

# 2018 ANNUAL POPULAR REPORT

## Denver Board of Water Commissioners Employees' Retirement Program

Employees' Retirement Plan

Denver Water 401(k) Supplemental Retirement Savings Plan

Denver Water 457 Deferred Compensation Plan

Trust Funds of the Denver Board of Water Commissioners

For Fiscal Year Ended December 31, 2018

**DENVER BOARD OF WATER COMMISSIONERS**

Paula Herzmark, President

John R. Lucero, First Vice President

Gary Reiff, Vice President

Craig Jones, Vice President

H. Gregory Austin, Vice President

**CEO/MANAGER**

James S. Lochhead

**RETIREMENT PROGRAM COMMITTEE**

Gail Cagle, Chief Human Resources Officer

Angela C. Bricmont, Chief Finance Officer

Deb B. Engleman, HR

Usha Sharma, Treasury

Aneta M. Rettig, Treasury

Jeff Bogner, Treasury

Kris Bates, Office of General Council

**ACTUARY**

Gabriel, Roeder, Smith & Company

**INVESTMENT ADVISORS**

Callan Associates Inc. (DB Plan)

Ellwood Associates (DC Plans)

**ASSET CUSTODIANS**

The Northern Trust Company (DB Plan)

Empower Retirement (formerly Great-West Retirement Services) (DC Plans)

**INDEPENDENT AUDITOR**

CliftonLarsonAllen LLP

## **INVESTMENT MANAGERS – DB PLAN**

Aberdeen Asset Management Inc.  
Advisory Research Inc.  
Alliance Bernstein  
Babson Capital Management LLC  
Blackrock Alternative Investors  
Blackrock Institutional Trust Company, N.A.  
Dimensional Fund Advisors LP  
Fidelity Institutional Asset Management  
Harbert Management Corporation  
Harding Loevner Funds, Inc.  
Horsley Bridge Venture  
Northern Trust Investments, N. A.  
Principal Global Investors LLC  
RREEF America LLC  
UBS Realty Investors, LLC  
Winslow Capital Management, LLC

## **INVESTMENT OPTIONS – DC PLANS**

American Funds Washington Mutual  
Arrowstreet INTL Equity ACWI Ex US Class A  
Baron Growth Institutional  
Cohen & Streers Institutional Global Realty  
Fidelity Global Ex US Index  
Fidelity Total Market Index  
Fidelity US Bond Index  
Frost Total Return Bond Institutional  
Northern Global Sustainability Index  
PIMCO High Yield Institutional  
T. Rowe Price Growth Stock Fund I  
Vanguard Target Retirement 2015 Inv  
Vanguard Target Retirement 2020 Inv  
Vanguard Target Retirement 2025 Inv  
Vanguard Target Retirement 2030 Inv  
Vanguard Target Retirement 2035 Inv  
Vanguard Target Retirement 2040 Inv  
Vanguard Target Retirement 2045 Inv  
Vanguard Target Retirement 2050 Inv  
Vanguard Target Retirement 2055 Inv  
Vanguard Target Retirement 2060 Inv  
Vanguard Target Retirement 2065 Inv  
Vanguard Target Retirement Income Inv  
Vanguard Total Intl BD Idx Admiral

June 13, 2019

*To the Participants in the Plans of the Denver Water Retirement Program:*

It is a pleasure to present the Annual Popular Report for the Denver Water Retirement Program for the fiscal year ended Dec. 31, 2018. The Retirement Program includes three separate funds (“plans”) and two additional, unfunded benefits. The trustee funds are the Employees’ Retirement Plan of the Denver Board of Water Commissioners (“Defined Benefit Plan”), the Denver Water Supplemental Retirement Savings Plan (“401(k) Plan”) and the Denver Water 457 Deferred Compensation Plan (“457 Plan”). The 401(k) Plan and the 457 Plan are collectively referred to as the “Defined Contribution Plans” or “DC Plans.” The two unfunded benefits are a Retiree Medical Coverage Program and a Retirement Financial Planning Reimbursement Program. This report provides an overview of financial, investment and statistical information about the program in a simple, easy to understand format. The information herein is derived from the Annual Report for the Retirement Program. This Popular Report is intended to supplement the Annual Report, not replace it.

### **Major Actions in 2018**

- **DB Plan changes approved by the Board** - On December 5, 2018 the Plan was amended to address necessary Plan changes to transition to a third-party administrator for benefit payment services. The changes to the Plan addressed credited service for participants on short-term and long-term disability and on active military leave who return to work, covered compensation for participants on long-term disability, return of employee contributions when deferred vested participants die before receiving benefits, timing of certain elections of lump sum benefits, and timing for elections of benefits. In 2017 the Board approved changes to the Plan Document in response to the Plan changes that were made in December of 2016. As of January 1, 2018 Tier one and Tier two went into effect for the Plan.
- **Manager Changes in the DB Plan.** The Chief Finance Officer, with the assistance of the Investment Consultant for the DB Plan, approved the following changes in the investment manager lineup for the DB Plan:
  - Vanguard Growth was terminated to counter the large cap tilt that resulted from the termination of Advisory Research at the end of 2017. Additionally, Vanguard was determined to be too heavily concentrated in a single value factor, dividends, and thus did not contribute a true value counterbalance to the remainder of the portfolio.
  - Alliance Bernstein (AB) US Small/Mid cap value strategy was selected to replace Vanguard.
- **DC Plan Fund Changes:**
  - Due to underperformance, Harbor International was recommended for termination and Arrowstreet was hired as its replacement.

### **Market Environment**

The year opened with enthusiasm over the pro-business agenda of the new Trump administration, but uncertainty surrounding trade and immigration policies loomed. Failed attempts at travel bans and healthcare reform, and a war of words with North Korea pre-occupied President Trump and media outfits, as did the frequent White House personnel turnover. Washington politicians eventually pivoted to tax reform in the latter stages of the year and policymakers passed the highly anticipated legislation just before the Christmas holiday. Emerging markets benefited from both the synchronized global growth environment and the secular growth trade. Stock market volatility was historically low, especially in the U.S. The S&P 500 avoided a 3% drawdown for the first time since 1995. The VIX Index, which measures expected S&P 500 market volatility, hit an all-time low of 8.54%, averaged 11.1 over the year, and never once spiked above its long-term average of 19.4. Outside of the U.S., equity markets exhibited similarly lower-than-normal levels of volatility. In addition to the on-again, off-again reflation trade views, an overriding theme for North American bond markets was a flattening yield curve. The Federal Reserve (Fed) hiked rates three times, and both central banks pushed short term yields higher. Longer term bond yields failed to get the same lift as inflation remained moderate, effectively flattening the yield curve. The 106 month bull market was now the second longest on record and the S&P 500 racked up an impressive 62 new all-time highs in 2017. Measures of business and consumer confidence hit record high levels during the year.

## Investments

The investments in the Defined Benefit Plan returned -3.89% (gross of fees) during 2018, compared to the target benchmark return of -3.79% and the actuarial assumed rate of return of 7.00%. The annualized rate of return on assets of the Defined Benefit Plan was 6.09% over the last three years and 5.20% over the last five years. Returns on Defined Contribution Plans vary depending on the choices made by each participant.

A summary of the current investment objectives and guidelines for each fund, additional information concerning allocation of the DB Plan's assets, and more detailed information about investment performance is included in the Investment Section of this report.

## Funding

As of January 1, 2019, the Funded Ratio of the DB Plan was 82.5%, compared to 80.8% the year before. Over the past ten years the Funded Ratio ranged from a low of 72.7% (01/01/09) to a high of 84.9% (01/01/16)..

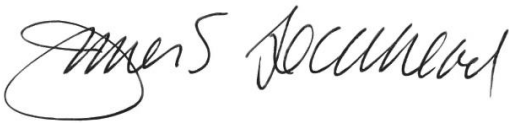
The Defined Contribution Plans are primarily funded by employee contributions. Denver Water currently matches 100% of employee contributions to the 401(k) plan up to 3% of published base pay.

## Employee Retirements in 2018

Thirty two (32) employees retired from Denver Water in 2018, of which thirty three (18) employees qualified for Special Early Retirement (Rule of 75).

As of Dec. 31, 2018, 681 retirees and beneficiaries were receiving monthly benefits from the Defined Benefit Plan. The average age of a benefit recipient was 70.6 and the average monthly benefit was \$2,634.

Sincerely,



James S. Lochhead, CEO/Manager



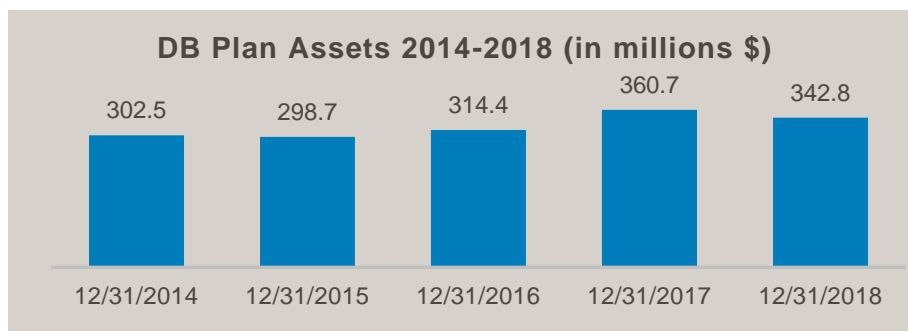
Angela Bricmont, Chief Finance Officer, RPC Co-Chair



Gail Cagle, Chief Human Resources Officer, RPC Co-Chair

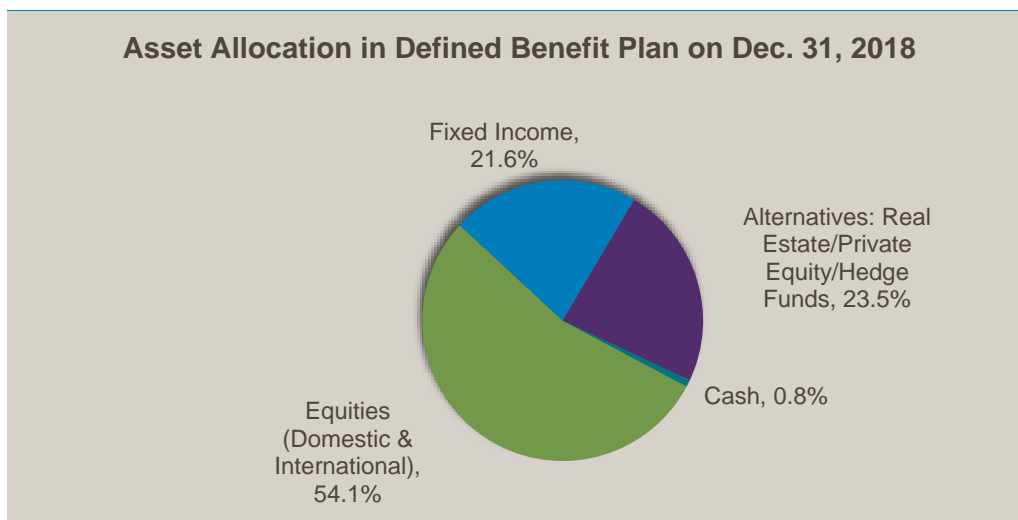
**DEFINED BENEFIT PLAN**

**Plan assets:** The fiduciary net position restricted for pension was \$342.8 million on Dec. 31, 2018 – This represents a \$17.9 million decrease from the prior year.

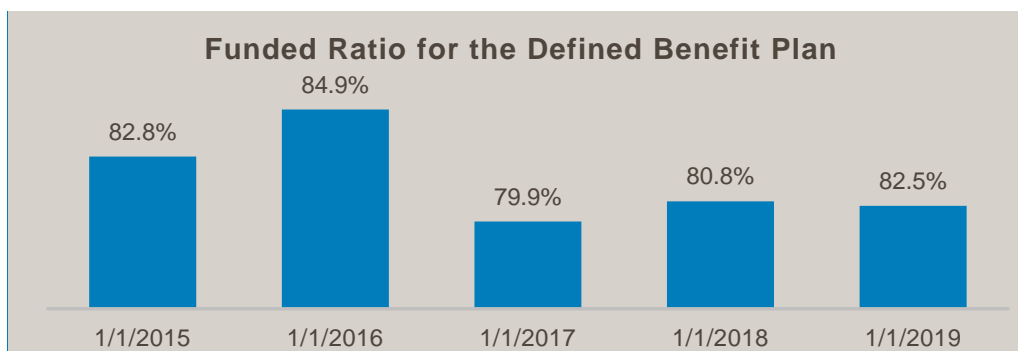


**Change in Defined Benefit Plan Net Assets**

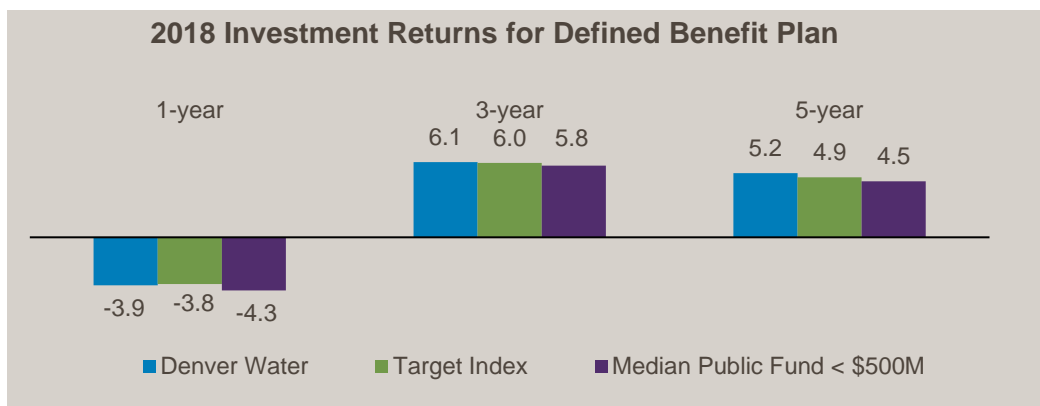
(in millions)	2016	2017	2018
Board Contributions	\$14.5	\$18.0	\$18.0
Employee Contributions	-	-	\$0.6
Investment Gains	\$21.3	\$48.2	(\$16.4)
<b>Total Additions</b>	<b>\$35.8</b>	<b>\$66.3</b>	<b>\$3.7</b>
Benefit Payments & Refunds	(\$19.9)	(\$19.9)	(\$22.2)
Administrative Fees	(\$0.1)	(\$0.1)	(\$0.1)
<b>Net Increase/(Decrease)</b>	<b>\$15.8</b>	<b>\$46.3</b>	<b>(\$17.9)</b>
Net Position Restricted for Pension*			
Beginning of Year	\$298.6	\$314.5	\$360.7
End of Year	\$314.5	\$360.7	\$342.8



**Funded ratio:** The Defined Benefit Plan was 82.5% funded at Jan. 1, 2019. The higher the funded ratio, the greater assurance that funds will be available to pay retirement benefits.

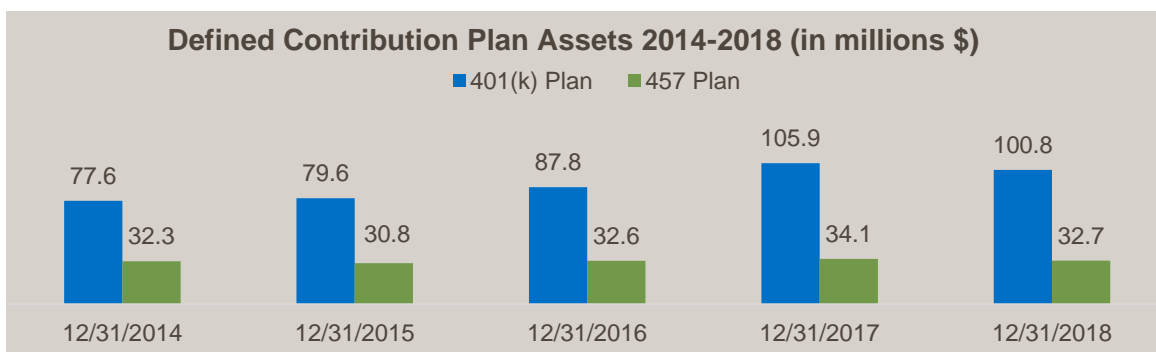


**Investment performance:** The Defined Benefit Plan's assumed rate of return is 7.00%; actual return for 2018 was -3.9%.



## DEFINED CONTRIBUTION PLANS

**Plan assets:** The fiduciary net position for the 401(k) Plan assets was \$100.8 million and the fiduciary net position for the 457 Plan assets was \$32.7 million at Dec. 31, 2018.



Change in Defined Contribution Plan Net Assets in 2018		
(in millions)	401(k)	457
Participant Contributions	\$4.4	\$2.1
Participant Rollovers	\$1.2	\$0.6
Participant Loans	(\$1.9)	(\$0.2)
Employer Contributions	\$2.1	\$0.02
Investment Gains/(Losses)	(\$4.5)	(\$1.2)
<b>Total Additions</b>	<b>\$3.1</b>	<b>\$1.7</b>
Benefits Paid to Participants	(\$8.2)	(\$3.1)
Administrative Fees & Participant Investment Advisory Fees	(\$0.1)	(\$0.0)
<b>Net Increase/(Decrease)</b>	<b>(\$5.2)</b>	<b>(\$1.5)</b>
Net Assets Available for Benefits*		
Beginning of 2018	\$105.9	34.1
End of 2018	\$100.8	\$32.7

**Performance:** As of year-end, participants had access to 28 funds across all asset classes. Most funds in the lineup had rates of return above the median for their peer group over one, three, and five-year periods. Returns in Defined Contribution Plans vary depending on the choices made by each participant and timing of contributions.

**Employee participation:** Ninety percent (90%) of the eligible Denver Water employees participated in the 401(k) Plan at year-end, compared to 91% participation in 2017.

Forty percent (40%) of the eligible Denver Water employees participated in the 457 Plan at year-end, compared to a 39% participation rate in 2017.

This Popular Report summarizes financial information from the Annual Report for the Retirement Program. The Annual Report contains audited financial statements. The report is available at [inflow.denverwater.org](http://inflow.denverwater.org) under the HR tab. For questions about the report, contact Jeff Bogner at 303-628-6018 or [jeff.bogner@denverwater.org](mailto:jeff.bogner@denverwater.org).

For benefit-related questions, call Deb Engleman at 303-628-6387.