

Memorandum

DATE: May 20, 2025
TO: Members of the Board of Retirement
FROM: Tracy Bowman, Director of Finance
SUBJECT: **FIRST QUARTER UNAUDITED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2025**

Written Report

Background/Discussion

The attached financial statements present the unaudited financial activity for the three months ended March 31, 2025. These statements are unaudited and are not the official financial statements of OCERS. They provide a summary of financial progress for the first quarter of 2025. The official financial statements of OCERS are presented in the Annual Comprehensive Financial Report (ACFR) for the year ended December 31, 2024, which will be published on our website, www.ocers.org, following the completion of the 2024 year-end audit in June 2025.

Summary

Statement of Fiduciary Net Position (Unaudited)

As of March 31, 2025, the net position restricted for pension, other postemployment benefits and employer totaled \$24.5 billion, reflecting a \$1.2 billion increase (5.3%), compared to March 31, 2024.

This growth was primarily driven by a \$1.3 billion increase in total assets, partially offset by a \$113.1 million increase in total liabilities.

- Total assets increased due to a \$1.1 billion increase in cash and short-term investments and a \$451.0 million increase in investments at fair value, offset by a \$235.6 million decrease in receivables.
 - The increase in cash and short-term investments was largely attributable to a \$1.2 billion increase in cash and cash equivalents, including \$1.0 billion held to support the futures exposure related to OCERS' synthetic replication strategy for passive non-U.S. equity exposure. The timing of investing employee and employer contributions also attributed to this increase.
 - These increases were offset by an \$87.9 million decrease in securities lending collateral, due to reduced demand in U.S. government securities attributed to rate cuts and higher funding costs.
 - The decrease in receivables reflects a \$248.9 million decrease in pending security sales, due to timing of when transactions are settled, offset by a \$13.1 million increase in total contributions, investments and other receivables.
 - Investments at fair value increased \$451.0 million, which can be attributed to investment of contributions, investment returns and asset class allocations.

- The total investment portfolio reported a one-year return of 5.9% as of March 31, 2025, compared to 13.0% as of March 31, 2024. The first quarter performance was impacted by high interest rates and market volatility, influenced by policy changes under the new presidential administration.
 - Private equity increased by \$493.1 million, income strategies increased by \$1.3 billion, real assets increased by \$114.8 million, risk mitigation increased by \$84.3 million and unique strategies increased by \$23.2 million.
 - These increases were offset by a \$1.5 billion decline in global public equity, which underperformed the benchmark by 0.4%. U.S. small cap equity was a key underperformer, reporting a -8.4% loss due to higher interest rates and growing uncertainty surrounding the new trade policy.
- Total liabilities increased by \$113.1 million, primarily due to:
 - An increase of \$169.3 million in securities purchased, reflecting the timing of transaction settlements.
 - A \$22.9 million increase in other liabilities related to OCERS' synthetic replication investment strategy.
 - These increases were partially offset by an \$87.9 million decrease in obligations under securities lending program, as previously noted.

Statement of Changes in Fiduciary Net Position (Unaudited)

The ending net position restricted for pension, other employment benefits and employer for the three months ended March 31, 2025, increased by \$1.2 billion, or 5.3%, compared to the same period in 2024.

- Total additions to fiduciary net position decreased by \$988.7 million (-80.1%), primarily due to the net investment loss of \$53.1 million, a \$1.0 billion decrease from the prior year.
 - This decline was driven by:
 - A \$975.2 million decrease in net appreciation/(depreciation) in fair value of investments.
 - A \$28.5 million decrease in dividends, interest, and other investment income.
 - The year-to-date investment return was 0.9% compared to 4.7% for the first quarter in 2024.
 - Global public equities and risk mitigation reported significant declines in the year-to-date returns.
 - Global public equities reported a year-to-date loss of -1.7% compared to a year-to-date return of 8.5% in 2024, and risk mitigation reported a year-to-date return of 1.7% compared to a year-to-date return of 5.0% 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 \$11.5 million (27.1%), due to
 - A \$13.5 million increase in other fund expenses, which includes foreign income tax and indirect flow-through expenses.

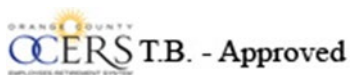
- This increase was offset by a \$2.2 million decrease in investment management fees mainly due to a decrease in real assets of \$4 million, offset by increases in private equity of \$1.5 million.
 - Securities lending fees and rebates declined by \$1.3 million, due to lower earnings and reduced benchmark rates.
 - Total contributions increased by \$26.5 million, driven higher employer and employee contribution rates resulting in:
 - A \$22.6 million increase in employer contributions.
 - A \$3.9 million increase in employee contributions.
- Total deductions increased \$15.0 million (4.5%), mainly due to:
 - A \$17.6 million increase in participant benefits, driven by membership growth and rising average benefits.
 - As of March 2025, there were 21,522 payees with an average benefit payment of \$4,994 compared to 21,093 payees with an average benefit payment of \$4,844.
 - The increase was offset by a \$2.3 million decrease in member withdrawals and refunds, which fluctuates over time.

Other Supporting Schedules

In addition to the basic financial statements for the three months ended March 31, 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 Projected Actuarial Accrued Liability

Submitted by:



Tracy Bowman
Director of Finance



Orange County Employees Retirement System

Unaudited Financial Statements

For the Three Months Ended March 31, 2025

Orange County Employees Retirement System

Unaudited Financial Statements For the Three Months Ended March 31, 2025

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Statement of Fiduciary Net Position (Unaudited)

As of March 31, 2025

(with summarized comparative amounts as of March 31, 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	\$ 1,614,305	\$ 32,256	\$ 7,423	\$ 563	\$ 1,654,547	\$ 443,296
Securities Lending Collateral	<u>176,075</u>	<u>3,518</u>	<u>810</u>	<u>-</u>	<u>180,403</u>	<u>268,259</u>
Total Cash and Short-Term Investments	1,790,380	35,774	8,233	563	1,834,950	711,555
Receivables						
Investment Income	25,130	502	116	-	25,748	22,714
Securities Sales	235,638	4,708	1,084	-	241,430	490,300
Contributions	68,830	-	-	-	68,830	60,045
Foreign Currency Forward Contracts	153	3	1	-	157	3
Other Receivables	<u>9,095</u>	<u>182</u>	<u>42</u>	<u>-</u>	<u>9,319</u>	<u>8,002</u>
Total Receivables	338,846	5,395	1,243	-	345,484	581,064
Investments at Fair Value						
Global Public Equity	9,358,624	186,998	43,034	19,850	9,608,506	11,146,630
Private Equity	4,019,788	80,321	18,484	-	4,118,593	3,625,493
Income Strategies	4,166,354	83,249	19,158	17,694	4,286,455	3,012,804
Real Assets	3,052,929	61,002	14,038	-	3,127,969	3,013,189
Risk Mitigation	1,940,439	38,773	8,923	-	1,988,135	1,903,821
Unique Strategies	<u>184,986</u>	<u>3,696</u>	<u>851</u>	<u>-</u>	<u>189,533</u>	<u>166,349</u>
Total Investments at Fair Value	22,723,120	454,039	104,488	37,544	23,319,191	22,868,286
Capital Assets, Net	<u>6,585</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,585</u>	<u>6,537</u>
Total Assets	<u>24,858,931</u>	<u>495,208</u>	<u>113,964</u>	<u>38,107</u>	<u>25,506,210</u>	<u>24,167,442</u>
Liabilities						
Obligations Under Securities Lending Program	176,075	3,518	810	-	180,403	268,259
Securities Purchased	557,801	11,146	2,565	-	571,512	402,242
Unearned Contributions	103,540	-	-	-	103,540	99,078
Foreign Currency Forward Contracts	222	4	1	-	227	748
Retiree Payroll Payable	105,134	5,090	253	-	110,477	105,698
Other	<u>51,103</u>	<u>1,021</u>	<u>235</u>	<u>-</u>	<u>52,359</u>	<u>29,413</u>
Total Liabilities	<u>993,875</u>	<u>20,779</u>	<u>3,864</u>	<u>-</u>	<u>1,018,518</u>	<u>905,438</u>
Net Position Restricted for Pension, Other Postemployment Benefits and Employer	<u>\$23,865,056</u>	<u>\$ 474,429</u>	<u>\$ 110,100</u>	<u>\$ 38,107</u>	<u>\$24,487,692</u>	<u>\$23,262,004</u>

Statement of Changes in Fiduciary Net Position (Unaudited)

For the Three Months Ended March 31, 2025

(with summarized comparative amounts for the Three Months Ended March 31, 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	\$ 219,464	\$ -	\$ 2,064	\$ -	\$ 221,528	\$ 198,936
Employee	76,550	-	-	-	76,550	72,693
Employer OPEB Contributions	-	-	-	350	350	259
Total Contributions	296,014	-	2,064	350	298,428	271,888
Investment Income						
Net Appreciation / (Depreciation) in Fair Value of Investments	(104,414)	3,068	680	305	(100,361)	874,872
Dividends, Interest, & Other Investment Income	98,550	1,969	453	7	100,979	129,513
Securities Lending Income						
Gross Earnings	2,044	41	9	-	2,094	3,431
Less: Borrower Rebates and Bank Charges	(1,836)	(37)	(8)	-	(1,881)	(3,190)
Net Securities Lending Income	208	4	1	-	213	241
Total Investment Income / (Loss)	(5,656)	5,041	1,134	312	831	1,004,626
Investment Fees and Expenses	(52,622)	(1,051)	(242)	(1)	(53,916)	(42,432)
Net Investment Income / (Loss)	(58,278)	3,990	892	311	(53,085)	962,194
Total Additions	237,736	3,990	2,956	661	245,343	1,234,082
Deductions						
Participant Benefits	324,259	9,036	1,984	-	335,279	317,700
Death Benefits	90	-	-	-	90	693
Member Withdrawals and Refunds	2,617	-	-	-	2,617	4,891
Employer OPEB Payments	-	-	-	468	468	414
Administrative Expenses	7,705	7	5	6	7,723	7,490
Total Deductions	334,671	9,043	1,989	474	346,177	331,188
Net Increase / (Decrease)	(96,935)	(5,053)	967	187	(100,834)	902,894
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	\$ 23,865,056	\$ 474,429	\$ 110,100	\$ 38,107	\$ 24,487,692	\$ 23,262,004

Total Plan Reserves

For the Three Months Ended March 31, 2025

(with summarized comparative amounts for the Three Months Ended March 31, 2024)

(Dollars in Thousands)

	2025	2024
Pension Reserve	\$ 13,649,245	\$ 12,864,211
Employee Contribution Reserve	4,162,724	3,917,908
Employer Contribution Reserve	3,685,602	3,414,642
Annuity Reserve	3,098,910	2,909,449
Health Care Reserve	584,529	557,924
Custodial Fund Reserve	38,107	20,453
County Investment Account (POB Proceeds) Reserve	156,378	150,317
OCSD UAAL Deferred Reserve	17,594	16,025
Contra Account and Actuarial Deferred Return	(905,397)	(588,925)
Total Net Position Restricted for Pension, Other Postemployment Benefits and Employer	\$ 24,487,692	\$ 23,262,004

Schedule of Contributions

For the Three Months Ended March 31, 2025

(with summarized comparative amounts for the Three Months Ended March 31, 2024)

(Dollars in Thousands)

	2025		2024	
	Employee	Employer	Employee	Employer
Pension Trust Fund Contributions				
County of Orange	\$ 56,956	\$ 171,635	\$ 53,950	\$ 152,744
Orange County Fire Authority	8,510	22,113 ¹	8,148	20,654 ¹
Orange County Superior Court of California	4,401	12,179	4,310	11,506
Orange County Transportation Authority	3,278	9,094	3,083	8,195
Orange County Sanitation District	2,331	2,421	2,228	2,327
Orange County Employees Retirement System	420	1,411	395	1,269
UCI - Medical Center and Campus	-	755 ²	-	717 ²
City of San Juan Capistrano	179	622	162	554
Transportation Corridor Agencies	263	263	218	246
Orange County Department of Education	-	89 ²	-	54 ²
Orange County Cemetery District	50	73	50	65
Orange County Local Agency Formation Commission	11	43	14	54
Orange County In-Home Supportive Services Public Authority	47	58	44	52
Children and Families Commission of Orange County	59	72	47	63
Orange County Public Law Library	<u>45</u>	<u>33</u>	<u>44</u>	<u>32</u>
Contributions Before Prepaid Discount	76,550	220,861	72,693	198,532
Prepaid Employer Contributions Discount	-	(1,397)	-	(1,229)
Total Pension Trust Fund Contributions	76,550	219,464	72,693	197,303
Health Care Fund - OCFA Contributions	-	2,064	-	1,633
Custodial Fund - OCTA OPEB Contributions	-	350	-	259
Total Contributions	<u>\$ 76,550</u>	<u>\$ 221,878</u>	<u>\$ 72,693</u>	<u>\$ 199,195</u>

¹ Unfunded actuarial accrued liability payments were made in 2025 for \$4.8 million and 2024 for \$3.5 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 Three Months Ended March 31, 2025

(with summarized comparative amounts for the Three Months Ended March 31, 2024)

(Dollars in Thousands)

	2025	2024
Investment Management Fees*		
Global Public Equity	\$ 3,638	\$ 3,260
Income Strategies	3,911	3,616
Real Assets	9,311	13,267
Private Equity	14,980	13,474
Risk Mitigation	2,618	2,585
Unique Strategies	736	1,139
Short-Term Investments	19	33
Total Investment Management Fees	35,213	37,374
Other Fund Expenses¹	16,135	2,613
Other Investment Expenses		
Consulting/Research Fees	515	575
Investment Department Expenses	1,772	1,635
Legal Services	128	76
Custodian Services	145	145
Investment Service Providers	7	14
Total Other Investment Expenses	2,567	2,445
Security Lending Activity		
Security Lending Fees	49	51
Rebate Fees	1,832	3,139
Total Security Lending Activity	1,881	3,190
Custodial Fund - OCTA Investment Fees and Expenses	1	-
Total Investment Expenses	\$ 55,797	\$ 45,622

* 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 Three Months Ended March 31, 2025

(with summarized comparative amounts for the Three Months Ended March 31, 2024)

(Dollars in Thousands)

	2025	2024
Pension Trust Fund Administrative Expenses		
Expenses Subject to the Statutory Limit		
Personnel Services		
Employee Salaries and Benefits	\$ 5,176	\$ 4,991
Board Members' Allowance	2	2
Total Personnel Services	5,178	4,993
Office Operating Expenses		
Depreciation/Amortization	630	630
Professional Services	467	623
General Office and Administrative Expenses	836	725
Rent/Leased Real Property	195	306
Total Office Operating Expenses	2,128	2,284
Total Expenses Subject to the Statutory Limit	7,306	7,277
Expenses Not Subject to the Statutory Limit		
Information Technology Professional Services	232	127
Information Security Professional Services	39	21
Finance Software Professional Services	1	1
Actuarial Fees	73	(5)
Equipment/Software	54	51
Total Expenses Not Subject to the Statutory Limit	399	195
Total Pension Trust Fund Administrative Expenses	7,705	7,472
Health Care Fund - County Administrative Expenses	7	7
Health Care Fund - OCFA Administrative Expenses	5	5
Custodial Fund - OCTA Administrative Expenses	6	6
Total Administrative Expenses	\$ 7,723	\$ 7,490

Administrative Expense Compared to Projected Actuarial Accrued Liability

For the Three Months Ended March 31, 2025

(Dollars in Thousands)

Projected Actuarial Accrued Liability (AAL) as of 12/31/24	\$ 27,920,705
Maximum Allowed for Administrative Expense (AAL * 0.21%)	58,633
Actual Administrative Expense ¹	<u>7,306</u>
Excess of Allowed Over Actual Expense	<u>\$ 51,327</u>
Actual Administrative Expense for the three months ended 3/31/25 as a Percentage of Projected Actuarial Accrued Liability as of 12/31/24	0.03%
Actual Administrative Expense for the three months ended 3/31/24 as a Percentage of Projected Actuarial Accrued Liability as of 12/31/23	0.03%
¹ Administrative Expense Reconciliation	
Administrative Expense per Statement of Changes in Fiduciary Net Position	\$ 7,705
Less: Administrative Expense Not Considered per CERL Section 31596.1	<u>(399)</u>
Administrative Expense Allowable Under CERL Section 31580.2	<u>\$ 7,306</u>