



ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

Unaudited Financial Statements

For the Six Months Ended June 30, 2019

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

Unaudited Financial Statements
For the Six Months Ended June 30, 2019

Table of Contents

Statement of Fiduciary Net Position (Unaudited).....	1
Statement of Changes in Fiduciary Net Position (Unaudited).....	2
Total Plan Reserves.....	3
Schedule of Contributions.....	4
Schedule of Investment Expenses	5
Schedule of Administrative Expenses.....	6
Administrative Expense Compared to Projected Actuarial Accrued Liability.....	7

Statement of Fiduciary Net Position (Unaudited)
As of June 30, 2019
(with summarized comparative amounts as of June 30, 2018)
(Dollars in Thousands)

	<u>Pension Trust Fund</u>	<u>Health Care Fund- County</u>	<u>Health Care Fund- OCFA</u>	<u>OPEB 115 Custodial Fund</u>	<u>Total Funds</u>	<u>Comparative Totals 2018</u>
ASSETS						
Cash and Short-Term Investments						
Cash and Cash Equivalents	\$ 814,333	\$ 17,256	\$ 2,055	\$ 59	\$ 833,703	\$ 575,529
Securities Lending Collateral	<u>336,446</u>	<u>7,129</u>	<u>849</u>	<u>-</u>	<u>344,424</u>	<u>331,934</u>
Total Cash and Short-Term Investments	1,150,779	24,385	2,904	59	1,178,127	907,463
Receivables						
Investment Income	31,459	667	79	-	32,205	17,937
Securities Sales	392,759	8,323	991	-	402,073	145,234
Contributions	19,020	-	-	-	19,020	18,519
Foreign Currency Forward Contracts	-	-	-	-	-	250
Other Receivables	<u>3,608</u>	<u>76</u>	<u>9</u>	<u>-</u>	<u>3,693</u>	<u>3,614</u>
Total Receivables	446,846	9,066	1,079	-	456,991	185,554
Investments at Fair Value						
Global Public Equity	6,113,620	129,547	15,427	11,575	6,270,169	6,113,909
Private Equity	1,604,430	33,998	4,049	-	1,642,477	1,445,146
Core Fixed Income	2,729,322	57,834	6,887	5,557	2,799,600	2,622,244
Credit	1,694,286	35,902	4,275	-	1,734,463	1,765,767
Real Assets	2,203,910	46,701	5,561	-	2,256,172	2,573,186
Risk Mitigation	1,125,702	23,853	2,841	-	1,152,396	750,000
Absolute Return	<u>1,252</u>	<u>27</u>	<u>3</u>	<u>-</u>	<u>1,282</u>	<u>1,878</u>
Total Investments at Fair Value	15,472,522	327,862	39,043	17,132	15,856,559	15,272,130
Capital Assets, Net	<u>17,275</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,275</u>	<u>19,659</u>
Total Assets	<u>17,087,422</u>	<u>361,313</u>	<u>43,026</u>	<u>17,191</u>	<u>17,508,952</u>	<u>16,384,806</u>
LIABILITIES						
Obligations Under Securities Lending Program	336,446	7,129	849	-	344,424	331,934
Securities Purchased	309,173	6,551	780	-	316,504	224,535
Unearned Contributions	514,149	-	-	-	514,149	484,329
Foreign Currency Forward Contracts	692	15	2	-	709	565
Retiree Payroll Payable	74,979	2,869	262	-	78,110	71,609
Other	22,342	473	56	-	22,871	34,082
Due to Employer	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,496</u>	<u>15,496</u>	<u>16,523</u>
Total Liabilities	<u>1,257,781</u>	<u>17,037</u>	<u>1,949</u>	<u>15,496</u>	<u>1,292,263</u>	<u>1,163,577</u>
Net Position Restricted for Pension and Other Postemployment Benefits	<u>\$ 15,829,641</u>	<u>\$ 344,276</u>	<u>\$ 41,077</u>	<u>\$ 1,695</u>	<u>\$ 16,216,689</u>	<u>\$ 15,221,229</u>

Statement of Changes in Fiduciary Net Position (Unaudited)
For the Six Months Ended June 30, 2019
(with summarized comparative amounts for the Six Months Ended June 30, 2018)
(Dollars in Thousands)

	<u>Pension Trust Fund</u>	<u>Health Care Fund- County</u>	<u>Health Care Fund- OCFA</u>	<u>OPEB 115 Custodial Fund</u>	<u>Total Funds</u>	<u>Comparative Totals 2018</u>
ADDITIONS						
Contributions						
Employer	\$ 282,561	\$ 27,213	\$ 1,072	\$ -	\$ 310,846	\$ 305,873
Employee	134,148	-	-	-	134,148	134,019
Other Postemployment Contributions	-	-	-	305	305	-
Total Contributions	<u>416,709</u>	<u>27,213</u>	<u>1,072</u>	<u>305</u>	<u>445,299</u>	<u>439,892</u>
Investment Income						
Net Appreciation in Fair Value of Investments	1,240,059	24,372	3,049	402	1,267,882	3,551
Dividends, Interest, & Other Investment Income	195,806	4,140	506	1,654	202,106	119,811
Securities Lending Income						
Gross Earnings	4,590	97	12	-	4,699	2,671
Less: Borrower Rebates and Bank Charges	(3,942)	(84)	(10)	-	(4,036)	(1,949)
Net Securities Lending Income	<u>648</u>	<u>13</u>	<u>2</u>	<u>-</u>	<u>663</u>	<u>722</u>
Total Investment Income	<u>1,436,513</u>	<u>28,525</u>	<u>3,557</u>	<u>2,056</u>	<u>1,470,651</u>	<u>124,084</u>
Investment Fees and Expenses	(53,129)	(1,126)	(136)	(1)	(54,392)	(43,964)
Net Investment Income	<u>1,383,384</u>	<u>27,399</u>	<u>3,421</u>	<u>2,055</u>	<u>1,416,259</u>	<u>80,120</u>
Total Additions	<u>1,800,093</u>	<u>54,612</u>	<u>4,493</u>	<u>2,360</u>	<u>1,861,558</u>	<u>520,012</u>
DEDUCTIONS						
Participant Benefits	437,011	17,403	2,443	-	456,857	417,909
Death Benefits	230	-	-	-	230	216
Member Withdrawals and Refunds	5,389	-	-	-	5,389	7,446
Other Postemployment Benefits	-	-	-	655	655	-
Administrative Expenses	9,502	10	11	10	9,533	9,161
Total Deductions	<u>452,132</u>	<u>17,413</u>	<u>2,454</u>	<u>665</u>	<u>472,664</u>	<u>434,732</u>
Net Increase	1,347,961	37,199	2,039	1,695	1,388,894	85,280
Net Position Restricted For Pension and Other Postemployment Benefits, Beginning of Year	<u>14,481,680</u>	<u>307,077</u>	<u>39,038</u>	<u>-</u>	<u>14,827,795</u>	<u>15,135,949</u>
Ending Net Position Restricted For Pension and Other Postemployment Benefits	<u>\$ 15,829,641</u>	<u>\$ 344,276</u>	<u>\$ 41,077</u>	<u>\$ 1,695</u>	<u>\$ 16,216,689</u>	<u>\$ 15,221,229</u>

Total Plan Reserves
For the Six Months Ended June 30, 2019
(with summarized comparative amounts for the Six Months Ended June 30, 2018)
(Dollars in Thousands)

	<u>2019</u>	<u>2018</u>
Pension Reserve	\$ 9,123,025	\$ 9,179,146
Employee Contribution Reserve	3,265,448	3,281,847
Employer Contribution Reserve	3,090,426	2,225,580
Annuity Reserve	1,791,487	1,404,225
Health Care Reserve	385,353	346,693
OPEB 115 Reserve	1,695	-
County Investment Account (POB Proceeds) Reserve	143,647	135,485
OCSD UAAL Deferred Reserve	-	14,871
Contra Account	<u>(1,584,392)</u>	<u>(1,366,618)</u>
Total Net Position Restricted for Pension and Other Postemployment Benefits	<u>\$ 16,216,689</u>	<u>\$ 15,221,229</u>

Schedule of Contributions
For the Six Months Ended June 30, 2019
(with summarized comparative amounts for the Six Months Ended June 30, 2018)
(Dollars in Thousands)

	2019		2018	
	Employee	Employer	Employee	Employer
Pension Trust Fund Contributions				
County of Orange	\$ 104,009	\$ 220,460	\$ 104,484	\$ 216,702
Orange County Fire Authority	11,830	35,755	¹ 11,337	¹ 36,106
Orange County Superior Court of California	8,379	14,870	8,278	14,975
Orange County Transportation Authority	4,612	12,395	4,515	12,430
Orange County Sanitation District	3,731	3,764	3,738	3,704
UCI Medical Center & Campus	-	1,329	² -	² 1,656
Orange County Employees Retirement System	536	1,222	486	1,099
City of San Juan Capistrano	416	1,192	401	1,219
Orange County Mosquito & Vector Control District	-	878	³ -	-
Transportation Corridor Agencies	361	790	510	885
Orange County Department of Education	-	121	² -	² 180
Orange County In-Home Supportive Services Public Authority	57	93	54	100
Orange County Cemetery District	71	84	71	87
Orange County Local Agency Formation Commission	21	69	19	63
Orange County Children & Families Commission	50	55	46	146
Orange County Public Law Library	75	55	80	110
	134,148	293,132	134,019	289,462
Contributions Before Prepaid Discount	134,148	293,132	134,019	289,462
Prepaid Employer Contributions Discount	-	(10,571)	-	(10,482)
Total Pension Trust Fund Contributions	134,148	282,561	134,019	278,980
Health Care Fund - County Contributions	-	27,213	-	25,755
Health Care Fund - OCFA Contributions	-	1,072	-	1,138
OPEB 115 Custodial Fund Postemployment Contributions	-	305	-	-
Total Contributions	\$ 134,148	\$ 311,151	\$ 134,019	\$ 305,873

¹ Unfunded actuarial accrued liability payments were made in 2019 and 2018 for \$1.9 million and \$2.5 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 2019 for \$0.9 million for the Orange County Mosquito & Vector Control.

⁴ Presentation of OPEB 115 Custodial Fund due to the implementation of GASB Statement No. 84, *Fiduciary Activities*. Due to immateriality of activity, 2018 has not been restated.

Schedule of Investment Expenses
For the Six Months Ended June 30, 2019
(with summarized comparative amounts for the Six Months Ended June 30, 2018)
(Dollars in Thousands)

	<u>2019</u>	<u>2018</u>
Investment Management Fees*		
Global Public Equity		
U.S. Equity	\$ 762	\$ 722
International Equity	2,462	2,590
Emerging Markets Equity	<u>2,246</u>	<u>2,545</u>
Total Global Public Equity	<u>5,470</u>	<u>5,857</u>
Core Fixed Income		
U.S. Fixed Income	<u>1,239</u>	<u>930</u>
Total Core Fixed Income	<u>1,239</u>	<u>930</u>
Credit		
High Yield	868	698
Emerging Markets Debt	587	354
Direct Lending	1,273	1,296
Multi-Strategy	2,948	1,867
Non-U.S. Direct Lending	<u>1,046</u>	<u>1,014</u>
Total Credit	<u>6,722</u>	<u>5,229</u>
Real Assets		
Real Estate	7,632	8,932
Real Return		
Timber	386	656
Agriculture	612	570
Infrastructure	396	580
Energy	<u>6,363</u>	<u>4,993</u>
Total Real Return	<u>7,757</u>	<u>6,799</u>
Total Real Assets	<u>15,389</u>	<u>15,731</u>
Absolute Return		
Direct Hedge Fund	<u>50</u>	<u>9</u>
Total Absolute Return	<u>50</u>	<u>9</u>
Private Equity	9,680	5,418
Risk Mitigation	3,455	2,596
Short-Term Investments	<u>202</u>	<u>176</u>
Total Investment Management Fees	<u>42,207</u>	<u>35,946</u>
Other Fund Expenses¹	<u>9,593</u>	<u>5,867</u>
Other Investment Expenses (Expenses Not Subject to the Statutory Limit)		
Consulting/Research Fees	922	723
Investment Department Expenses	1,105	848
Legal Services	261	285
Custodian Services	290	288
Investment Service Providers	<u>14</u>	<u>7</u>
Total Other Investment Expenses	<u>2,592</u>	<u>2,151</u>
Security Lending Activity		
Security Lending Fees	162	192
Rebate Fees	<u>3,874</u>	<u>1,757</u>
Total Security Lending Activity	<u>4,036</u>	<u>1,949</u>
Total Investment Expenses	<u>\$ 58,428</u>	<u>\$ 45,913</u>

* Does not include undisclosed fees deducted at source.

¹ These costs include, but are not limited to, foreign income tax and other indirect flow-through investment expenses such as organizational expenses in limited partnership structures.

Schedule of Administrative Expenses
For the Six Months Ended June 30, 2019
(with summarized comparative amounts for the Six Months Ended June 30, 2018)
(Dollars in Thousands)

	2019	2018
Pension Trust Fund Administrative Expenses		
Expenses Subject to the Statutory Limit		
Personnel Services		
Employee Salaries and Benefits	\$ 5,793	\$ 5,531
Board Members' Allowance	9	8
Total Personnel Services	5,802	5,539
Office Operating Expenses		
Depreciation/Amortization	1,267	1,147
General Office and Administrative Expenses	734	872
Professional Services	1,043	851
Rent/Leased Real Property	192	259
Total Office Operating Expenses	3,236	3,129
Total Expenses Subject to the Statutory Limit	9,038	8,668
Expenses Not Subject to the Statutory Limit		
Actuarial Fees	202	238
Equipment/Software	64	191
Information Technology Professional Services	198	44
Total Expenses Not Subject to the Statutory Limit	464	473
Total Pension Fund Administrative Expenses	9,502	9,141
Health Care Fund - County Administrative Expenses	10	10
Health Care Fund - OCFA Administrative Expenses	11	10
OPEB 115 Custodial Fund - Administrative Expenses	10	-
Total Administrative Expenses	\$ 9,533	\$ 9,161

Administrative Expense Compared to Actuarial Accrued Liability

For the Six Months Ended June 30, 2019

(Dollars in Thousands)

Administrative Expense Compared to Actuarial Accrued Liability	
Projected Actuarial Accrued Liability (AAL) as of December 31, 2018	\$ 20,666,562
Maximum Allowed For Administrative Expense (AAL * 0.21%)	43,400
Actual Administrative Expense ¹	<u>9,038</u>
Excess of Allowed Over Actual Expense	<u>34,362</u>
Actual Administrative Expense as a Percentage of Projected Actuarial Accrued Liability as of December 31, 2019	0.04%
Actual Administrative Expense as a Percentage of Projected Actuarial Accrued Liability as of December 31, 2018	0.08%
¹ Administrative Expense Reconciliation	
Administrative expense per Statement of Changes in Fiduciary Net Position	\$ 9,502
Less administrative expense not considered per CERL section 31596.1	<u>(464)</u>
Administrative Expense allowable under CERL section 31580.2	<u>\$ 9,038</u>