
THE PLAN



DENVER EMPLOYEES
RETIREMENT PLAN

777 PEARL STREET
DENVER, CO 80203

QUARTERLY FINANCIAL REPORT

**For the period ending
September 30, 2020**

Denver Employees Retirement Plan
Statement of Plan Net Position
as of September 30, 2020 and December 31, 2019

	<u>As of</u> <u>9/30/2020</u>	<u>As of</u> <u>12/31/2019</u>
Assets		
Cash and short-term investments:		
Cash and short-term investments	\$ 50,981,390.60	\$ 116,410,500.66
Securities lending collateral	104,158,229.67	81,271,522.56
Total cash and short-term investments	<u>155,139,620.27</u>	<u>197,682,023.22</u>
Receivables:		
Investment income	1,422,321.53	1,848,515.51
Unsettled securities sold	229,731.25	198,859.49
Total receivables	<u>1,652,052.78</u>	<u>2,047,375.00</u>
Investments, at fair value:		
U.S. government obligations	303,423,255.88	111,786,576.06
Domestic corporate and other fixed income	233,941,902.05	429,645,551.62
Domestic equity	443,523,573.91	461,851,339.04
International equity	444,060,458.91	401,302,287.19
Real estate	170,055,504.12	175,520,888.02
Alternative investments	429,652,855.09	524,465,330.77
Absolute return	113,526,124.29	113,282,945.66
Total investments	<u>2,138,183,674.25</u>	<u>2,217,854,918.36</u>
Prepaid Items:	-	34,679.79
Capital Assets:		
Property and equipment, net of accumulated depreciation	<u>3,305,869.75</u>	<u>3,168,691.63</u>
Total assets	<u>2,298,281,217.05</u>	<u>2,420,787,688.00</u>
Liabilities		
Unsettled securities purchased	187,213.50	490,771.96
Securities lending obligations	104,158,229.67	81,271,522.56
Unearned Contributions	6,806,109.00	6,806,109.00
Accounts payable	1,078,833.40	2,047,682.82
Total liabilities	<u>112,230,385.57</u>	<u>90,616,086.34</u>
Net position restricted for benefits	<u>\$ 2,186,050,831.48</u>	<u>\$ 2,330,171,601.66</u>
Net position restricted for pension benefits	2,064,497,605.05	2,211,851,148.72
Net position restricted for DROP benefits	<u>121,553,226.43</u>	<u>118,320,452.94</u>
Net position restricted for benefits	<u>\$ 2,186,050,831.48</u>	<u>\$ 2,330,171,601.66</u>

**Denver Employees Retirement Plan
Quarterly Report
September 30, 2020
Changes in Plan Net Position**

	<u>For the Period 1/1/2020 through 9/30/2020</u>	<u>For the Year Ended 2019</u>
Additions:		
Contributions:		
Employer	\$ 81,642,837.70	\$ 92,549,620.55
Plan members	52,683,123.73	63,385,303.43
Total contributions	<u>134,325,961.43</u>	<u>155,934,923.98</u>
Investment income:		
Net appreciation/(depreciation) in fair value of investments	(70,460,667.59)	262,064,555.19
Earnings on investments	(10,904,871.15)	45,767,195.74
	<u>(81,365,538.74)</u>	<u>307,831,750.93</u>
Investment expenses	(8,499,825.39)	(15,005,645.38)
Net investment income from investing activities	(89,865,364.13)	292,826,105.55
Securities lending income	542,487.93	3,378,469.30
Securities lending borrower rebates	(218,403.70)	(2,752,923.71)
Securities lending agent fees	(80,975.12)	(156,264.03)
Net income from securities lending	<u>243,109.11</u>	<u>469,281.56</u>
Net investment income	<u>(89,622,255.02)</u>	<u>293,295,387.11</u>
Total additions	44,703,706.41	449,230,311.09
Deductions:		
Retired members benefits	178,733,584.19	231,074,579.77
DROP benefits	3,226,341.26	8,289,670.69
Refunds of contributions	3,598,018.91	5,480,764.76
Administrative expenses	3,266,532.23	4,256,502.34
Total deductions	<u>188,824,476.59</u>	<u>249,101,517.56</u>
Net change	(144,120,770.18)	200,128,793.53
Net position held in trust for benefits:		
Beginning of period	2,330,171,601.66	2,130,042,808.13
End of Period	<u>\$ 2,186,050,831.48</u>	<u>\$ 2,330,171,601.66</u>

Net Position Available for Benefits

Cost Value 9/30/2020	Market Value 9/30/2020	Unrealized gain/(loss)
<u>\$ 1,828,621,319.79</u>	<u>\$ 2,186,050,831.48</u>	<u>\$ 357,429,511.69</u>

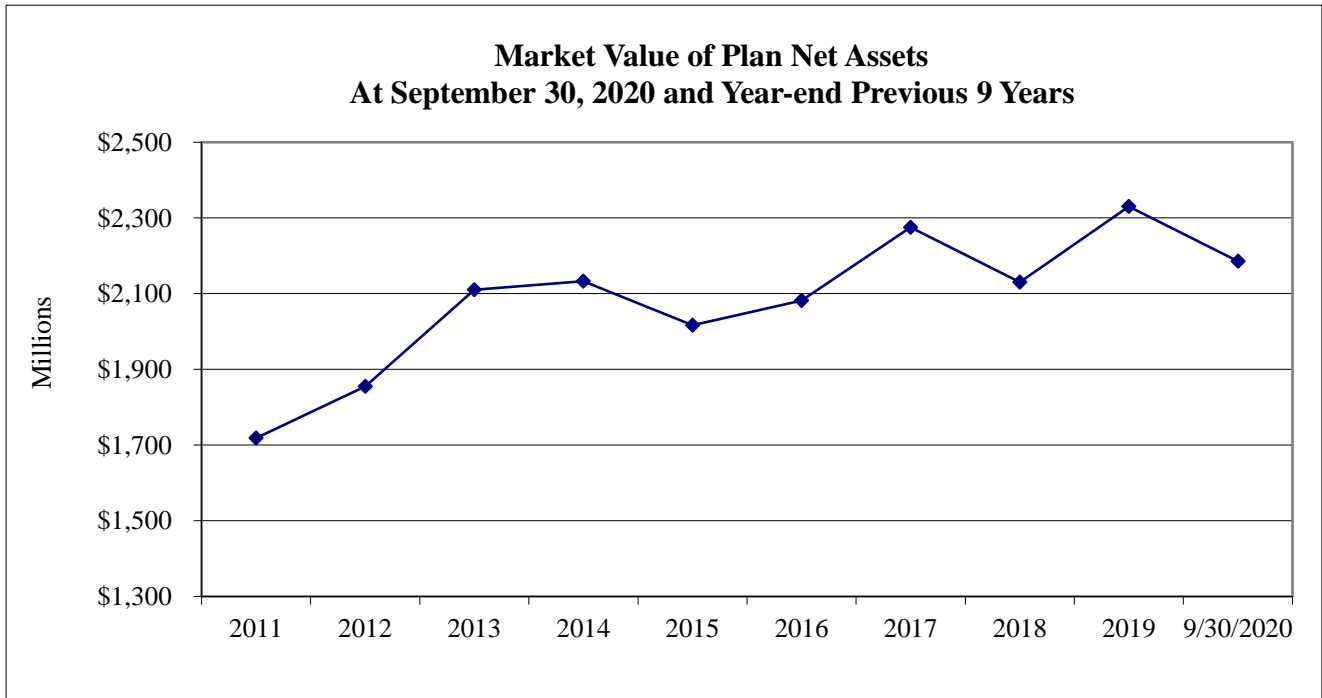
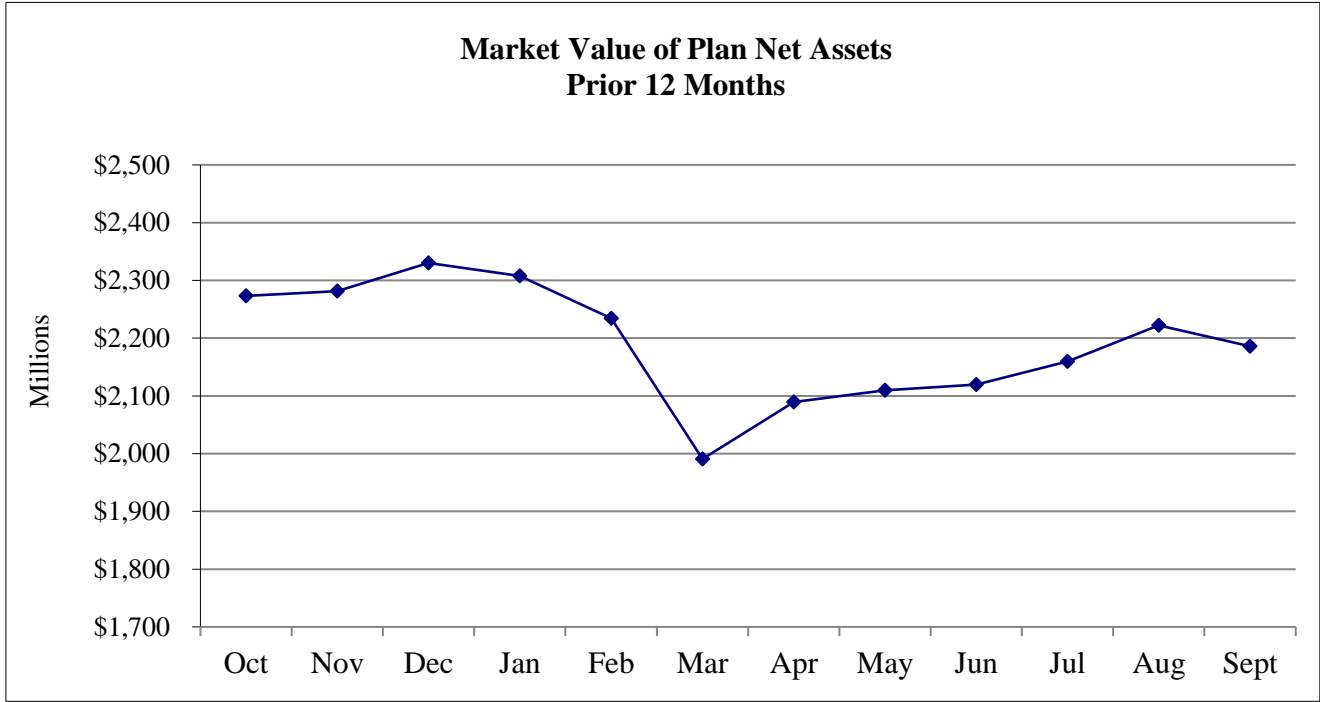
Estimated Funded and Unfunded Actuarial Accrued Liability

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 9/30/2020	3.40%
For the year to date ended 9/30/2020	(3.90%)
For the 1 year period ended 9/30/2020 (annualized)	(0.20%)
For the 3 year period ended 9/30/2020 (annualized)	3.20%
For the 5 year period ended 9/30/2020 (annualized)	6.10%
For the 10 year period ended 9/30/2020 (annualized)	6.80%
For the 25 year period ended 9/30/2020 (annualized)	6.90%
For the period beginning 1/1/1986 (annualized)	8.20%

**Denver Employees Retirement Plan
Change in Market Value of Plan Net Assets
September 30, 2020**



Analysis of Recent Investment Returns Third 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.

Markets continued to perform strongly in the third quarter of 2020, following further indications of economic recovery and the promise of a vaccine. Domestic equities were again the best performing asset class, led by large growth companies such as Facebook, Amazon, Apple, Netflix, Google, and Microsoft. The so-called FAANGM stocks have lofty valuations and are responsible for an outsize portion of the total market returns. In fact, if technology sector returns are excluded, US equity returns are approximately flat through September 30. Moreover, small cap value stocks are actually in a large loss position (Russell 2000 value was -21.5% at quarter end). The return differential between growth and value is more extreme than at any time since the Tech Bubble in the late 1990s.

The Plan had a return of 3.4% in the quarter, bringing its trailing one-year results to nearly breakeven. The quarterly return of 3.4% trailed our blended benchmark return of 4.3% and our peer group return of 5.0%, while the one-year return of -0.2% trailed the benchmark of 5.9% and the peer return of 6.0%. The reasons for this underperformance was our exposure to energy, our tilt to value stocks, and being generally underweight to equities.

For the trailing 3-year period, the DERP return was 3.2%, behind the fund policy index of 5.6% and behind the median public fund return of 5.5%, and for the trailing 5-year period the return of 6.1% trailed the benchmark of 7.8% and the median fund of 7.5%.

Portfolio Analysis

The domestic equity portfolio advanced 8.5% for the quarter, 0.7% behind the broad US market return of 9.2%. This was again the best performing sector of the portfolio.

The international equity portfolio rose 4.7%, and trailed its benchmark of 6.6% primarily due to the pronounced impacts of a value tilt.

Fixed income was up 1.3%, just slightly ahead of the benchmark return of 1.2%.

Real estate declined -0.1%, as property valuation declines offset income. Although income has been fairly resilient, appraisals for retail and office have been under pressure.

Midstream energy (MLPs) fell 12.8% after a strong second quarter showing, demonstrating that volatility remains high.

The alternatives portfolio returned 6.0% as private equity valuations improved and energy positions stabilized.

Adjustments to our asset allocation were approved recently as a response to changed expectations arising from the current environment. Implementation of the changes will begin immediately. Markets are currently optimistic and seem to be pricing in a strong recovery, and as always, we will take the opportunity to rebalance out of assets that have experienced run-up and in to assets where we feel there is greater opportunity.

Denver Employees Retirement Plan

Investment Returns (Net of Fees) for Periods Ended September 30, 2020

	<u>Quarter</u>	<u>1 Year</u>	<u>3 Years¹</u>	<u>5 Years¹</u>
TOTAL FUND	3.4%	-0.2%	3.2%	6.1%
Fund Policy Index	4.3%	5.9%	5.6%	7.8%
InvMetrics Median Public Fund ²	5.0%	6.0%	5.5%	7.5%
Domestic Equity	8.5%	17.3%	13.8%	14.2%
Russell 3000 Index	9.2%	15.0%	11.6%	13.7%
Large Cap Equity	9.1%	18.0%	14.2%	14.5%
Russell 1000 Index	9.5%	16.0%	12.4%	14.1%
Small Cap Equity	6.1%	13.8%	11.6%	13.0%
Russell 2000 Index	4.9%	0.4%	1.8%	8.0%
International Equity	4.7%	-2.0%	-3.0%	4.1%
International Equity Benchmark	6.6%	4.3%	1.1%	6.9%
Fixed Income	1.3%	4.7%	4.8%	5.0%
Fixed Income Benchmark	1.2%	6.7%	4.7%	5.2%
Real Estate	-0.1%	-0.7%	2.8%	5.0%
ODCE Index	0.5%	1.6%	5.2%	6.7%
MLPs	-12.8%	-38.3%	-16.2%	-7.6%
MLP Benchmark	-9.4%	-34.8%	-14.4%	-7.4%
Alternatives ex MLPs & HF	6.0%	-12.4%	3.8%	5.6%
Alternatives ex MLPs Benchmark	6.3%	12.6%	12.9%	11.0%

¹ Annualized return

² InvMetrics Public Fund > \$1 Billion database