

Memorandum

DATE: October 20, 2025
TO: Members of the Board of Retirement
FROM: Tracy Bowman, Director of Finance
SUBJECT: **SECOND QUARTER UNAUDITED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2025**

Written Report

Background/Discussion

The attached financial statements present the unaudited financial activity for the six months ended June 30, 2025. These statements are unaudited and are not the official financial statements of OCERS. They provide a summary of financial progress for the second quarter of 2025. The official financial statements are included in OCERS' Annual Comprehensive Financial Report (ACFR) for the year ended December 31, 2024, which is available on our website, www.ocers.org.

Summary

Statement of Fiduciary Net Position (Unaudited)

As of June 30, 2025, the net position restricted for pension, other postemployment benefits and employer totaled \$25.8 billion, reflecting a \$2.2 billion increase (9.3%), compared to June 30, 2024.

This growth was driven by a \$2.2 billion increase in total assets, along with a \$16.3 million decrease in total liabilities.

- Total assets increased due to a \$115.6 million increase in cash and short-term investments, \$23.0 million increase in receivables, \$2.0 billion increase in investments at fair value, and \$1.2 million increase in capital assets.
 - Cash and short-term investments increased \$115.6 million, reflecting a \$128.3 million increase in cash and cash equivalents, including \$350.1 million held to support the futures exposure related to OCERS' synthetic replication strategy for passive non-U.S. equity exposure. The increase was offset by a \$231.0 million decrease in unallocated cash related to the timing of investing employee and employer contributions.
 - These increases were offset by an \$12.7 million decrease in securities lending collateral, due to reduced demand in U.S. government securities amid rate cuts and higher funding costs.
 - Receivables increased \$23.0 million, led by a \$22.6 million increase in investment income and \$8.2 million increase in contributions, partially offset by an \$8.3 million decrease in pending securities sales due to settlement timing.

- Capital assets increased by \$1.2 million due to increases in construction-in-progress for the new OCERS headquarters building.
- Investments at fair value increased \$2.0 billion, which can be attributed to the investment of contributions, investment returns and asset class allocations.
- The total investment portfolio reported a one-year return of 9.9% as of June 30, 2025, compared to 11.5% as of June 30, 2024. Performance stabilized in the second quarter after volatility in early 2025 tied to high interest rates and policy changes under the new presidential administration during the first quarter.
 - Global public equity increased by \$404.3 million, private equity increased by \$563.1 million, income strategies increased by \$1.1 billion, real assets increased by \$59.5 million, and unique strategies increased by \$4.5 million.
 - These increases were offset by a \$82.8 million decrease in risk mitigation.
- Total liabilities decreased by \$16.3 million, primarily from:
 - A decrease of \$16.1 million in securities purchased, due to settlement timing.
 - A \$12.7 million decrease in obligations under securities lending program, as previously noted.
 - These decreases were partially offset by increases of \$6.1 million in retiree payroll due to increases in the number of payees and average benefit payment, \$2.7 million in unearned contributions due to increases in employer contributions, and \$2.4 million in foreign currency forward contracts.

Statement of Changes in Fiduciary Net Position (Unaudited)

The ending net position restricted for pension, other postemployment benefits and employer for the six months ended June 30, 2025, increased by \$2.2 billion, or 9.3%, compared to the same period in 2024.

- Total additions to fiduciary net position reported \$1.9 billion, a slight decrease of \$2.8 million (-0.1%) from the prior year, primarily due to lower net investment income.
 - Net investment income totaled \$1.3 billion, down \$57.9 million from 2024, driven by:
 - A \$66.0 million decrease in dividends, interest, and other investment income.
 - An offsetting increase of \$20.1 million in net appreciation in fair value of investments.
 - The year-to-date investment return was 6.5%, consistent with second quarter 2024 results.
 - Global public equities reported strong year-to-date performance, though slightly lower compared to 2024, while risk mitigation reported a decline.
 - Global public equities reported a year-to-date return of 9.6%, down from 11.4% in 2024, and risk mitigation reported a year-to-date loss of -2.5% compared to a year-to-date return of 2.9% in 2024.
 - Private equity, real assets, income strategies, and unique strategies reported strong to modest increases in year-to-date returns compared to 2024.
 - Investment fees and expenses increased \$11.9 million (12.4%), due to:
 - A \$15.0 million increase in other fund expenses, which includes foreign income tax and indirect flow-through expenses.

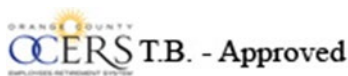
- This increase was offset by a \$3.6 million decrease in investment management fees mainly due to a decline in fees for real assets of \$3.4 million and unique strategies of \$1.0 million, partially offset by higher private equity and global public equity fees of \$0.8 million.
 - Securities lending fees and rebates declined by \$2.4 million, due to lower earnings and reduced benchmark rates.
- Total contributions increased by \$55.2 million, driven by higher employer and employee contribution rates:
 - Employer contributions increased \$48.3 million.
 - Employee contributions increased \$6.7 million.
- Total deductions increased \$35.7 million (5.3%), compared to the same period in 2024, primarily due to:
 - A \$37.2 million increase in participant benefits, driven by membership growth and rising average benefit payments.
 - As of June 2025, there were 21,821 payees with an average benefit payment of \$5,171 compared to 21,332 payees with an average benefit payment of \$4,982 in the prior year.
 - The increase was offset by a \$2.0 million decrease in death benefits and member withdrawals and refunds reflecting normal fluctuations over time.

Other Supporting Schedules

In addition to the basic financial statements for the six months ended June 30, 2025, the following supporting schedules are provided for additional information pertaining to OCERS:

- Total Plan Reserves
- Schedule of Contributions
- Schedule of Investment Expenses
- Schedule of Administrative Expenses
- Administrative Expense Compared to Actuarial Accrued Liability

Submitted by:



Tracy Bowman
Director of Finance



Orange County Employees Retirement System

Unaudited Financial Statements

For the Six Months Ended June 30, 2025

Orange County Employees Retirement System

Unaudited Financial Statements
For the Six Months Ended June 30, 2025

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Statement of Fiduciary Net Position (Unaudited)

As of June 30, 2025

(with summarized comparative amounts as of June 30, 2024)

(Dollars in Thousands)

	Pension Trust Fund	Health Care Fund- County	Health Care Fund- OCFA	Custodial Fund - OCTA	Total Funds	Comparative Totals 2024
Assets						
Cash and Short-Term Investments						
Cash and Cash Equivalents	\$ 1,463,210	\$ 29,231	\$ 8,065	\$ 358	\$1,500,864	\$ 1,372,545
Securities Lending Collateral	<u>163,596</u>	<u>3,268</u>	<u>902</u>	<u>-</u>	<u>167,766</u>	<u>180,486</u>
Total Cash and Short-Term Investments	1,626,806	32,499	8,967	358	1,668,630	1,553,031
Receivables						
Investment Income	42,816	855	236	-	43,907	21,348
Securities Sales	128,411	2,565	708	-	131,684	140,030
Contributions	50,424	-	-	-	50,424	42,271
Foreign Currency Forward Contracts	-	-	-	-	-	178
Other Receivables	<u>9,216</u>	<u>184</u>	<u>51</u>	<u>-</u>	<u>9,451</u>	<u>8,626</u>
Total Receivables	230,867	3,604	995	-	235,466	212,453
Investments at Fair Value						
Global Public Equity	10,389,069	207,548	57,265	22,098	10,675,980	10,271,714
Private Equity	4,188,290	83,672	23,086	-	4,295,048	3,731,954
Income Strategies	4,355,806	87,018	24,009	17,911	4,484,744	3,398,350
Real Assets	3,080,085	61,533	16,977	-	3,158,595	3,099,092
Risk Mitigation	1,738,900	34,739	9,585	-	1,783,224	1,866,063
Unique Strategies	<u>183,432</u>	<u>3,665</u>	<u>1,011</u>	<u>-</u>	<u>188,108</u>	<u>183,621</u>
Total Investments at Fair Value	23,935,582	478,175	131,933	40,009	24,585,699	22,550,794
Capital Assets, Net	<u>7,298</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,298</u>	<u>6,083</u>
Total Assets	<u>25,800,553</u>	<u>514,278</u>	<u>141,895</u>	<u>40,367</u>	<u>26,497,093</u>	<u>24,322,361</u>
Liabilities						
Obligations Under Securities Lending Program	163,595	3,268	902	-	167,765	180,486
Securities Purchased	278,541	5,565	1,535	-	285,641	301,702
Unearned Contributions	83,529	-	-	-	83,529	80,874
Foreign Currency Forward Contracts	3,180	64	18	-	3,262	873
Retiree Payroll Payable	109,926	5,186	728	-	115,840	109,750
Other	<u>32,953</u>	<u>658</u>	<u>182</u>	<u>-</u>	<u>33,793</u>	<u>32,395</u>
Total Liabilities	<u>671,724</u>	<u>14,741</u>	<u>3,365</u>	<u>-</u>	<u>689,830</u>	<u>706,080</u>
Net Position Restricted for Pension, Other Postemployment Benefits and Employer	<u>\$25,128,829</u>	<u>\$ 499,537</u>	<u>\$ 138,530</u>	<u>\$ 40,367</u>	<u>\$25,807,263</u>	<u>\$23,616,281</u>

Statement of Changes in Fiduciary Net Position (Unaudited)

For the Six Months Ended June 30, 2025

(with summarized comparative amounts for the Six Months Ended June 30, 2024)

(Dollars in Thousands)

	Pension Trust Fund	Health Care Fund- County	Health Care Fund- OCFA	Custodial Fund - OCTA	Total Funds	Comparative Totals 2024
Additions						
Contributions						
Employer	\$ 440,187	\$ 8,432	\$ 25,398	\$ -	\$ 474,017	\$ 425,709
Employee	152,980	-	-	-	152,980	146,293
Employer OPEB Contributions	-	-	-	659	659	493
Total Contributions	593,167	8,432	25,398	659	627,656	572,495
Investment Income						
Net Appreciation in Fair Value of Investments	1,213,516	28,876	7,797	2,769	1,252,958	1,232,877
Dividends, Interest, & Other Investment Income	153,948	3,075	849	11	157,883	223,912
Securities Lending Income						
Gross Earnings	4,139	83	23	-	4,245	6,691
Less: Borrower Rebates and Bank Charges	(3,790)	(76)	(21)	-	(3,887)	(6,255)
Net Securities Lending Income	349	7	2	-	358	436
Total Investment Income	1,367,813	31,958	8,648	2,780	1,411,199	1,457,225
Investment Fees and Expenses	(105,239)	(2,102)	(580)	(2)	(107,923)	(96,010)
Net Investment Income	1,262,574	29,856	8,068	2,778	1,303,276	1,361,215
Total Additions	1,855,741	38,288	33,466	3,437	1,930,932	1,933,710
Deductions						
Participant Benefits	644,031	18,220	4,058	-	686,309	649,080
Death Benefits	246	-	-	-	246	1,198
Member Withdrawals and Refunds	8,833	-	-	-	8,833	9,920
Employer OPEB Payments	-	-	-	979	979	847
Administrative Expenses	15,793	13	11	11	15,828	15,494
Total Deductions	688,903	18,233	4,069	990	712,195	676,539
Net Increase	1,166,838	20,055	29,397	2,447	1,218,737	1,257,171
Net Position Restricted For Pension, Other Postemployment Benefits and Employer, Beginning of Year	23,961,991	479,482	109,133	37,920	24,588,526	22,359,110
Ending Net Position Restricted For Pension, Other Postemployment Benefits and Employer	\$ 25,128,829	\$ 499,537	\$ 138,530	\$ 40,367	\$ 25,807,263	\$ 23,616,281

Total Plan Reserves

For the Six Months Ended June 30, 2025

(with summarized comparative amounts for the Six Months Ended June 30, 2024)

(Dollars in Thousands)

	2025	2024
Pension Reserve	\$ 14,477,971	\$ 13,948,063
Employee Contribution Reserve	4,133,374	3,955,294
Employer Contribution Reserve	3,446,383	2,877,616
Annuity Reserve	3,338,012	3,071,627
Health Care Reserve	638,067	584,570
Custodial Fund Reserve	40,367	20,612
County Investment Account (POB Proceeds) Reserve	164,695	150,393
OCSD UAAL Deferred Reserve	17,594	16,025
Contra Account and Actuarial Deferred Return	(449,200)	(1,007,919)
Total Net Position Restricted for Pension, Other Postemployment Benefits and Employer	\$ 25,807,263	\$ 23,616,281

Schedule of Contributions

For the Six Months Ended June 30, 2025

(with summarized comparative amounts for the Six Months Ended June 30, 2024)

(Dollars in Thousands)

	2025		2024	
	Employee	Employer	Employee	Employer
Pension Trust Fund Contributions				
County of Orange	\$ 113,951	\$ 344,039	\$ 108,487	\$ 306,586
Orange County Fire Authority	16,895	44,401 ¹	16,257	41,555 ¹
Orange County Superior Court of California	8,650	24,416	8,535	23,063
Orange County Transportation Authority	6,703	18,615	6,396	16,785
Orange County Sanitation District	4,676	4,865	4,671	4,638
Orange County Employees Retirement System	822	2,785	774	2,510
UCI - Medical Center and Campus	-	1,383 ²	-	1,433 ²
City of San Juan Capistrano	356	1,238	325	1,104
Transportation Corridor Agencies	501	529	441	498
Orange County Department of Education	-	179 ²	-	160 ²
Orange County Cemetery District	102	147	98	127
Orange County Local Agency Formation Commission	18	76	26	102
Orange County In-Home Supportive Services Public Authority	96	117	88	105
Children and Families Commission of Orange County	120	145	98	130
Orange County Public Law Library	90	66	86	65
Orange County Mosquito and Vector Control District	-	-	11	-
Contributions Before Prepaid Discount	152,980	443,001	146,293	398,861
Prepaid Employer Contributions Discount	-	(2,814)	-	(2,463)
Total Pension Trust Fund Contributions	152,980	440,187	146,293	396,398
Health Care Fund - County Contributions	-	8,432	-	-
Health Care Fund - OCFA Contributions	-	25,398	-	29,311
Custodial Fund - OCTA OPEB Contributions	-	659	-	493
Total Contributions	<u>\$ 152,980</u>	<u>\$ 474,676</u>	<u>\$ 146,293</u>	<u>\$ 426,202</u>

¹ Unfunded actuarial accrued liability payments were made in 2025 for \$8.4 million and 2024 for \$7.5 million by 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.

Schedule of Investment Expenses

For the Six Months Ended June 30, 2025

(with summarized comparative amounts for the Six Months Ended June 30, 2024)

(Dollars in Thousands)

	2025	2024
Investment Management Fees*		
Global Public Equity	\$ 7,332	\$ 6,890
Income Strategies	8,197	8,618
Real Assets	20,119	23,546
Private Equity	27,109	26,511
Risk Mitigation	5,136	4,958
Unique Strategies	1,357	2,306
Short-Term Investments	22	66
Total Investment Management Fees	69,272	72,895
Other Fund Expenses¹	33,820	18,801
Other Investment Expenses		
Consulting/Research Fees	1,207	1,171
Investment Department Expenses	2,949	2,661
Legal Services	368	166
Custodian Services	290	290
Investment Service Providers	15	25
Total Other Investment Expenses	4,829	4,313
Security Lending Activity		
Security Lending Fees	82	95
Rebate Fees	3,805	6,160
Total Security Lending Activity	3,887	6,255
Custodial Fund - OCTA Investment Fees and Expenses	2	1
Total Investment Expenses	\$ 111,810	\$ 102,265

* 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, 2025

(with summarized comparative amounts for the Six Months Ended June 30, 2024)

(Dollars in Thousands)

	2025	2024
Pension Trust Fund Administrative Expenses		
Expenses Subject to the Statutory Limit		
Personnel Services		
Employee Salaries and Benefits	\$ 10,296	\$ 9,897
Board Members' Allowance	5	5
Total Personnel Services	10,301	9,902
Office Operating Expenses		
Depreciation/Amortization	1,259	1,260
Professional Services	1,184	1,502
General Office and Administrative Expenses	674	715
Rent/Leased Real Property	402	528
Total Office Operating Expenses	3,519	4,005
Total Expenses Subject to the Statutory Limit	13,820	13,907
Expenses Not Subject to the Statutory Limit		
Information Technology Professional Services	1,507	1,208
Information Security Professional Services	99	42
Finance Software Professional Services	1	2
Actuarial Fees	249	171
Equipment/Software	117	131
Total Expenses Not Subject to the Statutory Limit	1,973	1,554
Total Pension Trust Fund Administrative Expenses	15,793	15,461
Health Care Fund - County Administrative Expenses	13	12
Health Care Fund - OCFA Administrative Expenses	11	10
Custodial Fund - OCTA Administrative Expenses	11	11
Total Administrative Expenses	\$ 15,828	\$ 15,494

Administrative Expense Compared to Actuarial Accrued Liability

For the Six Months Ended June 30, 2025

(Dollars in Thousands)

Actuarial Accrued Liability (AAL) as of 12/31/24	\$	28,258,622
Maximum Allowed for Administrative Expense (AAL * 0.21%)		59,343
Actual Administrative Expense ¹		<u>13,820</u>
Excess of Allowed Over Actual Expense	\$	<u>45,523</u>
Actual Administrative Expense for the six months ended 6/30/25 as a Percentage of Actuarial Accrued Liability as of 12/31/24		0.05%
Actual Administrative Expense for the six months ended 6/30/24 as a Percentage of Actuarial Accrued Liability as of 12/31/23		0.06%
¹ Administrative Expense Reconciliation		
Administrative Expense per Statement of Changes in Fiduciary Net Position	\$	15,793
Less: Administrative Expense Not Considered per CERL Section 31596.1		<u>(1,973)</u>
Administrative Expense Allowable Under CERL Section 31580.2	\$	<u>13,820</u>