

Minutes of the DERP Retirement Board

May 16, 2025 - Meeting #867

Meeting #867 of the DERP Retirement Board was held at the Grant-Humphreys Mansion and via video and audio conferencing. DERP Retirement Board Members present were Chair George Delaney, Diane Barrett, Carole Buyers, and Vice-Chair John Dominguez. DERP Advisory Committee Members present were Heather Britton (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 Thomas Rey (v) and Tim Rawal (v) with UHY, and Rose Dean (v), Will Dupree (v) and Thao Nguyen (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.

Approval of Minutes

Minutes of meeting #866 were approved by a unanimous vote of the Retirement Board members.

Executive Director's Report

Heather Darlington asked for a motion to accept the January 1, 2025 actuarial valuation as presented by Cheiron at the April Retirement Board meeting. She explained that the final version was no different than the draft Cheiron presented. The Retirement Board voted unanimously to accept the 2025 actuarial valuation. Next, Ms. Darlington invited a motion to set the annual interest rate for refunds of accumulated employee contributions at 1%. She noted this would be a continuation of the current rate. The Retirement Board voted unanimously to keep the interest rate for accumulated employee contributions at 1%.

Ms. Darlington provided an update on the current Retirement Board vacancy and shared that DERP is collaborating with the Mayor's office to hopefully fill the vacancy ahead of the July Retirement Board meeting.

Ms. Darlington asked Mr. Delaney to debrief on the International Foundation of Employee Benefit Plans (IFEBC) Investment Institute he recently attended. Mr. Delaney shared his

notes on a range of topics including tariffs, emerging markets, interest rates, real estate, private vs. public equity, and artificial intelligence.

Ms. Darlington announced the results of the Advisory Committee election, reporting that Roberta Monaco and Danielle Sexton were voted by more than 560 DERP members to continue to serve on the Advisory Committee for another three and two years, respectively.

2024 Audit

Jake Huolihan invited Tim Rawal with UHY to summarize the 2024 audit. Mr. Rawal reviewed the 2024 Annual Comprehensive Financial Report (ACFR), noting that the report is a draft and UHY was still waiting on more information. He expects UHY will issue an unmodified opinion. He noted the statement of fiduciary net position was up for 2024, meaning funds coming into DERP were more than funds going out. Mr. Rawal reviewed UHY's official governance communication, highlighting the lowering of the discount rate to 7% and noting there were no audit difficulties, corrections, findings, or deficiencies to report. Mr. Huolihan mentioned that DERP staff previously reviewed UHY's report with the Audit Committee. Mr. Huolihan also noted certain information was still pending before UHY is able to finalize the 2024 audit.

Ms. Darlington asked for a motion to accept the 2024 audit as presented because DERP's financials need to be included with the City's financial reporting. The Retirement Board voted unanimously to accept the 2024 financials as presented. Mr. Delaney congratulated Mr. Huolihan and the DERP staff for another successful audit.

Marketing and Communications Update

Julie Vlier presented a marketing and communications update, including a timeline of strategic deliverables from 2019 to present. She shared details about completed projects from 2024, including enhancements to the annual member statement, the RetireStrong video library, and DERP's LinkedIn presence.

For 2025, Marketing and Communications will be refreshing the DERP brand, launching a brand and style guide, building the video library, and enhancing the member portal. Ms. Vlier shared that the team is continuously focused on reviewing and improving member-facing communications, including letters and forms. Ms. Vlier closed by thanking her DERP colleagues for their collaboration and support. Danielle Sexton acknowledged and commended Ms. Vlier for her contributions and positive impacts. Mr. Delaney, John Dominguez, and Diane Barrett echoed Ms. Sexton's comments.

First Quarter Investment Performance Review

Randall Baum introduced Rose Dean from NEPC, who began with an overview of financial market conditions. Ms. Dean discussed current events and noted the gap between U.S. and international equity performance is narrowing. She cautioned that we should expect continued volatility. She emphasized the importance of staying invested by rebalancing to targets, and taking advantage of attractive entry points, particularly for those asset classes DERP is still in the process of implementing. Mr. Baum spoke about DERP's asset allocation versus peers, noting that allocations to total equity had run up at the end of the first quarter, approaching the level of the peer group. He observed the overall makeup of the equity portfolio still differed from peers, notably in the relative overweight to non-U.S. equities. Mr. Baum also pointed out DERP's risk profile has been far less volatile compared to peers. He then spoke about the results over the last 10 years, observing that DERP's 6.1% annualized return trailed the median large public plan by one half of one percent, which is significant over long time horizons. He also remarked that the range of outcomes among the group was narrow.

Mr. Baum reported DERP's first quarter investment performance was relatively flat at +0.2%, with U.S. equities down and international equities up. He explained the importance of a rebalancing discipline and described the recent rebalancing transactions that took place between U.S. and international equities. Carole Buyers asked about DERP's small cap investments and Mr. Baum shared details of DERP's approach and expectations, including a discussion of the role of active management in the space. He then went on to discuss the portfolio's performance on core, fixed income, energy, real estate and hedge funds.

Mr. Delaney asked about the likelihood of generating a 7% return for the year. Ms. Dean responded that second quarter performance is tracking higher, but noted the past two years had seen strong market performance.

Ms. Buyers asked if the Retirement Board ever reviews sector performance. Mr. Baum responded that these decisions are the responsibility of the managers, although DERP staff and NEPC monitor for overweights and underweights and the associated risks that might require action. Pamela Watson cited examples of the international managers' approach to cyclical and growth tradeoffs. Mr. Baum noted that the quarterly performance reports as well as asset class reviews presented to the Retirement Board provide sector-specific data.

Mr. Dominguez asked whether staff has considered including behavioral characteristics in analysis and reporting to the Retirement Board. Mr. Baum confirmed that staff and consultant do consider this and other frameworks. Ms. Dean noted that behavioral characteristics are factored into the day-to-day oversight of the portfolio. Mr. Dominguez felt this wasn't getting filtered up to the Retirement Board and asked for future reporting to include it. Mr. Baum



welcomed this and asked for feedback and other suggestions to refine reports created for the Retirement Board.

Asset Allocation Training

Mr. Baum then reviewed the asset allocation process including inputs, modeling, analysis, and vetting recommendations. Ms. Dean added that asset classes recommended for DERP need to have enough data available for validation. Otherwise, they would not be recommended. She further noted that validation is needed to assess standalone and peer performance. Mr. Dominguez asked if there were statutory restrictions on what DERP could invest in. James Thompson replied that DERP's statutes do not restrict any particular asset classes or investments.

Ms. Buyers asked if DERP has considered looking at one or two year capital market projections, in addition to ten year, in order to be more tactical with asset allocation. Ms. Dean responded that NEPC does not generally make short-term predictions, but does update long-term projections quarterly based on current market conditions.

Mr. Baum described rebalancing as a tool that is available to DERP staff within allocation ranges, and noted the target ranges allowed enough discretion to be somewhat flexible, if not fully tactical. Mr. Dominguez asked for periodic reporting of rebalancing activity to include an explanation of why moves were made. Mr. Baum noted that the quarterly performance reports contained details of rebalancing in partial satisfaction of the request, and that he and Ms. Watson plan to present rebalancing education.

Revised Benchmark and Tolerance Ranges

Mr. Baum segued to review the proposed tolerance ranges in step with approval in April of asset allocation adjustments. Pamela Watson added that approved ranges avoid more frequent and costly trading.

Mr. Delaney asked for a motion to approve the recommended benchmark and tolerance range revisions. The Retirement Board voted unanimously to approve.

Further discussion ensued about the pros and cons of a more tactical portfolio approach and frequency and detail of reporting. Mr. Dominguez and Ms. Buyers thanked Mr. Baum and Mrs. Watson for actively listening and for the asset allocation training.

Asset Class Review: International Equity

Ms. Watson reviewed DERP's 20% target allocation for international equity and how this is further divided between emerging (6%) and developed (14%) international markets. She further shared the split between emerging and developed markets by manager and country.

Ms. Watson detailed performance of the international equity composite and the developed and emerging markets sub-composites, noting the success of active management. She also detailed the composite country exposure, and discussed the effects of exchange rates and the strength or weakness of the U.S. dollar. Ms. Watson compared the relative performance of U.S. versus international equities from 1975 to present. She reminded the Retirement Board that the role of the allocation was a driver of returns, while pointing out that non-U.S. stocks were at average historical valuations despite being cheap relative to U.S. stocks.

Ms. Watson shared details of international equities by sector, noting that they are less technology heavy than the U.S. She shared headwinds and tailwinds for the asset class and provided analysis of manager performance, describing each strategy and discussing top holdings. She also noted that returns from emerging markets had fallen short of historical capital markets expectations.

Mr. Dominguez asked whether investment managers were pivoting to companies whose source of revenues was emerging markets, citing an expectation that U.S. companies, such as Apple, would derive most of their future growth from those countries. Ms. Watson and Mr. Baum indicated that WCM had provided an analysis of investments by country of revenue as distinguished from country of domicile. Any concentrations arise from the individual assessment of each company's prospects and are not due to a specific overlay or theme. Mr. Dominguez then asked if the China equity market has a similar level of concentration in technology to that of the U.S. Ms. Dean responded that the price/earnings multiple for China's market index was less expensive than that of the U.S. She also stated the China index has fewer than 600 stocks, which creates some distortion.

Advisory Committee Comments

Mr. Delaney invited Advisory Committee members to comment.

Member and/or Guest Comments

Mr. Delaney noted no guests were present for comment.

Review of Next Meeting and Call for Topics

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



Adjournment

The meeting was adjourned at 11:57 a.m.


DERP Retirement Board Chair


DERP Executive Director

