



ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

Unaudited Financial Statements

For the Three Months Ended March 31, 2018

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Statement of Fiduciary Net Position (Unaudited)
As of March 31, 2018
(with summarized comparative amounts as of March 31, 2017)
(Dollars in Thousands)

	<u>Pension Trust Fund</u>	<u>Health Care Fund- County</u>	<u>Health Care Fund- OCFA</u>	<u>OPEB 115 Agency Fund</u>	<u>Total Fund</u>	<u>Comparative Totals 2017</u>
ASSETS						
Cash and Short-Term Investments						
Cash and Cash Equivalents	\$ 667,007	\$ 12,839	\$ 1,736	\$ 281	\$ 681,863	\$ 650,044
Securities Lending Collateral	211,704	4,075	551	-	216,330	150,047
Total Cash and Short-Term Investments	<u>878,711</u>	<u>16,914</u>	<u>2,287</u>	<u>281</u>	<u>898,193</u>	<u>800,091</u>
Receivables						
Investment Income	19,416	374	51	-	19,841	17,695
Securities Sales	160,535	3,090	418	-	164,043	75,950
Contributions	14,479	-	-	-	14,479	22,951
Foreign Currency Forward Contracts	168	3	-	-	171	167
Other Receivables	2,827	54	7	-	2,888	2,691
Total Receivables	<u>197,425</u>	<u>3,521</u>	<u>476</u>	<u>-</u>	<u>201,422</u>	<u>119,454</u>
Investments at Fair Value						
Global Public Equity	5,966,458	114,846	15,529	10,522	6,107,355	5,487,624
Private Equity	1,323,042	25,467	3,443	-	1,351,952	1,136,282
Core Fixed Income	2,556,833	49,215	6,655	5,549	2,618,252	1,244,490
Credit	1,820,221	35,037	4,737	-	1,859,995	2,434,379
Real Assets	2,433,927	46,850	6,335	-	2,487,112	2,208,735
Risk Mitigation	726,711	13,988	1,891	-	742,590	359,309
Absolute Return	1,989	38	5	-	2,032	751,350
Total Investments at Fair Value	<u>14,829,181</u>	<u>285,441</u>	<u>38,595</u>	<u>16,071</u>	<u>15,169,288</u>	<u>13,622,169</u>
Capital Assets (Net)	<u>20,158</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,158</u>	<u>22,269</u>
Total Assets	<u>15,925,475</u>	<u>305,876</u>	<u>41,358</u>	<u>16,352</u>	<u>16,289,061</u>	<u>14,563,983</u>
LIABILITIES						
Obligations Under Securities Lending Program	211,704	4,075	551	-	216,330	150,047
Securities Purchased	235,455	4,532	613	-	240,600	126,729
Unearned Contributions	600,692	-	-	-	600,692	583,241
Foreign Currency Forward Contracts	163	3	-	-	166	139
Retiree Payroll Payable	64,575	2,692	244	-	67,511	63,129
Other	26,653	518	70	-	27,241	22,977
Due to Employers	-	-	-	16,352	16,352	15,229
Total Liabilities	<u>1,139,242</u>	<u>11,820</u>	<u>1,478</u>	<u>16,352</u>	<u>1,168,892</u>	<u>961,491</u>
Net Position Restricted for Pension and Other Post-Employment Benefits	<u>\$ 14,786,233</u>	<u>\$ 294,056</u>	<u>\$ 39,880</u>	<u>\$ -</u>	<u>\$ 15,120,169</u>	<u>\$ 13,602,492</u>

Statement of Changes in Fiduciary Net Position (Unaudited)

For the Three Months Ended March 31, 2018

(with summarized comparative amounts for the Three Months Ended March 31, 2017)

(Dollars in Thousands)

	<u>Pension Trust Fund</u>	<u>Health Care Fund- County</u>	<u>Health Care Fund- OCFA</u>	<u>Total Fund</u>	<u>Comparative Totals 2017</u>
ADDITIONS					
Contributions					
Employer	\$ 139,860	\$ 8,044	\$ 536	\$ 148,440	\$ 131,544
Employee	<u>67,408</u>	<u>-</u>	<u>-</u>	<u>67,408</u>	<u>64,756</u>
Total Contributions	207,268	8,044	536	215,848	196,300
Investment Income					
Net Appreciation/(Depreciation) in Fair Value of Investments	(55,601)	(82)	(13)	(55,696)	498,849
Dividends, Interest, & Other Investment Income	54,080	1,030	143	55,253	43,888
Securities Lending Income					
Gross Earnings	1,080	21	3	1,104	682
Less: Borrower Rebates and Bank Charges	<u>(753)</u>	<u>(14)</u>	<u>(2)</u>	<u>(769)</u>	<u>(276)</u>
Net Securities Lending Income	<u>327</u>	<u>7</u>	<u>1</u>	<u>335</u>	<u>406</u>
Total Investment Income/(Loss)	(1,194)	955	131	(108)	543,143
Investment Fees and Expenses	<u>(20,365)</u>	<u>(391)</u>	<u>(52)</u>	<u>(20,808)</u>	<u>(17,476)</u>
Net Investment Income/(Loss)	<u>(21,559)</u>	<u>564</u>	<u>79</u>	<u>(20,916)</u>	<u>525,667</u>
Total Additions	185,709	8,608	615	194,932	721,967
DEDUCTIONS					
Participant Benefits	193,377	8,276	1,060	202,713	189,512
Death Benefits	130	-	-	130	226
Member Withdrawals and Refunds	3,133	-	-	3,133	3,491
Administrative Expenses	<u>4,727</u>	<u>5</u>	<u>5</u>	<u>4,737</u>	<u>4,096</u>
Total Deductions	201,367	8,281	1,065	210,713	197,325
Net Increase/(Decrease)	(15,658)	327	(450)	(15,781)	524,642
Net Position Restricted For Pension and Other Post-Employment Benefits, Beginning of Year	<u>14,801,891</u>	<u>293,729</u>	<u>40,330</u>	<u>15,135,950</u>	<u>13,077,850</u>
Ending Net Position Restricted For Pension and Other Post-Employment Benefits	<u>\$ 14,786,233</u>	<u>\$ 294,056</u>	<u>\$ 39,880</u>	<u>\$ 15,120,169</u>	<u>\$ 13,602,492</u>

Total Fund Reserves

For the Three Months Ended March 31, 2018

(with summarized comparative amounts for the Three Months Ended March 31, 2017)

(Dollars in Thousands)

	<u>2018</u>	<u>2017</u>
Pension Reserve	\$ 8,248,509	\$ 7,969,697
Employee Contribution Reserve	3,146,211	2,911,905
Employer Contribution Reserve	2,765,770	2,222,836
Annuity Reserve	1,390,894	1,276,983
Health Care Reserve	333,936	271,301
County Investment Account (POB Proceeds) Reserve	134,648	122,528
OCSD UAAL Deferred Reserve	14,871	34,067
Contra Account	<u>(914,670)</u>	<u>(1,206,825)</u>
Net Position - Total Fund	<u>\$ 15,120,169</u>	<u>\$ 13,602,492</u>

Schedule of Contributions
For the Three Months Ended March 31, 2018
(with summarized comparative amounts for the Three Months Ended March 31, 2017)
(Dollars in Thousands)

	2018		2017	
	<u>Employee</u>	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>
Pension Trust Fund Contributions				
County of Orange	\$ 52,475	\$ 109,015	\$ 50,761	\$ 101,811
Orange County Fire Authority	5,778	17,940	5,169	17,211
Superior Court of California, County of Orange	4,159	7,528	4,036	7,579
Orange County Transportation Authority	2,188	6,030	2,206	5,909
Orange County Sanitation District	1,887	1,871	1,851	1,948
UCI Medical Center and Campus	-	765	-	714
City of San Juan Capistrano	201	609	199	581
Orange County Employees Retirement System	246	557	220	459
Transportation Corridor Agencies	339	447	180	445
Orange County Department of Education	-	90	-	259
Orange County Children & Family Commission	23	73	23	69
Orange County Public Law Library	40	55	42	76
Orange County In-Home Supportive Services Public Authority	27	50	30	52
Orange County Cemetery District	36	44	30	40
Orange County Local Agency Formation Commission	9	32	9	30
Contributions Before Prepaid Discount	67,408	145,106	64,756	137,183
Prepaid Employer Contribution Discount	-	(5,246)	-	(6,192)
Total Pension Trust Fund Contributions	67,408	139,860	64,756	130,991
Health Care Fund - County Contributions	-	8,044	-	-
Health Care Fund - OCFA Contributions	-	536	-	553
Total Contributions	\$ 67,408	\$ 148,440	\$ 64,756	\$ 131,544

¹ Unfunded actuarial accrued liability payments were made in 2018 and 2017 for \$0.7 million and \$32.1 million, respectively, for the Orange County Fire Authority.

² Unfunded actuarial accrued liability payments have been made in accordance with a separate 20-year level dollar payment schedule to include liabilities for employee benefits related to past service credit.

³ Unfunded actuarial accrued liability payments were made in 2017 for \$1.5 million for the Orange County Public Law Library.

⁴ Unfunded actuarial accrued liability payments were made in 2017 of \$1.7 million for the Orange County Children & Family Commission.

Schedule of Investment Expenses
For the Three Months Ended March 31, 2018
(with summarized comparative amounts for the Three Months Ended March 31, 2017)
(Dollars in Thousands)

	<u>2018</u>	<u>2017</u>
Investment Management Fees*		
Global Public Equity		
U.S. Equity	\$ 382	\$ 157
Global Equity	-	208
International Equity	1,299	1,196
Emerging Markets Equity	1,250	895
Total Global Public Equity	<u>2,931</u>	<u>2,456</u>
Core Fixed Income		
U.S. Fixed Income	295	205
Total Core Fixed Income	<u>295</u>	<u>205</u>
Credit		
High Yield	346	655
Emerging Market Debt	181	-
Direct Lending	673	744
Mortgage	-	1,237
Multi-Strategy	1,224	777
Non-U.S. Direct Lending	492	357
Total Credit	<u>2,916</u>	<u>3,770</u>
Real Assets		
Real Estate	3,187	1,995
Real Return		
Timber	327	370
Agriculture	283	255
Commodities	-	-
Infrastructure	270	-
Energy	2,417	1,059
Total Real Return	<u>3,297</u>	<u>1,684</u>
Total Real Assets	<u>6,484</u>	<u>3,679</u>
Absolute Return		
Direct Hedge Fund	5	1,338
GTAA	-	541
Total Absolute Return	<u>5</u>	<u>1,879</u>
Private Equity	2,723	2,183
Risk Mitigation	1,432	1,046
Short-Term Investments	89	48
Total Investment Management Fees	<u>16,875</u>	<u>15,266</u>
Other Fund Expenses	<u>2,921</u>	<u>1,353</u>
Other Investment Expenses (Expenses Not Subject to the Statutory Limit)		
Consulting/Research Fees	230	284
Investment Department Expenses	463	286
Legal Costs	175	179
Custodian Services	144	75
Investment Service Providers	-	33
Total Other Investment Expenses	<u>1,012</u>	<u>857</u>
Security Lending Activity		
Security Lending Fees	87	89
Rebate Fees	682	187
Total Security Lending Activity	<u>769</u>	<u>276</u>
Total Investment Expenses	<u>\$ 21,577</u>	<u>\$ 17,752</u>

Note: New schedule format for investment management fees to reflect the new investment allocation adopted in 2017.

* Does not include undisclosed fees deducted at source.

Schedule of Administrative Expenses
For the Three Months Ended March 31, 2018
(with summarized comparative amounts for the Three Months Ended March 31, 2017)
(Dollars in Thousands)

	2018	2017
Pension Trust Fund Administrative Expenses		
Expenses Subject to the Statutory Limit		
Personnel Services		
Employee Salaries and Benefits	\$ 2,814	\$ 2,422
Board Members' Allowance	4	3
Total Personnel Services	2,818	2,425
Operating Expenses		
Depreciation/Amortization	573	572
General Office and Administrative Expenses	570	309
Professional Services	435	323
Rent/Leased Real Property	114	130
Total Office Operating Expenses	1,692	1,334
Total Expenses Subject to the Statutory Limit	4,510	3,759
Expenses Not Subject to the Statutory Limit		
Actuarial Fees	139	33
Equipment / Software	52	54
Information Technology Consulting	26	239
Total Expenses Not Subject to the Statutory Limit	217	326
Total Pension Fund Administrative Expenses	4,727	4,085
Health Care Fund - County Administrative Expenses	5	5
Health Care Fund - OCFA Administrative Expenses	5	6
Total Administrative Expenses	\$ 4,737	\$ 4,096

Administrative Expense Compared to Actuarial Accrued Liability

For the Three Months Ended March 31, 2018

(Dollars in Thousands)

2017 Administrative Expense Compared to Actuarial Accrued Liability	
Projected Actuarial Accrued Liability (AAL) as of December 31, 2017	\$ 18,896,140
Maximum Allowed For Administrative Expense (AAL * 0.21%)	39,682
Actual Administrative Expense ¹	<u>4,510</u>
Excess of Allowed Over Actual Expense	<u>35,172</u>
Actual Administrative Expense as a Percentage of Projected Actuarial Accrued Liability	0.02%
Actual Administrative Expense as a Percentage of Projected Actuarial Accrued Liability as of December 31, 2017	0.08%
¹ Administrative Expense Reconciliation	
Administrative expense per Statement of Changes in Fiduciary Net Position	\$ 4,727
Less administrative expense not considered per CERL section 31596.1	<u>(217)</u>
Administrative Expense allowable under CERL section 31580.2	<u>\$ 4,510</u>