



777 PEARL STREET
DENVER, CO 80203

QUARTERLY FINANCIAL REPORT
For the period ending
March 31, 2020

Denver Employees Retirement Plan
Statement of Plan Net Position
as of March 31, 2020 and December 31, 2019

	<u>As of</u> <u>3/31/2020</u>	<u>As of</u> <u>12/31/2019</u>
Assets		
Cash and short-term investments:		
Cash and short-term investments	\$ 40,758,927.26	\$ 116,410,500.66
Securities lending collateral	100,744,922.65	81,271,522.56
Total cash and short-term investments	<u>141,503,849.91</u>	<u>197,682,023.22</u>
Receivables:		
Investment income	1,749,800.95	1,848,515.51
Unsettled securities sold	<u>1,231,983.59</u>	<u>198,859.49</u>
Total receivables	2,981,784.54	2,047,375.00
Investments, at fair value:		
U.S. government obligations	116,715,483.75	111,786,576.06
Domestic corporate and other fixed income	446,120,454.41	429,645,551.62
Domestic equity	351,448,794.93	461,851,339.04
International equity	343,813,957.59	401,302,287.19
Real estate	172,756,005.11	175,520,888.02
Alternative investments	423,307,475.64	524,465,330.77
Absolute return	<u>103,191,777.30</u>	<u>113,282,945.66</u>
Total investments	1,957,353,948.73	2,217,854,918.36
Prepaid Items:	34,679.79	34,679.79
Capital Assets:		
Property and equipment, net of accumulated depreciation	<u>3,187,071.76</u>	<u>3,168,691.63</u>
Total assets	2,105,061,334.73	2,420,787,688.00
Liabilities		
Unsettled securities purchased	2,740,397.07	490,771.96
Securities lending obligations	100,744,922.65	81,271,522.56
Unearned Contributions	6,806,109.00	6,806,109.00
Accounts payable	<u>681,542.02</u>	<u>2,047,682.82</u>
Total liabilities	<u>110,972,970.74</u>	<u>90,616,086.34</u>
Net position restricted for benefits	<u><u>\$ 1,994,088,363.99</u></u>	<u><u>\$ 2,330,171,601.66</u></u>
Net position restricted for pension benefits	1,875,108,847.57	2,211,851,148.72
Net position restricted for DROP benefits	<u>118,979,516.42</u>	<u>118,320,452.94</u>
Net position restricted for benefits	<u><u>\$ 1,994,088,363.99</u></u>	<u><u>\$ 2,330,171,601.66</u></u>

Denver Employees Retirement Plan
Quarterly Report
March 31, 2020
Changes in Plan Net Position

	<u>For the Period</u> <u>1/1/2020 through 3/31/2020</u>	<u>For the Year Ended</u> <u>2019</u>
Additions:		
Contributions:		
Employer	\$ 25,492,173.92	\$ 92,549,620.55
Plan members	<u>16,414,319.56</u>	<u>63,385,303.43</u>
Total contributions	<u>41,906,493.48</u>	<u>155,934,923.98</u>
Investment income:		
Net appreciation/(depreciation) in fair value of investments	(289,374,736.70)	262,064,555.19
Earnings on investments	<u>(24,559,122.90)</u>	<u>45,767,195.74</u>
	(313,933,859.60)	307,831,750.93
Investment expenses	<u>(1,526,268.39)</u>	<u>(15,005,645.38)</u>
Net investment income from investing activities	<u>(315,460,127.99)</u>	292,826,105.55
Securities lending income	348,049.85	3,378,469.30
Securities lending borrower rebates	(212,468.63)	(2,752,923.71)
Securities lending agent fees	<u>(33,878.59)</u>	<u>(156,264.03)</u>
Net income from securities lending	<u>101,702.63</u>	<u>469,281.56</u>
Net investment income	<u>(315,358,425.36)</u>	<u>293,295,387.11</u>
Total additions	<u>(273,451,931.88)</u>	<u>449,230,311.09</u>
Deductions:		
Retired members benefits	58,939,710.51	231,074,579.77
DROP benefits	1,490,340.20	8,289,670.69
Refunds of contributions	1,300,059.53	5,480,764.76
Administrative expenses	<u>901,195.55</u>	<u>4,256,502.34</u>
Total deductions	<u>62,631,305.79</u>	<u>249,101,517.56</u>
Net change	(336,083,237.67)	200,128,793.53
Net position held in trust for benefits:		
Beginning of period	<u>2,330,171,601.66</u>	<u>2,130,042,808.13</u>
End of Period	<u>\$ 1,994,088,363.99</u>	<u>\$ 2,330,171,601.66</u>

Net Position Available for Benefits

Cost Value	Market Value	Unrealized
3/31/2020	3/31/2020	gain/(loss)
<u>\$ 1,852,699,587.04</u>	<u>\$ 1,994,088,363.99</u>	<u>\$ 141,388,776.95</u>

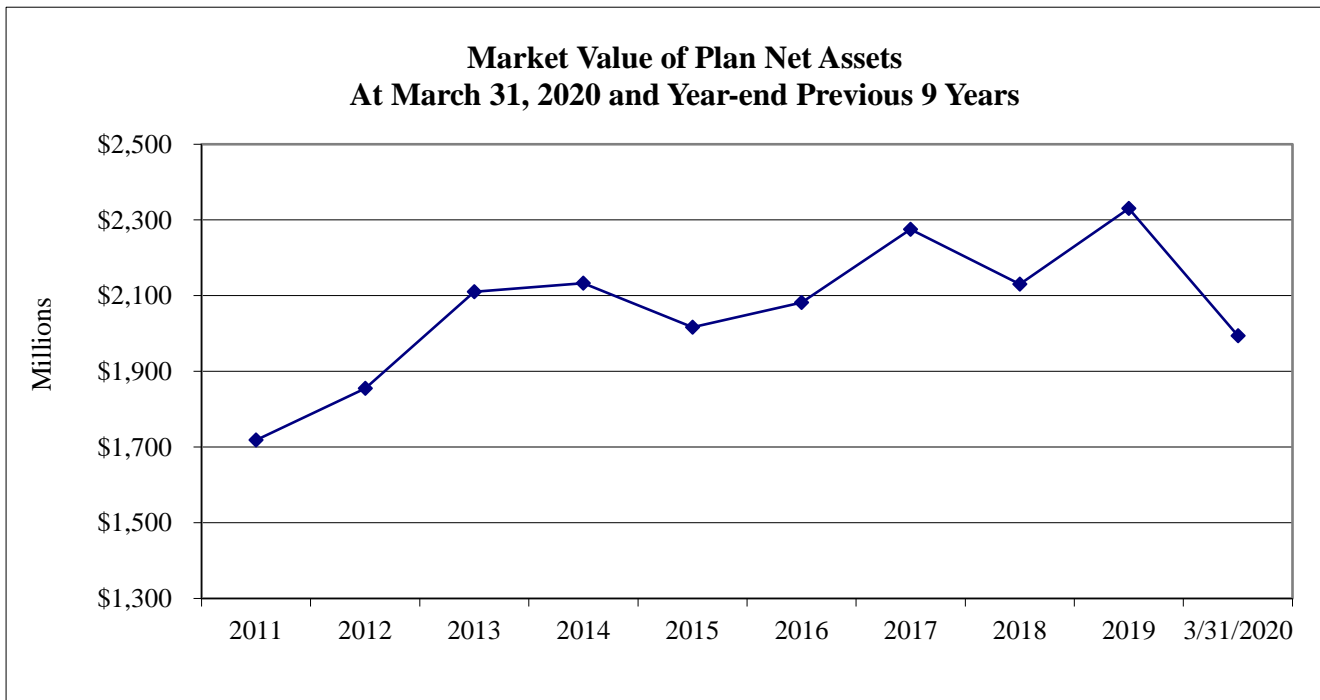
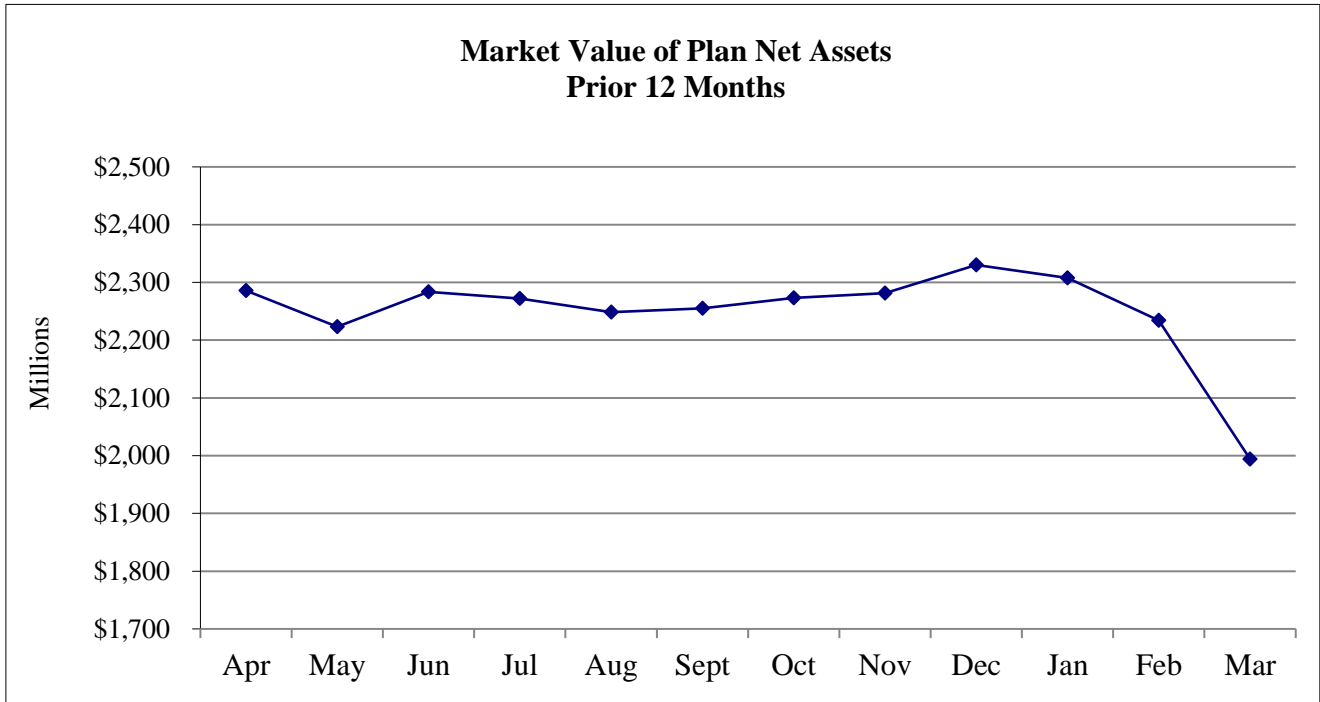
Estimated Funded and Unfunded Actuarial Accrued Liability

Funded actuarial accrued liability			
Pension benefits		\$ 2,300,323,733	61.7%
Health benefits		73,106,986	43.7%
Total funded actuarial accrued liability 1/1/2020		\$ 2,373,430,719	60.9%
Unfunded actuarial accrued liability			
Pension benefits		\$ 1,427,463,710	38.3%
Health benefits		94,020,642	56.3%
Total unfunded actuarial accrued liability 1/1/2020		\$ 1,521,484,352	39.1%

Total Returns from Investment (net of fees)

For the quarter ended 3/31/2020	(11.80%)
For the year to date ended 3/31/2020	(11.80%)
For the 1 year period ended 3/31/2020 (annualized)	(6.70%)
For the 3 year period ended 3/31/2020 (annualized)	2.10%
For the 5 year period ended 3/31/2020 (annualized)	3.00%
For the 10 year period ended 3/31/2020 (annualized)	6.20%
For the 25 year period ended 3/31/2020 (annualized)	7.00%
For the period beginning 1/1/1986 (annualized)	8.10%

**Denver Employees Retirement Plan
Change in Market Value of Plan Net Assets
March 31, 2020**



Analysis of Recent Investment Returns First Quarter 2020

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.

2020 began with the impacts of the Covid-19 pandemic dominating the news, economy, and markets. As various forms of lockdowns spread around the globe, much economic activity was reduced or suspended. Unemployment spiked, corporate earnings declined, and investors fled risky assets for safe havens. Global equities declined to bear market territory, credit markets showed signs of severe distress, and energy prices went into free fall. The Federal Reserve took extraordinary and massive steps to support the economy and financial markets, resulting in a large decline in interest rates.

In such an environment, it is unsurprising the Plan experienced an investment loss. Our return for the quarter was -11.8%, better than the -14.4% return of our blended benchmark and ahead of the -13.1% loss by our peers. Such a relatively favorable outcome was made possible by the derisking of the investment portfolio that occurred in 2019 and good results from active managers, but a loss of this magnitude is never a good thing.

The trailing 12 months was -6.7%, again better than our policy index of -7.6% but slightly lagging our peers who posted a median -5.4%. For the trailing 3-year period, the DERP return stood at 2.1%, ahead of the fund policy index of 1.8% and behind the median public fund return of 2.4%, and for the trailing 5-year period the return of 3.0% matched the benchmark and trailed the median fund by 0.4%.

Portfolio Analysis

The domestic equity portfolio suffered a loss of 19.5% for the quarter, beating the broad US market return of -20.9%. Active management added a small measure of downside protection, particularly within the small cap allocation.

The international equity portfolio return was -26.8%, which was worse than the benchmark return of -23.1%. Smaller and cheaper stocks were the biggest detractors in the quarter.

Fixed income, where we hold our defensive positions, was up 2.2%. Declining interest rates benefitted our bond holdings, and our liquidity remains strong.

Real estate experienced only a small decline of -0.5%, as impacts from the pandemic had not yet manifested themselves in rents or property values.

MLPs suffered a loss of -41.2%, as the collapse in energy prices caused anything related to the sector to be punished by the market.

The alternatives portfolio was relatively a flat 0.4%, although it should be noted there is a lag in obtaining some valuations and we expect future quarter(s) to reflect losses related to energy and private equity.

The overall results for the first quarter were quite disappointing, but we are positioned to weather a prolonged period of meager returns. At this writing, losses in the markets have moderated greatly, and we expect to participate in an economic recovery when it happens.

Denver Employees Retirement Plan

Investment Returns (Net of Fees) for Periods Ended March 31, 2020

	<u>Quarter</u>	<u>1 Year</u>	<u>3 Years¹</u>	<u>5 Years¹</u>
TOTAL FUND	-11.8%	-6.7%	2.1%	3.0%
Fund Policy Index	-14.4%	-7.6%	1.8%	3.0%
InvMetrics Median Public Fund ²	-13.1%	-5.4%	2.4%	3.4%
Domestic Equity	-19.5%	-7.1%	6.1%	6.4%
Russell 3000 Index	-20.9%	-9.1%	4.0%	5.8%
Large Cap Equity	-18.8%	-5.7%	6.9%	6.9%
Russell 1000 Index	-20.2%	-8.0%	4.6%	6.2%
Small Cap Equity	-22.6%	-13.0%	2.8%	3.9%
Russell 2000 Index	-30.6%	-24.0%	-4.6%	-0.2%
International Equity	-26.8%	-20.7%	-5.7%	-2.2%
International Equity Benchmark	-23.1%	-15.6%	-1.7%	0.0%
Fixed Income	2.2%	6.9%	5.4%	4.4%
Fixed Income Benchmark	1.9%	6.1%	4.3%	3.6%
Real Estate	-0.5%	0.6%	4.2%	6.7%
ODCE Index	1.0%	5.0%	6.8%	8.5%
MLPs	-41.2%	-44.8%	-19.5%	-14.0%
MLP Benchmark	-49.1%	-50.5%	-23.1%	-16.8%
Alternatives ex MLPs	0.4%	3.6%	9.0%	8.6%
Alternatives ex MLPs Benchmark	-11.0%	-0.4%	7.6%	7.7%

¹ Annualized return

² InvMetrics Public Fund > \$1 Billion database