



**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM**

**Unaudited Financial Statements**

**For the Nine Months Ended September 30, 2017**

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**Statement of Fiduciary Net Position**  
As of September 30, 2017  
(with summarized comparative amounts as of September 30, 2016)  
(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 2016</u>
<b>ASSETS</b>						
Cash and Short-Term Investments						
Cash and Cash Equivalents	\$ 532,477	\$ 10,187	\$ 1,438	\$ 425	\$ 544,527	\$ 356,523
Securities Lending Collateral	187,052	3,578	505	-	191,135	215,688
Total Cash and Short-Term Investments	<u>719,529</u>	<u>13,765</u>	<u>1,943</u>	<u>425</u>	<u>735,662</u>	<u>572,211</u>
Receivables						
Investment Income	15,447	296	42	-	15,785	14,097
Securities Sales	128,907	2,466	348	-	131,721	125,964
Contributions	14,460	-	-	-	14,460	14,833
Foreign Currency Forward Contracts	84	2	-	-	86	335
Other Receivables	2,501	48	7	-	2,556	2,431
Total Receivables	<u>161,399</u>	<u>2,812</u>	<u>397</u>	<u>-</u>	<u>164,608</u>	<u>157,660</u>
Investments at Fair Value						
Global Public Equity	6,010,529	114,977	16,220	10,034	6,151,760	4,949,390
Private Equity	816,270	15,616	2,204	-	834,090	703,307
Core Fixed Income	2,253,466	43,110	6,084	5,609	2,308,269	1,273,188
Credit	2,508,952	47,998	6,773	-	2,563,723	2,445,000
Real Assets	2,226,222	42,589	6,010	-	2,274,821	2,176,995
Risk Mitigation	352,981	6,753	953	-	360,687	328,723
Absolute Return	26,231	502	71	-	26,804	973,771
Total Investments at Fair Value	<u>14,194,651</u>	<u>271,545</u>	<u>38,315</u>	<u>15,643</u>	<u>14,520,154</u>	<u>12,850,374</u>
Capital Assets (Net)	<u>21,130</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,130</u>	<u>23,160</u>
<b>Total Assets</b>	<b><u>15,096,709</u></b>	<b><u>288,122</u></b>	<b><u>40,655</u></b>	<b><u>16,068</u></b>	<b><u>15,441,554</u></b>	<b><u>13,603,405</u></b>
<b>LIABILITIES</b>						
Obligations Under Securities Lending Program	187,052	3,578	505	-	191,135	215,688
Securities Purchased	225,150	4,307	608	-	230,065	160,613
Unearned Contributions	361,128	-	-	-	361,128	328,671
Foreign Currency Forward Contracts	2,019	39	5	-	2,063	567
Retiree Payroll Payable	62,701	2,585	224	-	65,510	60,996
Other	18,624	356	50	-	19,030	15,974
Due to Employers	-	-	-	16,068	16,068	14,673
<b>Total Liabilities</b>	<b><u>856,674</u></b>	<b><u>10,865</u></b>	<b><u>1,392</u></b>	<b><u>16,068</u></b>	<b><u>884,999</u></b>	<b><u>797,182</u></b>
<b>Net Position Restricted for Pension and Other Post-Employment Benefits</b>	<b><u>\$ 14,240,035</u></b>	<b><u>\$ 277,257</u></b>	<b><u>\$ 39,263</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 14,556,555</u></b>	<b><u>\$ 12,806,223</u></b>

The accompanying notes are an integral part of these financial statements.

### Statement of Changes in Fiduciary Net Position

For the Nine Months Ended September 30, 2017

(with summarized comparative amounts for the Nine Months Ended September 30, 2016)

(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 2016</u>
<b>ADDITIONS</b>					
Contributions					
Employer	\$ 408,008	\$ 44,226	\$ 1,736	\$ 453,970	\$ 428,072
Employee	<u>194,832</u>	<u>-</u>	<u>-</u>	<u>194,832</u>	<u>192,877</u>
Total Contributions	602,840	44,226	1,736	648,802	620,949
Investment Income					
Net Appreciation in Fair Value of Investments	1,322,735	23,530	3,625	1,349,890	739,325
Interest	65,767	1,257	175	67,199	90,604
Dividends	31,845	608	85	32,538	32,038
Real Estate Income	17,092	327	45	17,464	20,083
Alternative Investments	21,282	407	57	21,746	21,518
Other Investment Income	8,245	158	22	8,425	813
Securities Lending Income					
Gross Earnings	2,537	48	7	2,592	1,208
Less: Borrower Rebates and Bank Charges	<u>(1,303)</u>	<u>(25)</u>	<u>(3)</u>	<u>(1,331)</u>	<u>(427)</u>
Net Securities Lending Income	<u>1,234</u>	<u>23</u>	<u>4</u>	<u>1,261</u>	<u>781</u>
Total Investment Income	1,468,200	26,310	4,013	1,498,523	905,162
Investment Fees and Expenses	<u>(55,572)</u>	<u>(1,062)</u>	<u>(148)</u>	<u>(56,782)</u>	<u>(40,458)</u>
Net Investment Income	<u>1,412,628</u>	<u>25,248</u>	<u>3,865</u>	<u>1,441,741</u>	<u>864,704</u>
<b>Total Additions</b>	<b><u>2,015,468</u></b>	<b><u>69,474</u></b>	<b><u>5,601</u></b>	<b><u>2,090,543</u></b>	<b><u>1,485,653</u></b>
<b>DEDUCTIONS</b>					
Participant Benefits	560,209	24,005	3,154	587,368	551,970
Death Benefits	502	-	-	502	277
Member Withdrawals and Refunds	11,143	-	-	11,143	10,398
Administrative Expenses	<u>12,787</u>	<u>16</u>	<u>22</u>	<u>12,825</u>	<u>12,879</u>
<b>Total Deductions</b>	<b><u>584,641</u></b>	<b><u>24,021</u></b>	<b><u>3,176</u></b>	<b><u>611,838</u></b>	<b><u>575,524</u></b>
Net Increase	<b>1,430,827</b>	<b>45,453</b>	<b>2,425</b>	<b>1,478,705</b>	<b>910,129</b>
Net Position Restricted For Pension and Other Post-Employment Benefits, Beginning of Year	<u>12,809,208</u>	<u>231,804</u>	<u>36,838</u>	<u>13,077,850</u>	<u>11,896,094</u>
<b>Ending Net Position Restricted For Pension and Other Post-Employment Benefits</b>	<b><u>\$ 14,240,035</u></b>	<b><u>\$ 277,257</u></b>	<b><u>\$ 39,263</u></b>	<b><u>\$ 14,556,555</u></b>	<b><u>\$ 12,806,223</u></b>

The accompanying notes are an integral part of these financial statements.

**Total Fund Reserves**

For the Nine Months Ended September 30, 2017

(with summarized comparative amounts for the Nine Months Ended September 30, 2016)

(Dollars in Thousands)

	<u>2017</u>	<u>2016</u>
Pension Reserve	\$ 8,274,156	\$ 7,987,188
Employee Contribution Reserve	2,993,135	2,798,461
Employer Contribution Reserve	2,277,257	1,853,736
Annuity Reserve	1,360,497	1,216,371
Health Care Reserve	316,520	265,636
County Investment Account (POB Proceeds) Reserve	130,233	116,129
OCSD UAAL Deferred Reserve	34,067	-
Contra Account	<u>(829,310)</u>	<u>(1,431,298)</u>
<b>Net Position - Total Fund</b>	<b><u>\$ 14,556,555</u></b>	<b><u>\$ 12,806,223</u></b>

**Schedule of Contributions**  
For the Nine Months Ended September 30, 2017  
(with summarized comparative amounts for the Nine Months Ended September 30, 2016)  
(Dollars in Thousands)

	2017		2016	
	<u>Employee</u>	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>
<b>Pension Trust Fund Contributions</b>				
County of Orange	\$ 153,489	\$ 310,448	\$ 153,129	\$ 303,643
Orange County Fire Authority	15,476	60,941 <sup>1</sup>	13,139	49,129
Superior Court of California, County of Orange	11,552	22,821	11,958	23,928
Orange County Transportation Authority	6,628	17,887	7,115	19,343
Orange County Sanitation District	5,487	5,611	5,371	7,681
UCI Medical Center and Campus	-	2,184 <sup>2</sup>	1	600
City of San Juan Capistrano	605	1,791	567	1,693
Orange County Employees Retirement System	670	1,447	688	1,500
Transportation Corridor Agencies	529	1,317	514	1,254
Orange County Department of Education	-	434 <sup>2</sup>	-	-
Orange County Public Law Library	123	209	126	240
Orange County Children & Family Commission	64	197	79	240
Orange County In-Home Supportive Services Public Authority	85	153	71	141
Orange County Cemetery District	96	126	88	114
Orange County Local Agency Formation Commission	28	94	31	103
Contributions Before Prepaid Discount	194,832	425,660	192,877	409,609
Prepaid Employer Contribution Discount	-	(17,652)	-	(18,189)
<b>Total Pension Trust Fund Contributions</b>	<b><u>194,832</u></b>	<b><u>408,008</u></b>	<b><u>192,877</u></b>	<b><u>391,420</u></b>
<b>Health Care Fund - County Contributions</b>	<b><u>-</u></b>	<b><u>44,226</u></b>	<b><u>-</u></b>	<b><u>34,897</u></b>
<b>Health Care Fund - OCFA Contributions</b>	<b><u>-</u></b>	<b><u>1,736</u></b>	<b><u>-</u></b>	<b><u>1,755</u></b>
<b>Total Contributions</b>	<b><u>\$ 194,832</u></b>	<b><u>\$ 453,970</u></b>	<b><u>\$ 192,877</u></b>	<b><u>\$ 428,072</u></b>

<sup>1</sup> Unfunded actuarial accrued liability payments were made in 2017 of \$12.2 million for the Orange County Fire Authority.

<sup>2</sup> 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.

**Schedule of Investment Expenses**  
For the Nine Months Ended September 30, 2017  
(with summarized comparative amounts for the Nine Months Ended September 30, 2016)  
(Dollars in Thousands)

	<u>2017</u>	<u>2016</u>
<b>Investment Management Fees*</b>		
<b>Global Public Equity</b>		
U.S. Equity	\$ 1,190	\$ 628
Global Equity	545	791
International Equity	3,423	3,230
Emerging Markets Equity	<u>3,019</u>	<u>2,435</u>
<b>Total Global Public Equity</b>	<u>8,177</u>	<u>7,084</u>
<b>Core Fixed Income</b>		
U.S. Fixed Income	<u>700</u>	<u>554</u>
<b>Total Core Fixed Income</b>	<u>700</u>	<u>554</u>
<b>Credit</b>		
High Yield	1,862	2,367
Emerging Market Debt	517	-
Direct Lending	3,451	392
Mortgage	3,874	-
Multi-Strategy	2,928	3,291
Non-U.S. Direct Lending	<u>915</u>	<u>408</u>
<b>Total Credit</b>	<u>13,547</u>	<u>6,458</u>
<b>Real Assets</b>		
Real Estate	9,534	3,267
Real Return		
Timber	996	1,183
Agriculture	805	718
Commodities	-	183
Infrastructure	322	-
Energy	<u>3,800</u>	<u>1,662</u>
Total Real Return	<u>5,923</u>	<u>3,746</u>
<b>Total Real Assets</b>	<u>15,457</u>	<u>7,013</u>
<b>Absolute Return</b>		
Direct Hedge Fund	2,128	1,853
GTAA	<u>1,406</u>	<u>1,617</u>
<b>Total Absolute Return</b>	<u>3,534</u>	<u>3,470</u>
<b>Private Equity</b>	4,505	844
<b>Risk Mitigation</b>	<u>4,129</u>	<u>2,858</u>
<b>Total Investment Management Fees</b>	<u>50,049</u>	<u>28,281</u>
<b>Foreign Income Tax and Other Fund Expenses</b>	<u>4,460</u>	<u>9,437</u>
<b>Other Investment Expenses (Expenses Not Subject to the Statutory Limit)</b>		
Consulting/Research Fees	777	1,043
Investment Department Expenses	867	1,069
Legal Costs	307	373
Custodian Services	294	225
Investment Service Providers	<u>28</u>	<u>30</u>
<b>Total Other Investment Expenses</b>	<u>2,273</u>	<u>2,740</u>
<b>Security Lending Activity</b>		
Security Lending Fees	310	250
Rebate Fees	<u>1,021</u>	<u>177</u>
<b>Total Security Lending Activity</b>	<u>1,331</u>	<u>427</u>
<b>Total Investment Expenses</b>	<u>\$ 58,113</u>	<u>\$ 40,885</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 Nine Months Ended September 30, 2017  
(with summarized comparative amounts for the Nine Months Ended September 30, 2016)  
(Dollars in Thousands)

	<b>2017</b>	<b>2016</b>
<b>Pension Trust Fund Administrative Expenses</b>		
<b>Expenses Subject to the Statutory Limit</b>		
Personnel Services		
Employee Salaries and Benefits	\$ 7,329	\$ 7,055
Board Members' Allowance	12	11
<b>Total Personnel Services</b>	<b>7,341</b>	<b>7,066</b>
Operating Expenses		
Depreciation/Amortization	1,719	1,737
General Office and Administrative Expenses	1,018	878
Professional Services	961	1,900
Rent/Leased Real Property	419	547
<b>Total Office Operating Expenses</b>	<b>4,117</b>	<b>5,062</b>
<b>Total Expenses Subject to the Statutory Limit</b>	<b>11,458</b>	<b>12,128</b>
<b>Expenses Not Subject to the Statutory Limit</b>		
Information Technology Consulting	1,014	313
Actuarial Fees	228	351
Equipment / Software	87	55
<b>Total Expenses Not Subject to the Statutory Limit</b>	<b>1,329</b>	<b>719</b>
<b>Total Pension Fund Administrative Expenses</b>	<b>12,787</b>	<b>12,847</b>
<b>Health Care Fund - County Administrative Expenses</b>	<b>16</b>	<b>16</b>
<b>Health Care Fund - OCFA Administrative Expenses</b>	<b>22</b>	<b>16</b>
<b>Total Administrative Expenses</b>	<b>\$ 12,825</b>	<b>\$ 12,879</b>



## Administrative Expense Compared to Actuarial Accrued Liability

For the Nine Months Ended September 30, 2017

(Dollars in Thousands)

<b>2017 Administrative Expense Compared to Actuarial Accrued Liability</b>	
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 <sup>1</sup>	<u>11,458</u>
Excess of Allowed Over Actual Expense	<u>28,224</u>
Actual Administrative Expense as a Percentage of Projected Actuarial Accrued Liability	0.06%
Actual Administrative Expense as a Percentage of Projected Actuarial Accrued Liability as of prior year	0.07%
<sup>1</sup> Administrative Expense Reconciliation	
Administrative expense per Statement of Changes in Fiduciary Net Position	\$ 12,787
Less administrative expense not considered per CERL section 31596.1	<u>(1,329)</u>
Administrative Expense allowable under CERL section 31580.2	<u>\$ 11,458</u>