guadalupe (Lupe) Guitierrez-Vasquez. DERP Advisory Committee Members present were Heather Britton (v), Maro Casparian (v), Roberta Monaco (v), 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 Terri Campbell, Office Administrator. Guests in attendance were Anne Harper and Graham Schmidt with Cheiron, Amy McDuffee, Chris Ailman, and Natasha Smith with Mosaic Governance Advisors, and Rose Dean and Will Dupree 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.

Approval of Minutes

Minutes of meeting #865 were approved by a unanimous vote of the Retirement Board members.

Executive Director's Report

Heather Darlington announced that Lupe Guitierrez-Vasquez has accepted a new position as CFO for the Colorado Housing and Finance Authority (CHFA), and will be resigning from the DERP Retirement Board. Ms. Darlington noted that Ms. Guitierrez-Vasquez will need to be replaced with an active member. Ms. Darlington thanked Ms. Guitierrez-Vasquez for 10 years of dedicated commitment to DERP.

Ms. Darlington shared that DERP identified and resolved an IT incident. She thanked the IT staff for monitoring and responding proactively. Ms. Darlington stated that terms are up for two of DERP's sitting Advisory Committee members and voting for two new Advisory Committee members will begin on April 21, 2025. DERP received intent-to-run forms from three active employees and 15 retirees. The election results will be announced at the May meeting. Terms for new Advisory Committee members will begin July 1, 2025.

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Preliminary Actuarial Valuation

Anne Harper and Graham Schmidt from Cheiron introduced the preliminary actuarial results as of January 1, 2025. Year-over-year, the total contribution rate went down slightly, and the funded status improved. Ms. Harper first detailed DERP's current liabilities, assets and funded status, and the future contributions required. DERP's total actuarial liability is $4.55B, which is split between active members at $1.39B, and inactive members at $3.16B. The Market Value of Assets (MVA) is $2.71B. and the Actuarial Value of Assets (AVA) is $2.79B. The Unfunded Actuarial Liability (UAL) is $1.75B, and the funded ratio is 61.5%, compared to 60% in 2024. The total Actuarially Determined Contribution (ADC) for 2025, which includes both the normal cost and UAL, is 25.15% of pay, or $246.85M. The normal cost payment is 8.57% of pay, or $84.14M. The UAL payment is 16.58% of pay, or $162.71M. Similar to a mortgage, the UAL payment is split between principal at 4.09% and interest at 12.49%. The UAL principal payment has increased year-over-year, which helps improve DERP's funded status.

Mr. Schmidt detailed past and future trends for DERP. Mr. Schmidt reviewed changes to UAL and ADC by source in 2024. Generally, changes were in line with assumptions. Mr. Schmidt reviewed ADC trends over the past 10 years. The 10-year trend for UAL shows that while the UAL has increased year-over-year, as a percentage it has gone down. DERP has experienced actuarial investment losses every year except for 2022. Several method and assumption changes have also impacted the UAL trend. Over the past five years, DERP has made positive payments towards principal to reduce the unfunded liability.

Ms. Harper reviewed what is expected to happen to contribution rates and the funded ratio in the future. The ADC rate is expected to slightly increase over the next two years as losses from 2022 continue to be recognized. The rate is expected to hover around 25% through 2038. Contributions are expected to drop significantly in 2039 when the existing unfunded liability from 2019 has been fully amortized and paid down. The funded ratio is expected to remain around 62% for the next three years as deferred investment losses are recognized. After which, the funded ratio is expected to grow 2% to 4% annually until full funding in 2040.

Carole Buyers asked how DERP's funded ratio compares to other pension funds. Ms. Harper indicated that DERP's funded ratio is lower than the average of other pension funds, but recent policy changes have allowed the projection for the funded ratio to increase over time. Ms. Buyers asked about recommendations and next steps. Ms. Harper and Ms. Darlington described the process for setting contribution rates, noting that DERP is in frequent communication with the City and County of Denver and Denver Health regarding employer and employee funding.

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Ms. Guitierrez-Vasquez commended Ms. Darlington and the DERP staff for the actions taken since 2019 for DERP's future. She asked about areas of concern outside of investments. Ms. Harper answered that in the past 10 years, mortality assumptions have impacted most pension funds. Neither Ms. Harper nor Mr. Schmidt see mortality assumptions as a concern in the near future. Mr. Schmidt added that pay increases and inflation are areas to monitor.

Mr. Delaney asked about actuarial smoothing. Ms. Harper explained that DERP uses a five-year smoothing period to calculate actuarial gains and losses.

Capital Markets Outlook and Asset Allocation

Randall Baum began the presentation by referring to the full asset liability study that had been performed in 2024 and noting that drastic changes should not be expected from year to year. Recommended changes to asset allocations for 2025 were minimal. Rose Dean with NEPC reviewed the process and methodologies used to develop return and risk assumptions for asset classes. Assumptions are updated quarterly and presented annually. She explained the uses of 10-year and 30-year assumptions. NEPC's models are continually changing and adapting to market conditions. Ms. Dean explained the systematic approach to creating assumptions and compared the changes in 10-year return assumptions for a variety of asset classes from last year to this year. She reviewed the iterative decision-making process for proposing changes to DERP's asset allocations. Based on current capital markets expectations, DERP's portfolio is expected to achieve a 6.95% annualized return over a 10-year horizon and a 7.96% annualized return over a 30-year horizon with a standard deviation of 13.35%.

Ms. Dean indicated that DERP has a diverse portfolio across all classes including equity, fixed income, real assets, and hedge funds. Ms. Dean compared DERP's policy allocations and return expectations to peer funds and a 60/40 equity/bond allocation. John Dominguez asked about the number of peer funds used for benchmarking. Ms. Dean responded that more than 100 public pension funds were used.

Ms. Dean noted that DERP's total equity of 51% is lower than the 58.9% public fund average. Conversely, DERP has a higher allocation to fixed income, real assets, and hedge funds.

Ms. Dean reviewed DERP's current asset allocation and presented three alternative allocation mixes. She explained how minor changes could add return, mitigate risk and not impact DERP's liquidity profile. She noted that illiquidity is a key constraint on adding higher return private investments. NEPC and DERP staff recommended reducing the allocation to emerging market equity from 6% to 4% and increasing the allocation to U.S. large cap equity from 18% to 20%. Ms. Buyers inquired about whether an increase in developed market international equities had been considered instead, and Ms. Dean responded that currencies are an additional risk factor

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with non-U.S. equities, especially in the current environment where policies are a bigger driver than market factors. Mr. Baum also noted that DERP has historically had an overweight to non-U.S. equities, but reduced investments in high-risk emerging markets this year and last year.

Will Dupree observed that non-U.S. valuations had become less compelling since the end of the quarter.

Mr. Dominguez asked for greater transparency from DERP and NEPC on the iterative process going forward. This would allow the Retirement Board to be more focused on the choices and decisions, than the methodology and considerations. For example, Mr. Dominguez asked how real assets exposure and expected cash returns factored into the iterative process. Ms. Dean and Mr. Baum acknowledged the request for greater transparency. Ms. Dean further noted the current uncertain environment is not a time to make large changes and emphasized the importance of consistency.

Ms. Guitierrez-Vasquez asked about the three alternative portfolios and what the meaning of their varying liquidity profiles was. Ms. Dean explained that the trade-offs for increased illiquidity were not a favorable enough to justify the other mixes. Mr. Baum indicated that while the board's desire was to pull away from risk in 2020, DERP's portfolio could move to more risk, but that the current environment was not the right time. Ms. Buyers asked what portion of DERP's real asset portfolio was illiquid. Ms. Dean answered that all real estate and private investments are illiquid. Ms. Buyers asked if private debt was more liquid. Ms. Dean and Mr. Baum replied that it was only slightly less illiquid due to the existence of distributions.

Mr. Delaney asked for a vote on decreasing the emerging market equity allocation from 6% to 4% and increasing the allocation to U.S. large cap equities from 18% to 20%. The Retirement Board voted unanimously to approve the allocation modifications.

Advisory Committee Comments

Mr. Delaney invited Advisory Committee members to comment.

Member and/or Guest Comments

Mr. Delaney noted that there were no comments from the guests present.

Executive Session Pursuant to DRMC Section 18-417(b)(2) for the Benefit Appeal Hearings of Craig Silverman and Matthew York

The Retirement Board voted unanimously to enter into executive session pursuant to the DRMC Section 18-417(b)(2) to hear the benefit appeals of Craig Silverman and Matthew York.

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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

Appeal of Craig Silverman

After exiting executive session, and after a brief discussion, the Retirement Board voted unanimously to deny the appeal of Craig Silverman.

Appeal of Matthew York

After discussion, the Retirement Board voted unanimously to deny the appeal of Matthew York.

Executive Session Pursuant to Sections 24-6-402(4)(e) and (f) of the Colorado Revised Statutes to Discuss Matters that may be Subject to Negotiation and Personnel Matters

The Retirement Board voted unanimously to enter into executive session pursuant to Sections 24-6-402(4)(e) and (f) of the Colorado Revised Statutes to discuss matters subject to negotiations and 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

Energy Transfer Securities Litigation

After exiting executive session, and after a brief discussion, the Retirement Board voted unanimously to approve the settlement offer proffered by defendants in the Energy Transfer matter.

Review of Next Meeting and Call for Topics

The next regularly scheduled Retirement Board meeting will be Friday, May 16, at 9:00 a.m.

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Adjournment

The meeting was adjourned at 12:52 p.m.

___________________________________	___________________________________
DERP Retirement Board Chair	DERP Executive Director

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