



**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM**

**Unaudited Financial Statements**

**For the Year Ended December 31, 2017**

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For the Year Ended December 31, 2017

Table of Contents

Statement of Fiduciary Net Position (Unaudited).....	1
Statement of Changes in Fiduciary Net Position (Unaudited).....	2
Total Fund 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 December 31, 2017  
(with summarized comparative amounts as of December 31, 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	\$ 486,561	\$ 9,605	\$ 1,307	\$ 378	\$ 497,851	\$ 466,328
Securities Lending Collateral	189,936	3,749	510	-	194,195	168,896
Total Cash and Short-Term Investments	<u>676,497</u>	<u>13,354</u>	<u>1,817</u>	<u>378</u>	<u>692,046</u>	<u>635,224</u>
Receivables						
Investment Income	13,726	271	37	-	14,034	16,210
Securities Sales	150,610	2,973	405	-	153,988	87,036
Contributions	21,361	-	-	-	21,361	19,206
Foreign Currency Forward Contracts	70	1	-	-	71	839
Other Receivables	2,505	49	7	-	2,561	57,184
Total Receivables	<u>188,272</u>	<u>3,294</u>	<u>449</u>	<u>-</u>	<u>192,015</u>	<u>180,475</u>
Investments at Fair Value						
Global Public Equity	5,987,045	118,184	16,081	10,625	6,131,935	4,996,519
Private Equity	1,311,167	25,882	3,522	-	1,340,571	1,095,351
Core Fixed Income	2,010,985	39,697	5,401	5,632	2,061,715	931,660
Credit	2,148,412	42,410	5,770	-	2,196,592	2,441,810
Real Assets	2,389,063	47,160	6,417	-	2,442,640	2,262,968
Risk Mitigation	727,304	14,357	1,953	-	743,614	356,345
Absolute Return	2,151	42	6	-	2,199	806,736
Total Investments at Fair Value	<u>14,576,127</u>	<u>287,732</u>	<u>39,150</u>	<u>16,257</u>	<u>14,919,266</u>	<u>12,891,389</u>
Capital Assets (Net)	<u>20,670</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,670</u>	<u>22,620</u>
<b>Total Assets</b>	<b><u>15,461,566</u></b>	<b><u>304,380</u></b>	<b><u>41,416</u></b>	<b><u>16,635</u></b>	<b><u>15,823,997</u></b>	<b><u>13,729,708</u></b>
<b>LIABILITIES</b>						
Obligations Under Securities Lending Program	189,936	3,749	510	-	194,195	168,896
Securities Purchased	194,254	3,835	522	-	198,611	161,150
Unearned Contributions	244,552	-	-	-	244,552	222,524
Foreign Currency Forward Contracts	390	8	1	-	399	914
Retiree Payroll Payable	63,318	2,663	263	-	66,244	62,406
Other	20,154	398	54	-	20,606	21,273
Due to Employers	-	-	-	16,635	16,635	14,694
<b>Total Liabilities</b>	<b><u>712,604</u></b>	<b><u>10,653</u></b>	<b><u>1,350</u></b>	<b><u>16,635</u></b>	<b><u>741,242</u></b>	<b><u>651,857</u></b>
<b>Net Position Restricted for Pension and Other Post-Employment Benefits</b>	<b><u>\$ 14,748,962</u></b>	<b><u>\$ 293,727</u></b>	<b><u>\$ 40,066</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 15,082,755</u></b>	<b><u>\$ 13,077,851</u></b>

**Statement of Changes in Fiduciary Net Position (Unaudited)**  
For the Year Ended December 31, 2017  
(with summarized comparative amounts for the Year Ended December 31, 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	\$ 572,104	\$ 59,864	\$ 2,380	\$ 634,348	\$ 612,021
Employee	<u>262,294</u>	<u>-</u>	<u>-</u>	<u>262,294</u>	<u>258,297</u>
Total Contributions	834,398	59,864	2,380	896,642	870,318
Investment Income					
Net Appreciation in Fair Value of Investments	1,772,607	31,871	4,811	1,809,289	938,390
Interest	90,726	1,790	241	92,757	117,396
Dividends	37,655	743	100	38,498	40,940
Real Estate Income	21,429	423	57	21,909	27,458
Alternative Investments	38,277	755	102	39,134	36,792
Other Investment Income	3,766	74	10	3,850	1,304
Securities Lending Income					
Gross Earnings	3,498	69	9	3,576	1,895
Less: Borrower Rebates and Bank Charges	<u>(1,888)</u>	<u>(37)</u>	<u>(5)</u>	<u>(1,930)</u>	<u>(668)</u>
Net Securities Lending Income	<u>1,610</u>	<u>32</u>	<u>4</u>	<u>1,646</u>	<u>1,227</u>
Total Investment Income	1,966,070	35,688	5,325	2,007,083	1,163,507
Investment Fees and Expenses	<u>(79,368)</u>	<u>(1,566)</u>	<u>(211)</u>	<u>(81,145)</u>	<u>(82,493)</u>
Net Investment Income	<u>1,886,702</u>	<u>34,122</u>	<u>5,114</u>	<u>1,925,938</u>	<u>1,081,014</u>
<b>Total Additions</b>	<b><u>2,721,100</u></b>	<b><u>93,986</u></b>	<b><u>7,494</u></b>	<b><u>2,822,580</u></b>	<b><u>1,951,332</u></b>
<b>DEDUCTIONS</b>					
Participant Benefits	749,784	32,042	4,239	786,065	738,634
Death Benefits	694	-	-	694	384
Member Withdrawals and Refunds	13,866	-	-	13,866	13,643
Administrative Expenses	<u>17,002</u>	<u>22</u>	<u>27</u>	<u>17,051</u>	<u>16,914</u>
<b>Total Deductions</b>	<b><u>781,346</u></b>	<b><u>32,064</u></b>	<b><u>4,266</u></b>	<b><u>817,676</u></b>	<b><u>769,575</u></b>
Net Increase	<b>1,939,754</b>	<b>61,922</b>	<b>3,228</b>	<b>2,004,904</b>	<b>1,181,757</b>
Net Position Restricted For Pension and Other Post-Employment Benefits, Beginning of Year	<u>12,809,208</u>	<u>231,805</u>	<u>36,838</u>	<u>13,077,851</u>	<u>11,896,094</u>
<b>Ending Net Position Restricted For Pension and Other Post-Employment Benefits</b>	<b><u>\$ 14,748,962</u></b>	<b><u>\$ 293,727</u></b>	<b><u>\$ 40,066</u></b>	<b><u>\$ 15,082,755</u></b>	<b><u>\$ 13,077,851</u></b>

**Total Fund Reserves**  
For the Year Ended December 31, 2017  
(with summarized comparative amounts for the Year Ended December 31, 2016)  
(Dollars in Thousands)

	<b>2017</b>	<b>2016</b>
Pension Reserve	\$ 8,409,830	\$ 8,121,613
Employee Contribution Reserve	3,093,113	2,893,408
Employer Contribution Reserve	2,596,765	2,085,832
Annuity Reserve	1,411,751	1,263,105
Health Care Reserve	333,793	268,643
County Investment Account (POB Proceeds) Reserve	134,416	117,723
OCSD UAAL Deferred Reserve	38,913	34,067
Contra Account	<u>(935,826)</u>	<u>(1,706,540)</u>
<b>Net Position - Total Fund</b>	<b><u>\$ 15,082,755</u></b>	<b><u>\$ 13,077,851</u></b>

**Schedule of Contributions**  
For the Year Ended December 31, 2017  
(with summarized comparative amounts for the Year Ended December 31, 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	\$ 206,350	\$ 420,500	\$ 204,697	\$ 406,442
Orange County Fire Authority	21,294	98,291	18,309	70,161
Superior Court of California, County of Orange	15,300	30,423	15,933	31,521
Orange County Transportation Authority	8,926	24,310	9,069	24,584
Orange County Sanitation District	7,496	7,625	7,328	48,880
UCI Medical Center and Campus	-	2,948	2	1,315
City of San Juan Capistrano	802	2,391	809	2,264
Orange County Children & Family Commission	86	2,015	102	310
Orange County Employees Retirement System	901	1,960	896	1,975
Orange County Public Law Library	163	1,801	168	1,816
Transportation Corridor Agencies	692	1,738	724	1,799
Orange County Department of Education	-	524	-	-
Orange County In-Home Supportive Services Public Authority	112	204	99	190
Orange County Cemetery District	131	170	122	160
Orange County Local Agency Formation Commission	37	125	39	132
Contributions Before Prepaid Discount	262,294	595,025	258,297	591,549
Prepaid Employer Contribution Discount	-	(22,921)	-	(24,353)
<b>Total Pension Trust Fund Contributions</b>	<b><u>262,294</u></b>	<b><u>572,104</u></b>	<b><u>258,297</u></b>	<b><u>567,196</u></b>
<b>Health Care Fund - County Contributions</b>	<b><u>-</u></b>	<b><u>59,864</u></b>	<b><u>-</u></b>	<b><u>42,411</u></b>
<b>Health Care Fund - OCFA Contributions</b>	<b><u>-</u></b>	<b><u>2,380</u></b>	<b><u>-</u></b>	<b><u>2,414</u></b>
<b>Total Contributions</b>	<b><u>\$ 262,294</u></b>	<b><u>\$ 634,348</u></b>	<b><u>\$ 258,297</u></b>	<b><u>\$ 612,021</u></b>

<sup>1</sup> Unfunded actuarial accrued liability payments were made in 2017 and 2016 for \$32.1 million and \$5.1 million, respectively, 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.

<sup>3</sup> Unfunded actuarial accrued liability payments were made in 2017 and 2016 for \$1.5 million each year for the Orange County Public Law Library.

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

<sup>5</sup> Unfunded actuarial accrued liability payments were made in 2016 of \$39.1 million for the Orange County Sanitation District.

**Schedule of Investment Expenses**  
For the Year Ended December 31, 2017  
(with summarized comparative amounts for the Year Ended December 31, 2016)  
(Dollars in Thousands)

	<u>2017</u>	<u>2016</u>
<b>Investment Management Fees*</b>		
<b>Global Public Equity</b>		
U.S. Equity	\$ 2,932	\$ 1,125
Global Equity	451	1,046
International Equity	4,957	4,705
Emerging Markets Equity	4,292	5,451
<b>Total Global Public Equity</b>	<u>12,632</u>	<u>12,327</u>
<b>Core Fixed Income</b>		
U.S. Fixed Income	974	750
<b>Total Core Fixed Income</b>	<u>974</u>	<u>750</u>
<b>Credit</b>		
High Yield	2,362	3,068
Emerging Market Debt	695	660
Direct Lending	3,000	2,815
Mortgage	4,460	2,046
Multi-Strategy	3,429	5,076
Non-U.S. Direct Lending	1,400	1,246
<b>Total Credit</b>	<u>15,346</u>	<u>14,911</u>
<b>Real Assets</b>		
Real Estate	15,697	10,885
Real Return		
Timber	1,329	1,576
Agriculture	1,086	971
Commodities	-	225
Infrastructure	5,703	-
Energy	882	5,258
<b>Total Real Return</b>	<u>9,000</u>	<u>8,030</u>
<b>Total Real Assets</b>	<u>24,697</u>	<u>18,915</u>
<b>Absolute Return</b>		
Direct Hedge Fund	2,134	5,673
GTAA	1,406	2,167
<b>Total Absolute Return</b>	<u>3,540</u>	<u>7,840</u>
<b>Private Equity</b>	8,093	3,935
<b>Risk Mitigation</b>	5,166	3,880
<b>Short-Term Investments</b>	250	239
<b>Total Investment Management Fees</b>	<u>70,698</u>	<u>62,797</u>
<b>Foreign Income Tax and Other Fund Expenses</b>	<u>7,459</u>	<u>15,891</u>
<b>Other Investment Expenses (Expenses Not Subject to the Statutory Limit)</b>		
Consulting/Research Fees	1,005	1,517
Investment Department Expenses	1,171	1,465
Legal Costs	346	493
Custodian Services	438	300
Investment Service Providers	28	30
<b>Total Other Investment Expenses</b>	<u>2,988</u>	<u>3,805</u>
<b>Security Lending Activity</b>		
Security Lending Fees	399	366
Rebate Fees	1,531	302
<b>Total Security Lending Activity</b>	<u>1,930</u>	<u>668</u>
<b>Total Investment Expenses</b>	<u>\$ 83,075</u>	<u>\$ 83,161</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 Year Ended December 31, 2017  
(with summarized comparative amounts for the Year Ended December 31, 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	\$ 9,933	\$ 9,408
Board Members' Allowance	16	15
Total Personnel Services	9,949	9,423
Operating Expenses		
Depreciation/Amortization	2,292	2,314
General Office and Administrative Expenses	1,300	1,327
Professional Services	1,240	2,314
Rent/Leased Real Property	568	660
Total Office Operating Expenses	5,400	6,615
<b>Total Expenses Subject to the Statutory Limit</b>	<b>15,349</b>	<b>16,038</b>
<b>Expenses Not Subject to the Statutory Limit</b>		
Information Technology Consulting	1,171	357
Actuarial Fees	385	394
Equipment / Software	97	81
<b>Total Expenses Not Subject to the Statutory Limit</b>	<b>1,653</b>	<b>832</b>
<b>Total Pension Fund Administrative Expenses</b>	<b>17,002</b>	<b>16,870</b>
<b>Health Care Fund - County Administrative Expenses</b>	<b>22</b>	<b>22</b>
<b>Health Care Fund - OCFA Administrative Expenses</b>	<b>27</b>	<b>22</b>
<b>Total Administrative Expenses</b>	<b>\$ 17,051</b>	<b>\$ 16,914</b>



## Administrative Expense Compared to Actuarial Accrued Liability

For the Year Ended December 31, 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>15,349</u>
Excess of Allowed Over Actual Expense	<u>24,333</u>
Actual Administrative Expense as a Percentage of Projected Actuarial Accrued Liability	0.08%
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	\$ 17,002
Less administrative expense not considered per CERL section 31596.1	<u>(1,653)</u>
Administrative Expense allowable under CERL section 31580.2	<u>\$ 15,349</u>