

Minutes of the Regular Meeting
City of Aurora General Employees' Retirement Board
Held Thursday, February 15, 2024
12100 East Iliff Avenue, Suite 108
Aurora, CO 80014

1) 8:00 AM - Meeting Called to Order

Roll Call

Chairperson	David McConico	Present
Legislative Members	Cliff Haight	Present
	Andrew Jamison	Present
	Michelle Reding	Present
	Sue Sandstrom	Present
	Tom Tobiassen	Present
	Trevor Vaughn	Present
Nonvoting Members	Sheree Van Buren (for the City Manager)	Present
	Terri Velasquez (Finance)	Present
	Ryan Lantz (Human Resources)	Present
	Hans Hernandez (City Attorney)	Present
Staff	Steven Shanks	Present
	Aaron Kahn	Present

The Board Meeting held on Thursday, February 15, 2024, was a hybrid meeting conducted via WebEx and in person at the GERP office.

1) Approval of the Minutes

Tom Tobiassen made, and Cliff Haight seconded a motion to approve the minutes of the Regular Meeting held on January 18, 2024. The motion passed with Cliff Haight, Andrew Jamison, David McConico, Michelle Reding, Sue Sandstrom, Tom Tobiassen, and Trevor Vaughn, for.

2) Treasurer's Report

Steve Shanks reviewed the financial statements for investment performance for December. As of the end of December, the Fund was valued at approximately \$611 million, which is approximately \$32 million dollars higher than the Fund value of \$579 million on December 31, 2022. As of February 13, 2024, the fund was valued at approximately \$604 million.

3) **Review of Lump Sum Distributions for January**

Eighteen participants received lump sum payments totaling \$126,893.12.

4) **Approval of Retirement Benefits**

Aaron Kahn presented the retirement calculations for Holly H. Benson, Robert A. Duane, Rebecca B. Provo, Edgar D. Stevens, III, Lori T. Tagawa. Cliff Haight made, and Andrew Jamison seconded, a motion to approve retirement benefits. The motion passed unanimously, with David McConico, Cliff Haight, Andrew Jamison, Michelle Reding, Sue Sandstrom, Tom Tobiassen, and Trevor Vaughn for.

5) **New Business**

A) **HarbourVest Presentation on New Fund Commitment**

John Cooney, Alex Wolf, and Eric Simas HarbourVest

The Board has already approved a \$50 million commitment to private equity. Steve provided information regarding the proposed new private equity commitment of \$50 million with \$30 million to HarbourVest and \$20 million to Pantheon. Callan had looked at both US and non-US series. GERP currently invests in several HarbourVest investments, including both -US and non-US investments.

Alex Browning, in response to a question from David McConico, noted that the different fund of funds managers will have some overlap in exposure to different investments, but that the managers do complement one another. Pantheon, for example, does have a greater exposure to international managers.

John Cooney, Alex Wolf, and Eric Simas introduced themselves and thanked the Board for their commitment to HarbourVest. The firm continues to grow with a focus on client experience. They have improved the client portal and have worked to incorporate more data in their reporting. John Cooney reviewed the funds and noted that HarbourVest has done well compared to the public markets.

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Eric Simas reviewed Fund XIII US Flagship. Eric suggested that the team, strategy, fund size and process are the same as our current investments with HarbourVest. The Flagship fund is 55% buyout, 15% small cap, and 30% venture. Mr. Simas reiterated that HarbourVest has built relations with many private equity firms and often sits on the board of directors. The fund tracks 2000 managers, 20,000 funds and 40,000 companies. HarbourVest provides value in the form of mentorship and a collaborative culture for partners and clients.

David McConico asked about flexibility of exposure to buyout, small, venture. John Cooney stated that most clients chose the Flagship allocation, but clients can increase exposure to each allocation at their discretion.

Alex Browning noted the recent tendency to request extensions. Eric Simas noted that the process that the fund of funds go through for venture capital is time consuming and has often been what drives the need for extensions.

Alex Wolf discussed HIPEP X, HarbourVest's core private equity domiciled outside of the United States. International private equity is more fragmented with more smaller companies than the United States markets. He stated that the median fund size is \$900 million. HIPEP X will have approximately 70% in primary investments with 30% to be divided between secondaries and co-investments. For HIPEP X there is only one fund.

B) Callan's 2024 Capital Market Update

Alex Browning, Callan

Alex Browning reviewed the Capital Market Update. As part of a prudent process of a long-term strategic investment plan, it is important to assess an outlook of risk and return. Alex noted that given higher interest rates, fixed income can be a greater proportion of GERP allocation with the Fund still expected to meet return expectations. In 2022, the expected 10-year return of aggregate fixed income was 1.75%, in 2023 it was 4.25% and in 2024, 5.25%.

GERP's current target asset allocation has a projected 10-year geometric return expectation of 7.8% with a standard deviation of 13.88%. Alex suggested that the Board could derisk and still meet the return expectation of 7%. Alex provided several different mixes, in order of return and volatility, that would still meet return expectations. The 7% return mix has a standard deviation of 8.73% and 50% allocated to US fixed income. The 7.5% expected return can be achieved with a 35% allocation to fixed income and a 7.75% return can be achieved with a 24% allocation to fixed income. The Fund's current allocation to fixed income is 20%, but that allocation was determined when fixed income returns were substantially lower.

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Alex Browning also noted that the Board should not ignore the healthy funded status of the Plan. The Board has some leeway in how much to derisk. Cliff Haight and Trevor Vaughn both commented that removing some risk from the Fund seems appropriate.

C) Smith Graham Consent to Assignment of Investment Advisory Contract

Alex Browning, Callan

Steve Shanks noted that our investment in Smith Graham run by Bill Charcalis has been acquired by Dana Investment Advisors. Callan has found no regulatory issues and feels that the acquisition is a good fit. Callan expects that Mr. Charcalis will have full control over his team and process. David McConico asked if any of Callan's clients have left. Alex was not aware of any departures and Callan recommends that clients stay as the fund has outperformed over longer periods.

Cliff Haight made, and Trevor Vaughn seconded, a motion to sign the Consent to Assignment of Investment Advisory Contract. The motion passed with Cliff Haight, Andrew Jamison, David McConico, Michelle Reding, Sue Sandstrom, Tom Tobiassen, and Trevor Vaughn, for.

D) Dodge & Cox Internal Trading

Alex Browning, Callan

In November, ProPublica published an article that pointed out that David Hoeft, the Chief Investment Officer of Dodge & Cox, traded, in his own personal account, some of the same stocks that Dodge & Cox traded in. Since the article, Dodge & Cox has had an outside firm review Mr. Hoeft's trades, and their compliance standards and that firm concluded that Mr. Hoeft followed Dodge & Cox's standards of ethics. In addition, Callan has compared Dodge & Cox's compliance standards with other similar firms and concluded that Dodge & Cox has tighter standards than many of their peers.

The ProPublica article noted that Mr. Hoeft purchased \$3.6 million of VMware stock in 2015 prior to Dodge & Cox adding that stock to their portfolio, and that he sold those shares in 2018 and 2019. ProPublica did not make any claims about whether what Mr. Hoeft did was illegal but pointed out that each investment firm is required to create their own code of ethics and to monitor the compliance of their employees. The article implied that leaving compliance to the individual firms could lead to unethical trades where decision makers in the firm could make personal trades that take advantage of the larger volume trades of the firm.

The article itself noted that Mr. Hoeff's trades where in compliance with Dodge & Cox's code of ethics, were preapproved, and that he held the securities for a length of time where the stock movement from the firm would have diffused completely. Alex Browning noted that investment professionals are professional risk takers and would be looking at the fundamentals of a stock like VMware and the firm, even without the input of Mr. Hoeff, could easily have come to the same conclusion that he did about it's attractiveness.

Trevor Vaughn noted that the article was a hit piece on David Hoeff and that they used stolen IRS records to investigate trades of investment professionals. They found the biggest name in the list and decided to characterize his trades as unethical and bordering on illegal. The article did not indicate what the rules were in the code of ethics and how that code of ethics prevents front running.

Tom Tobiassen didn't condone the use of illegal data but would like to see additional review and oversight by the SEC to make sure that investment professionals aren't making trades to enrich themselves.

E) Actuarial Assumptions for January 1, 2024 Valuation

Joel Stewart, Milliman

Joel Stewart reviewed the actuarial changes suggested during the actuarial audit by Foster & Foster. Foster & Foster suggested that the Board consider changes to mortality, salary scale, and the cost-of-living adjustment for Tier 2 participants.

The suggestion for mortality would not have a huge impact on the actuarial liability and the MP-2021 scale slightly reduces liabilities. Mortality has been hard to assess due to COVID, but it is appropriate to update the scale to the more recent data.

Regarding the salary increase assumption, Joel noted that the current assumption is an average increase of 4.5% but the actual increases in 2021 and 2022 were 6.5% and 5.0% respectively. Joel noted that these increases were during a period of very high inflation and long term expectations should be below recent data. Joel Stewart showed the impact of increasing the assumption to 5.5% to help illustrate the impact of this assumption.

If a discretionary cost-of-living increase is substantially automatic, GASB recommends incorporating an increase assumption in the actuarial valuation.

Cliff Haight made, and Trevor Vaughn seconded, a motion to increase the cost-of-living increase assumption on Tier 2 retirees regular benefit to 2.5% and to change the mortality assumption to

MP2021 for valuation purposes. The motion passed with Cliff Haight, Andrew Jamison, David McConico, Michelle Reding, Sue Sandstrom, Tom Tobiassen, and Trevor Vaughn, for.

The Board will continue to look at the salary increase assumption and inflation moving forward.

F) FORVIS Pre-Audit Letter

Steve Shanks reviewed the FORVIS Pre-Audit Letter which provides information regarding the audit including the scope of the audit and the responsibilities of all parties. The letter notes that Board members always have direct access to the auditors if they have any questions.

G) Draft of Amendment for SECURE 2.0

Steve Shanks has provided a draft of the Ordinance amending the City Code for SECURE 2.0. The amendment increases the age that required minimum distributions must start and only affects deferred vested participants in GERP. Hans Hernandez noted that he worked with outside council, Jessica Culotti of Reinhart Boener Van Deuren S.C. to draft this ordinance.

6) Old Business

A) Pension Plan Administrator's Goal

Steve Shanks discussed his goals for 2024. He noted that the goals presented had been reviewed and approved by the Personnel Committee. He also noted that the Personnel Committee had reviewed the Pension Plan Administrator Performance Evaluation Policy and there were no suggested changes. The full Board did not have any suggested changes to the goals as presented.

Public Comments

There were no public comments.

7) Report on Due Diligence, Education and Travel

David McConico attended a conference presented by NCPERS regarding communication. He noted that people expect to be able to get information very quickly. Artificial Intelligence is

being used to answer questions and to look at Plan structure. It's important for the Board to consider some of these technological advancements and explore some of the possibilities.

8) **Staff Report**

Steve Shanks noted that many participants have been wondering when statements will be mailed. Statement data is prepared by the actuary after the valuation and are mailed at the end of May or early June. Aaron Kahn can prepare estimates at any time that can be tailored to a participant's retirement goals and the estimates are more detailed, including all of the pension payment options.

Tom Tobiassen made, and Cliff Haight seconded, a motion to adjourn. The motion passed unanimously, with David McConico, Cliff Haight, Andrew Jamison, Michelle Reding, Sue Sandstrom, Tom Tobiassen, and Trevor Vaughn for.

Meeting Adjourned at 10:40 am
Minutes Submitted by Aaron Kahn

Minutes Approved

David L. McConico

3/21/2024

Chairperson of the Board

Date