

THE PLAN



DENVER EMPLOYEES
RETIREMENT PLAN

777 PEARL STREET
DENVER, CO 80203

QUARTERLY FINANCIAL REPORT

**For the period ending
September 30, 2019**

Denver Employees Retirement Plan
Statement of Plan Net Position
as of September 30, 2019 and December 31, 2018

	<u>As of</u> <u>9/30/2019</u>	<u>As of</u> <u>12/31/2018</u>
Assets		
Cash and short-term investments:		
Cash and short-term investments	\$ 53,903,095.28	\$ 36,378,567.82
Securities lending collateral	214,380,630.37	129,463,950.47
Total cash and short-term investments	<u>268,283,725.65</u>	<u>165,842,518.29</u>
Receivables:		
Investment income	1,757,301.96	1,526,593.30
Unsettled securities sold	<u>371,252.80</u>	<u>33,093.71</u>
Total receivables	2,128,554.76	1,559,687.01
Investments, at fair value:		
U.S. government obligations	101,567,620.72	155,040,399.11
Domestic corporate and other fixed income	384,374,757.29	307,549,778.26
Domestic equity	449,232,117.73	420,939,186.57
International equity	460,332,102.51	446,647,935.51
Real estate	171,064,895.67	173,038,863.11
Alternative investments	520,035,435.66	484,324,501.27
Absolute return	<u>110,832,803.13</u>	<u>104,602,461.76</u>
Total investments	2,197,439,732.71	2,092,143,125.59
Prepaid Items:	-	32,519.93
Capital Assets:		
Property and equipment, net of accumulated depreciation	<u>3,518,281.52</u>	<u>3,518,281.52</u>
Total assets	2,471,370,294.64	2,263,096,132.34
Liabilities		
Unsettled securities purchased	711,060.93	1,488,131.92
Securities lending obligations	214,380,630.37	129,463,950.47
Accounts payable	<u>948,170.21</u>	<u>2,101,241.82</u>
Total liabilities	<u>216,039,861.51</u>	<u>133,053,324.21</u>
Net position restricted for benefits	<u>\$2,255,330,433.13</u>	<u>\$2,130,042,808.13</u>
Net position restricted for pension benefits	2,135,191,478.71	2,011,964,372.67
Net position restricted for DROP benefits	<u>120,138,954.42</u>	<u>118,078,435.46</u>
Net position restricted for benefits	<u>\$ 2,255,330,433.13</u>	<u>\$ 2,130,042,808.13</u>

**Denver Employees Retirement Plan
Quarterly Report
September 30, 2019
Changes in Plan Net Position**

	For the Period 1/1/2019 through 9/30/2019	For the Year Ended 2018
Additions:		
Contributions:		
Employer	\$ 70,278,906.06	\$ 86,672,498.21
Plan members	48,525,471.44	55,833,462.23
Total contributions	118,804,377.50	142,505,960.44
Investment income:		
Net appreciation/(depreciation) in fair value of investments	168,061,447.18	(120,309,086.97)
Earnings on investments	30,972,139.10	57,903,472.77
	199,033,586.28	(62,405,614.20)
Investment expenses	(8,810,470.32)	(13,916,856.05)
Net investment income from investing activities	190,223,115.96	(76,322,470.25)
Securities lending income	2,757,230.44	3,575,076.65
Securities lending borrower rebates	(2,291,650.39)	(2,492,567.60)
Securities lending agent fees	(116,293.60)	(270,443.72)
Net income from securities lending	349,286.45	812,065.33
Net investment income	190,572,402.41	(75,510,404.92)
Total additions	309,376,779.91	66,995,555.52
Deductions:		
Retired members benefits	172,493,519.83	220,422,029.62
DROP benefits	4,355,786.70	8,142,083.83
Refunds of contributions	4,111,085.80	4,492,781.07
Administrative expenses	3,128,762.58	4,149,416.25
Total deductions	184,089,154.91	237,206,310.77
Net change	125,287,625.00	(170,210,755.25)
Net position held in trust for benefits:		
Beginning of period	2,130,042,808.13	2,300,253,563.38
End of Period	\$ 2,255,330,433.13	\$ 2,130,042,808.13

Net Position Available for Benefits

Cost Value	Market Value	Unrealized
9/30/2019	9/30/2019	gain/(loss)
\$ 1,852,150,011.35	\$ 2,255,330,433.13	\$ 403,180,421.78

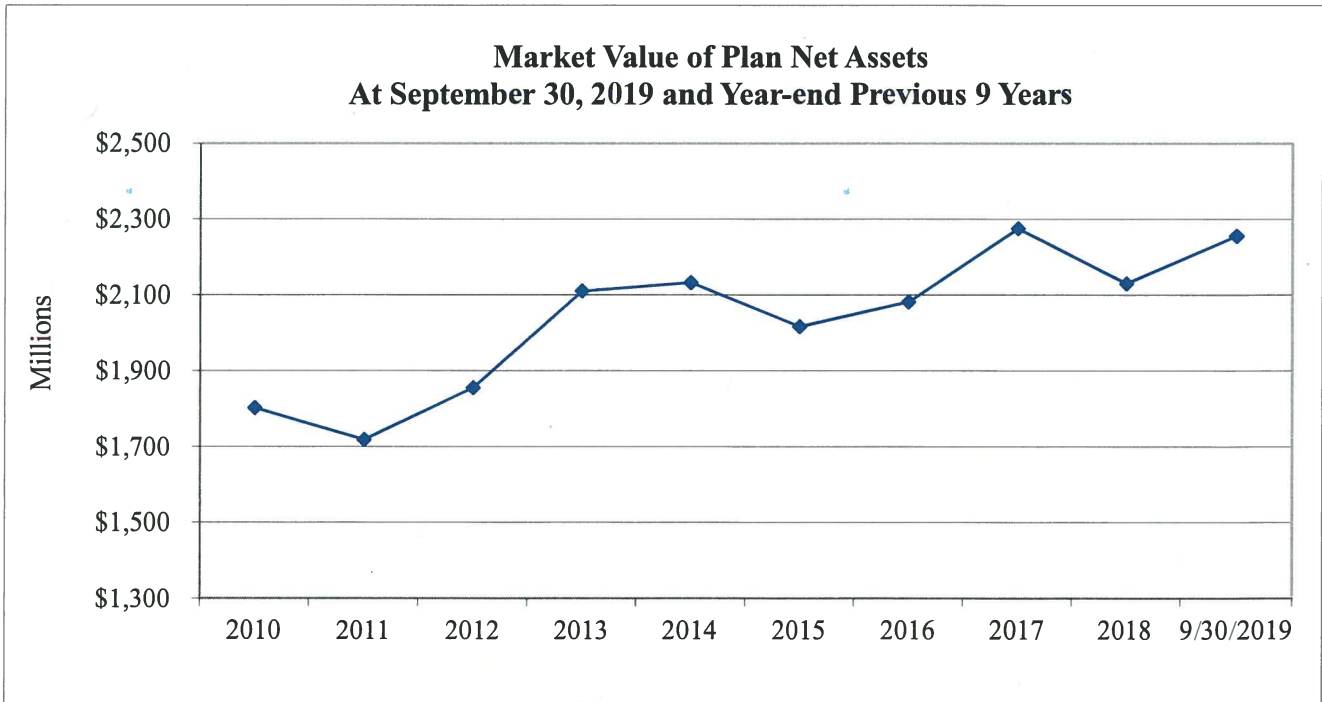
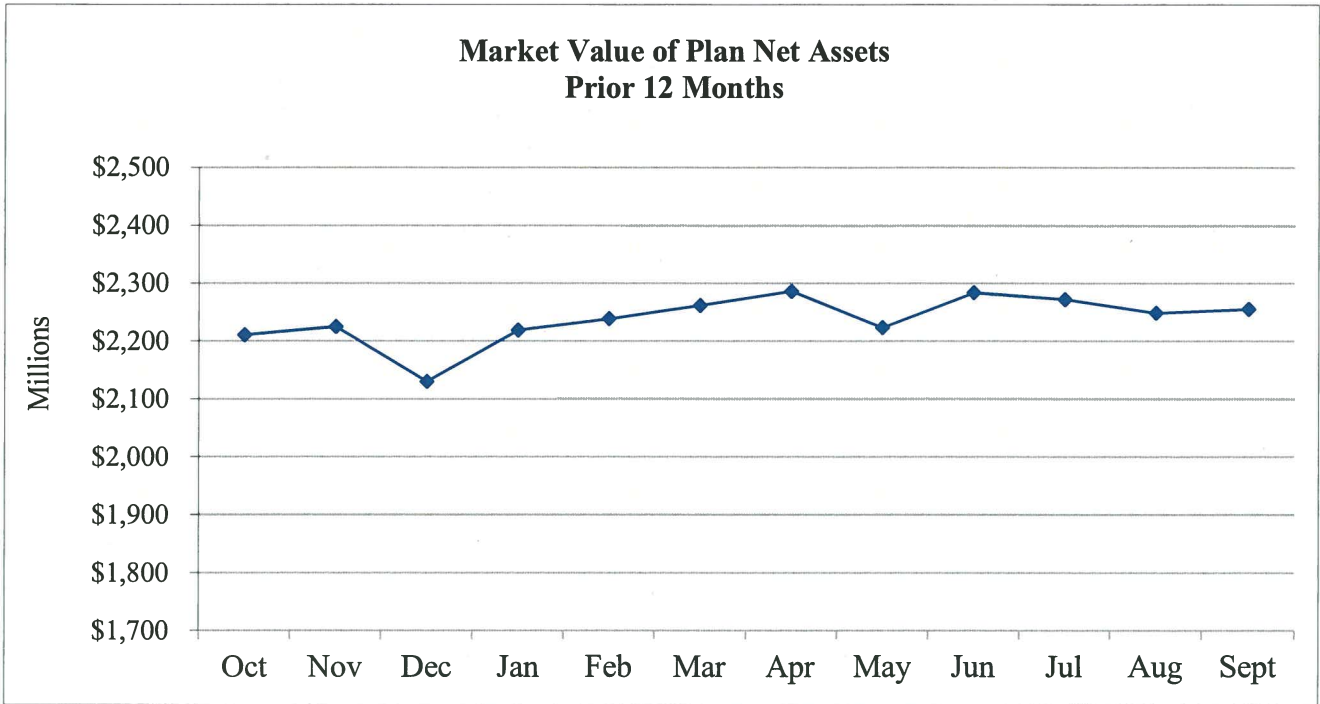
Estimated Funded and Unfunded Actuarial Accrued Liability

Funded actuarial accrued liability			
Pension benefits	\$ 2,255,412,003	62.2%	
Health benefits	73,706,458	43.7%	
Total funded actuarial accrued liability 1/1/2019	\$ 2,329,118,461	61.4%	
Unfunded actuarial accrued liability			
Pension benefits	\$ 1,368,258,168	37.8%	
Health benefits	95,130,618	56.3%	
Total unfunded actuarial accrued liability 1/1/2019	\$ 1,463,388,786	38.6%	

Total Returns from Investment (net of fees)

For the quarter ended 9/30/2019	(0.20%)
For the year to date ended 9/30/2019	8.50%
For the 1 year period ended 9/30/2019 (annualized)	1.60%
For the 3 year period ended 9/30/2019 (annualized)	7.40%
For the 5 year period ended 9/30/2019 (annualized)	5.20%
For the 10 year period ended 9/30/2019 (annualized)	7.80%
For the 25 year period ended 9/30/2019 (annualized)	7.60%
For the period beginning 1/1/1986 (annualized)	8.50%

**Denver Employees Retirement Plan
Change in Market Value of Plan Net Assets
September 30, 2019**



Analysis of Recent Investment Returns Third Quarter 2019

The following discussion presents comparative data for DERP's Investment Returns for the most-recent Quarterly, 12-Month, Three-Year, and Five-Year Periods. Analysis and highlights of portfolio performance are presented below. All figures are net of fees.

The third quarter was essentially flat for DERP, with the portfolio declining 0.2%. Domestic equity and fixed income were positive for the quarter as interest rate declines provided a tailwind and economic indicators remained relatively robust. Meanwhile, international equity positions posted losses on enduring trade frictions, Brexit concerns, and continued evidence of economic slowing. Emerging markets, which are highly sensitive to China, experienced the largest declines.

Our quarterly return of -0.2% lagged our blended benchmark return of 0.2%, in part because of underperformance from several active equity managers, and to a lesser extent from some fixed income and energy infrastructure positions. Our returns also lagged our peers, who reported a return of 0.4% for the period.

For the trailing 12 months, our return of 1.6% lagged both our fund policy index return of 3.0% and the median large public pension plan return of 3.4%. Similarly, for the rolling three-year period, we report returns of 7.4%, slightly behind both the benchmark return of 7.6% and the peer median of 7.7%. For the five-year period, our returns stand at 5.2% compared to our benchmark of 5.7% and the results of our peers of 6.1%.

Portfolio Analysis

The domestic equity portfolio advanced 0.6%, failing to match the 1.2% return of the broad market. Much of our underperformance during the quarter was due to a single active manager experiencing a steep decline in prices for several holdings. We have a reasonable expectation those positions will rebound, and the manager has an exceptional long-term record.

Our international equity managers have been disadvantaged by tilts to small cap and value stocks, but sector weightings and stock selection have been noteworthy factors as well. Recent underperformance has been large enough to impact longer-term results. The loss of -2.8% for the quarter was worse than the overall benchmark loss of -2.0%, and the one year results of -6.0% significantly trail the benchmark return of -2.5%.

Fixed income returns, buoyed by a declining interest rate environment, have been relatively large, and have beaten the benchmark despite generally being positioned for flat or rising rates.

In the third quarter, real estate returns were up only 0.5%, as solid cash flow was offset by some lower property appraisals.

The alternatives portfolio continued its lackluster rise, up an additional 0.5%, as there was little price movement during the quarter.

As we enter the fourth quarter, the portfolio appears poised to deliver returns for the year that are above our annual assumed rate of return of 7.5%. Much of our portfolio de-risking should be complete before year-end, positioning us well for the new year.

Denver Employees Retirement Plan

Investment Returns (Net of Fees) for Periods Ended September 30, 2019

	<u>Quarter</u>	<u>1 Year</u>	<u>3 Years¹</u>	<u>5 Years¹</u>
TOTAL FUND	-0.2%	1.6%	7.4%	5.2%
Fund Policy Index	0.2%	3.0%	7.6%	5.7%
InvMetrics Median Public Fund ²	0.4%	3.2%	7.7%	6.1%
Domestic Equity	0.6%	4.1%	14.1%	10.9%
Russell 3000 Index	1.2%	2.9%	12.8%	10.4%
Large Cap Equity	1.1%	4.9%	14.5%	11.0%
Russell 1000 Index	1.4%	3.9%	13.2%	10.6%
Small Cap Equity	-1.4%	-0.1%	12.3%	10.3%
Russell 2000 Index	-2.4%	-8.9%	8.2%	8.2%
International Equity	-2.8%	-6.0%	4.3%	1.9%
International Equity Benchmark	-2.0%	-2.5%	6.1%	3.5%
Fixed Income	1.2%	7.4%	4.7%	4.0%
Fixed Income Benchmark	1.1%	8.6%	3.6%	3.6%
Real Estate	0.5%	2.0%	5.3%	7.9%
ODCE Index	1.3%	5.6%	7.3%	9.3%
Alternative Investments	0.5%	2.5%	7.0%	3.2%

¹ Annualized return

² InvMetrics Public Fund > \$1 Billion database