

# THE PLAN



DENVER EMPLOYEES  
RETIREMENT PLAN

777 PEARL STREET  
DENVER, CO 80203

## QUARTERLY FINANCIAL REPORT

For the period ending

June 30, 2019

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

	<u>As of</u> <u>6/30/2019</u>	<u>As of</u> <u>12/31/2018</u>
<b>Assets</b>		
Cash and short-term investments:		
Cash and short-term investments	\$ 47,995,980.01	\$ 36,378,567.82
Securities lending collateral	222,461,828.90	129,463,950.47
Total cash and short-term investments	<u>270,457,808.91</u>	<u>165,842,518.29</u>
Receivables:		
Investment income	1,985,458.38	1,526,593.30
Unsettled securities sold	217,002.83	33,093.71
Total receivables	<u>2,202,461.21</u>	<u>1,559,687.01</u>
Investments, at fair value:		
U.S. government obligations	172,199,146.21	155,040,399.11
Domestic corporate and other fixed income	302,858,569.97	307,549,778.26
Domestic equity	474,671,601.58	420,939,186.57
International equity	484,343,701.14	446,647,935.51
Real estate	169,929,599.53	173,038,863.11
Alternative investments	516,003,685.73	484,324,501.27
Absolute return	111,031,437.15	104,602,461.76
Total investments	<u>2,231,037,741.31</u>	<u>2,092,143,125.59</u>
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>
<b>Total assets</b>	<u>2,507,216,292.95</u>	<u>2,263,096,132.34</u>
<b>Liabilities</b>		
Unsettled securities purchased	146,408.88	1,488,131.92
Securities lending obligations	222,461,828.90	129,463,950.47
Accounts payable	860,733.89	2,101,241.82
<b>Total liabilities</b>	<u>223,468,971.67</u>	<u>133,053,324.21</u>
<b>Net position restricted for benefits</b>	<u>\$2,283,747,321.28</u>	<u>\$2,130,042,808.13</u>
Net position restricted for pension benefits	2,164,462,843.53	2,011,964,372.67
Net position restricted for DROP benefits	<u>119,284,477.75</u>	<u>118,078,435.46</u>
<b>Net position restricted for benefits</b>	<u>\$ 2,283,747,321.28</u>	<u>\$ 2,130,042,808.13</u>

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

	<u>For the Period</u> <u>1/1/2019 through 6/30/2019</u>	<u>For the Year Ended</u> <u>2018</u>
Additions:		
Contributions:		
Employer	\$ 45,687,855.29	\$ 86,672,498.21
Plan members	<u>30,957,876.78</u>	<u>55,833,462.23</u>
Total contributions	76,645,732.07	142,505,960.44
Investment income:		
Net appreciation/(depreciation) in fair value of investments	180,157,628.80	(120,309,086.97)
Earnings on investments	<u>23,970,931.33</u>	<u>57,903,472.77</u>
	204,128,560.13	(62,405,614.20)
Investment expenses	<u>(5,284,627.08)</u>	<u>(13,916,856.05)</u>
Net investment income from investing activities	198,843,933.05	(76,322,470.25)
Securities lending income	1,914,758.64	3,575,076.65
Securities lending borrower rebates	(1,605,087.86)	(2,492,567.60)
Securities lending agent fees	<u>(77,343.30)</u>	<u>(270,443.72)</u>
Net income from securities lending	232,327.48	812,065.33
Net investment income	<u>199,076,260.53</u>	<u>(75,510,404.92)</u>
Total additions	275,721,992.60	66,995,555.52
Deductions:		
Retired members benefits	114,330,070.69	220,422,029.62
DROP benefits	3,043,025.32	8,142,083.83
Refunds of contributions	2,545,540.96	4,492,781.07
Administrative expenses	<u>2,098,842.48</u>	<u>4,149,416.25</u>
Total deductions	<u>122,017,479.45</u>	<u>237,206,310.77</u>
Net change	153,704,513.15	(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	<u>\$ 2,283,747,321.28</u>	<u>\$ 2,130,042,808.13</u>

**Net Position Available for Benefits**

Cost Value	Market Value	Unrealized
6/30/2019	6/30/2019	gain/(loss)
<u>\$ 1,843,122,532.08</u>	<u>\$ 2,283,747,321.28</u>	<u>\$ 440,624,789.20</u>

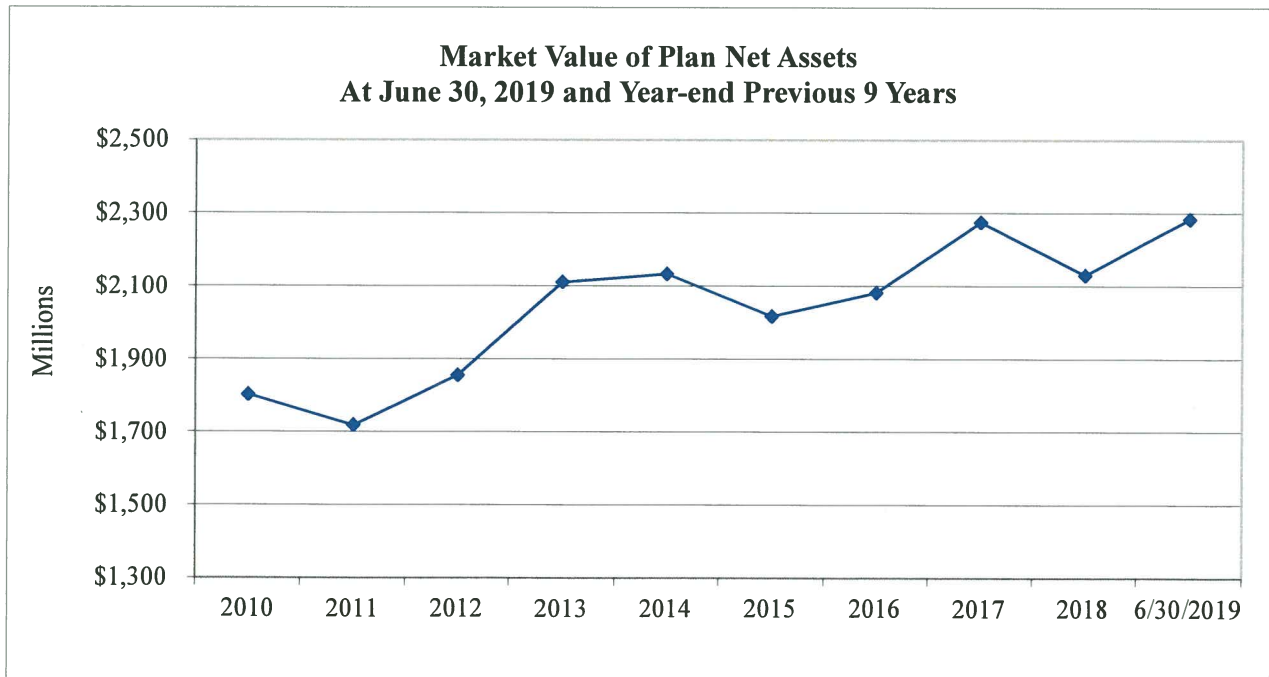
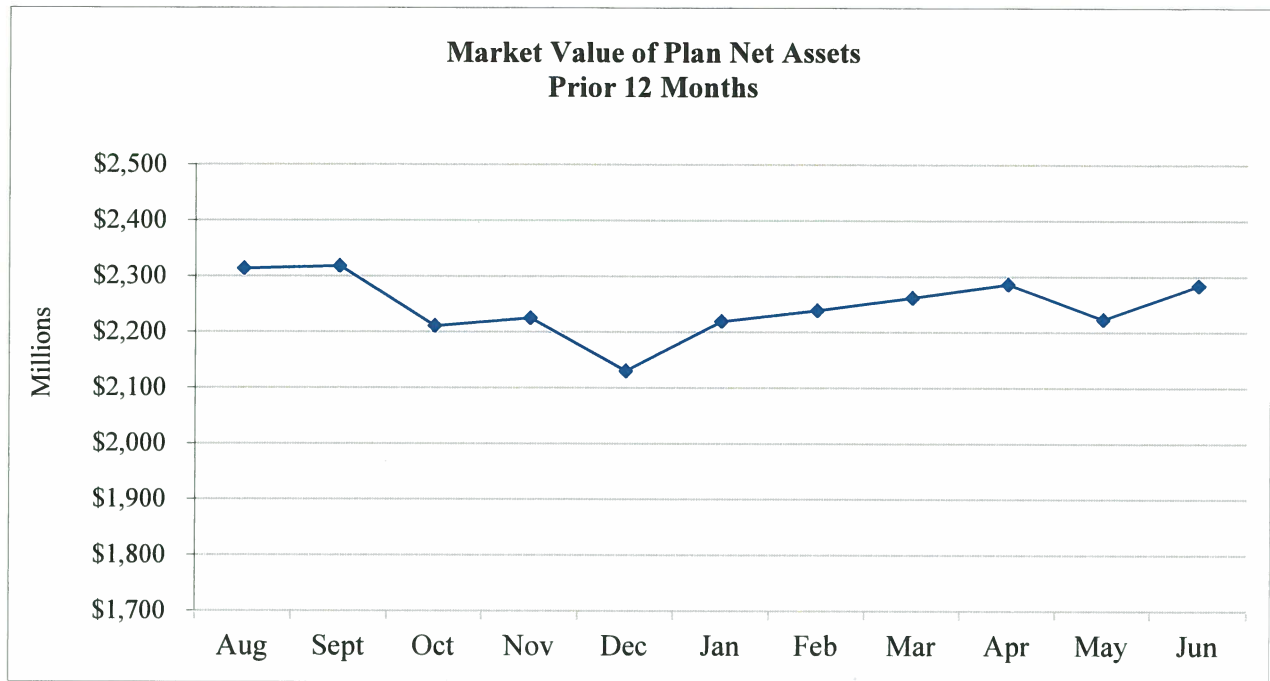
**Estimated Funded and Unfunded Actuarial Accrued Liability**

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 6/30/2019	2.00%
For the year to date ended 6/30/2019	8.60%
For the 1 year period ended 6/30/2019 (annualized)	4.60%
For the 3 year period ended 6/30/2019 (annualized)	8.90%
For the 5 year period ended 6/30/2019 (annualized)	4.90%
For the 10 year period ended 6/30/2019 (annualized)	8.90%
For the 25 year period ended 6/30/2019 (annualized)	7.80%
For the period beginning 1/1/1986 (annualized)	8.50%

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



## **Analysis of Recent Investment Returns Second 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.

Continuing on the advances made by equities in the first quarter, the second quarter saw domestic equities surge by another 4.1% as trade tensions moderated slightly and the market priced in a Fed rate cut (which ultimately occurred). Returns for international developed market equities were somewhat lower but also paralleled the moves by the US market, as global economic conditions remained either positive or benign and other central banks made accommodative noises. Emerging markets were nearly flat for the period.

DERP returned 2.0% for the quarter, behind both our fund policy index return of 2.6% and our public plan peer median return of 2.9%. This somewhat disappointing comparison arose primarily from our international equity managers who underperformed the benchmark by 90 basis points, as well as a real estate manager who took significant write-downs in some retail properties.

For the trailing 12 months, we had a return of 4.6%, a full percentage point below our blended benchmark, and 60 basis points behind our peers. For the last three years, our average annual return has been 8.9%, nearly matching the passive benchmark return of 9.0% and ahead of the 8.7% posted by our peers. For the five-year period ending June 30, our annualized return of 4.9% lags both the passive benchmark return of 5.4% and our peers' return of 5.6%.

### **Portfolio Analysis**

We continued to see strong performance out of our domestic equity managers, both absolute (with a 5.1% return) and relative to the overall market (100 basis points higher than the market index).

International equity managers have struggled, hampered by both sector weightings and stock selection. A return of 1.3% for the quarter trailed the overall benchmark return of 2.2%.

Fixed income returns of 2.2% were higher than the overall portfolio return, but trailed the benchmark return of 3.8%. Much of the relative (benchmark) underperformance is attributed to our private debt positions. As was the case last quarter, although these positions did fairly well they failed to keep up with publicly traded high yield (which we use as a benchmark), as a rush by investors back in to risky assets caused those securities to surge. Additionally, the Treasury portfolio managed by DERP staff underperformed its benchmark by 1.1% as that portfolio is positioned for an eventual interest rate rise.

Real estate returns were a disappointing -3.0%, as the aforementioned retail properties were revalued lower.

The alternatives portfolio was up 1.4%, with little movement in energy or private equity investments for the quarter.

Despite trailing benchmark and peers, the returns for the first half of 2019 have already exceeded the annual assumed rate of return. We remain disciplined in trimming our winners and rebalancing into underweight sectors, and will continue to reduce our equity exposure as the year progresses.

## Denver Employees Retirement Plan

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

	<u>Quarter</u>	<u>1 Year</u>	<u>3 Years<sup>1</sup></u>	<u>5 Years<sup>1</sup></u>
<b>TOTAL FUND</b>	2.0%	4.6%	8.9%	4.9%
Fund Policy Index	2.6%	5.6%	9.0%	5.4%
InvMetrics Median Public Fund <sup>2</sup>	2.9%	5.2%	8.7%	5.6%
<b>Domestic Equity</b>	<b>5.1%</b>	<b>11.0%</b>	<b>15.6%</b>	<b>10.6%</b>
Russell 3000 Index	4.1%	9.0%	14.0%	10.2%
<b>Large Cap Equity</b>	<b>5.0%</b>	<b>11.4%</b>	<b>15.6%</b>	<b>10.9%</b>
Russell 1000 Index	4.2%	10.0%	14.1%	10.5%
<b>Small Cap Equity</b>	<b>6.0%</b>	<b>8.6%</b>	<b>15.4%</b>	<b>8.8%</b>
Russell 2000 Index	2.1%	-3.3%	12.3%	7.1%
<b>International Equity</b>	<b>1.3%</b>	<b>-2.8%</b>	<b>8.3%</b>	<b>1.3%</b>
International Equity Benchmark	2.2%	-0.6%	9.5%	2.7%
<b>Fixed Income</b>	<b>2.2%</b>	<b>6.7%</b>	<b>4.7%</b>	<b>3.6%</b>
Fixed Income Benchmark	3.8%	9.6%	4.5%	3.4%
<b>Real Estate</b>	<b>-3.0%</b>	<b>0.9%</b>	<b>4.8%</b>	<b>7.9%</b>
ODCE Index	1.0%	6.4%	7.6%	9.8%
<b>Alternative Investments</b>	<b>1.4%</b>	<b>5.3%</b>	<b>8.0%</b>	<b>3.1%</b>

<sup>1</sup> Annualized return

<sup>2</sup> InvMetrics Public Fund > \$1 Billion database