



ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

Unaudited Financial Statements

For the Nine Months Ended September 30, 2018

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Statement of Fiduciary Net Position (Unaudited)
As of September 30, 2018
(with summarized comparative amounts as of September 30, 2017)
(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 2017</u>
ASSETS						
Cash and Short-Term Investments						
Cash and Cash Equivalents	\$ 512,998	\$ 10,325	\$ 1,381	\$ 118	\$ 524,822	\$ 544,527
Securities Lending Collateral	401,887	8,089	1,082	-	411,058	191,135
Total Cash and Short-Term Investments	<u>914,885</u>	<u>18,414</u>	<u>2,463</u>	<u>118</u>	<u>935,880</u>	<u>735,662</u>
Receivables						
Investment Income	19,964	402	54	-	20,420	15,785
Securities Sales	253,073	5,094	681	-	258,848	131,721
Contributions	24,878	-	-	-	24,878	14,460
Foreign Currency Forward Contracts	264	5	1	-	270	86
Other Receivables	3,032	61	8	-	3,101	2,556
Total Receivables	<u>301,211</u>	<u>5,562</u>	<u>744</u>	<u>-</u>	<u>307,517</u>	<u>164,608</u>
Investments at Fair Value						
Global Public Equity	6,139,648	123,573	16,528	11,373	6,291,122	6,151,760
Private Equity	1,472,303	29,633	3,964	-	1,505,900	834,090
Core Fixed Income	2,558,054	51,486	6,886	5,545	2,621,971	2,308,269
Credit	1,707,621	34,369	4,597	-	1,746,587	2,563,723
Real Assets	2,546,966	51,263	6,857	-	2,605,086	2,274,821
Risk Mitigation	718,328	14,458	1,934	-	734,720	360,687
Absolute Return	1,703	34	5	-	1,742	26,804
Total Investments at Fair Value	<u>15,144,623</u>	<u>304,816</u>	<u>40,771</u>	<u>16,918</u>	<u>15,507,128</u>	<u>14,520,154</u>
Capital Assets (Net)	<u>19,102</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,102</u>	<u>21,130</u>
Total Assets	<u>16,379,821</u>	<u>328,792</u>	<u>43,978</u>	<u>17,036</u>	<u>16,769,627</u>	<u>15,441,554</u>
LIABILITIES						
Obligations Under Securities Lending Program	401,887	8,089	1,082	-	411,058	191,135
Securities Purchased	342,887	6,901	923	-	350,711	230,065
Unearned Contributions	366,007	-	-	-	366,007	361,128
Foreign Currency Forward Contracts	-	-	-	-	-	2,063
Retiree Payroll Payable	68,454	2,711	443	-	71,608	65,510
Other	20,763	420	56	-	21,239	19,030
Due to Employers	-	-	-	17,036	17,036	16,068
Total Liabilities	<u>1,199,998</u>	<u>18,121</u>	<u>2,504</u>	<u>17,036</u>	<u>1,237,659</u>	<u>884,999</u>
Net Position Restricted for Pension and Other Post-Employment Benefits	<u>\$ 15,179,823</u>	<u>\$ 310,671</u>	<u>\$ 41,474</u>	<u>\$ -</u>	<u>\$ 15,531,968</u>	<u>\$ 14,556,555</u>

Statement of Changes in Fiduciary Net Position (Unaudited)

For the Nine Months Ended September 30, 2018

(with summarized comparative amounts for the Nine Months Ended September 30, 2017)

(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 2017</u>
ADDITIONS					
Contributions					
Employer	\$ 417,619	\$ 33,578	\$ 1,651	\$ 452,848	\$ 453,970
Employee	<u>200,801</u>	<u>-</u>	<u>-</u>	<u>200,801</u>	<u>194,832</u>
Total Contributions	618,420	33,578	1,651	653,649	648,802
Investment Income					
Net Appreciation in Fair Value of					
Investments	281,368	6,062	828	288,258	1,349,890
Dividends, Interest, & Other Investment Income	172,668	3,475	465	176,608	147,371
Securities Lending Income					
Gross Earnings	4,983	100	13	5,096	2,592
Less: Borrower Rebates and Bank Charges	<u>(3,832)</u>	<u>(77)</u>	<u>(10)</u>	<u>(3,919)</u>	<u>(1,331)</u>
Net Securities Lending Income	<u>1,151</u>	<u>23</u>	<u>3</u>	<u>1,177</u>	<u>1,261</u>
Total Investment Income	455,187	9,560	1,296	466,043	1,498,522
Investment Fees and Expenses	<u>(62,688)</u>	<u>(1,262)</u>	<u>(169)</u>	<u>(64,119)</u>	<u>(56,782)</u>
Net Investment Income	<u>392,499</u>	<u>8,298</u>	<u>1,127</u>	<u>401,924</u>	<u>1,441,740</u>
Total Additions	<u>1,010,919</u>	<u>41,876</u>	<u>2,778</u>	<u>1,055,573</u>	<u>2,090,542</u>
DEDUCTIONS					
Participant Benefits	607,128	24,914	1,618	633,660	587,368
Death Benefits	296	-	-	296	502
Member Withdrawals and Refunds	11,942	-	-	11,942	11,143
Administrative Expenses	<u>13,625</u>	<u>15</u>	<u>16</u>	<u>13,656</u>	<u>12,825</u>
Total Deductions	<u>632,991</u>	<u>24,929</u>	<u>1,634</u>	<u>659,554</u>	<u>611,838</u>
Net Increase	377,928	16,947	1,144	396,019	1,478,704
Net Position Restricted For Pension and Other Post-Employment Benefits, Beginning of Year	<u>14,801,895</u>	<u>293,724</u>	<u>40,330</u>	<u>15,135,949</u>	<u>13,077,851</u>
Ending Net Position Restricted For Pension and Other Post-Employment Benefits	<u>\$ 15,179,823</u>	<u>\$ 310,671</u>	<u>\$ 41,474</u>	<u>\$ 15,531,968</u>	<u>\$ 14,556,555</u>

Total Fund Reserves

For the Nine Months Ended September 30, 2018

(with summarized comparative amounts for the Nine Months Ended September 30, 2017)

(Dollars in Thousands)

	<u>2018</u>	<u>2017</u>
Pension Reserve	\$ 9,007,027	\$ 8,274,156
Employee Contribution Reserve	3,301,939	2,993,135
Employer Contribution Reserve	2,369,415	2,277,257
Annuity Reserve	1,412,419	1,360,497
Health Care Reserve	352,145	316,520
County Investment Account (POB Proceeds) Reserve	138,116	130,233
OCSD UAAL Deferred Reserve	14,871	34,067
Contra Account	(1,063,964)	(829,310)
Net Position - Total Fund	<u>\$ 15,531,968</u>	<u>\$ 14,556,555</u>

Schedule of Contributions
For the Nine Months Ended September 30, 2018
(with summarized comparative amounts for the Nine Months Ended September 30, 2017)
(Dollars in Thousands)

	2018		2017	
	Employee	Employer	Employee	Employer
Pension Trust Fund Contributions				
County of Orange	\$ 156,325	\$ 325,562	\$ 153,489	\$ 310,448
Orange County Fire Authority	17,252	53,518	15,476	60,941
Orange County Superior Court of California	12,270	22,276	11,552	22,821
Orange County Transportation Authority	6,807	18,549	6,628	17,887
Orange County Sanitation District	5,720	5,609	5,487	5,611
UCI Medical Center & Campus	-	2,223	-	2,184
City of San Juan Capistrano	613	1,856	605	1,791
Orange County Employees Retirement System	726	1,621	670	1,447
Transportation Corridor Agencies	682	1,284	529	1,317
Orange County Department of Education	-	241	-	434
Orange County Children & Families Commission	72	179	64	197
Orange County In-Home Supportive Services Public Authority	80	143	85	153
Orange County Public Law Library	120	141	123	209
Orange County Cemetery District	105	128	96	126
Orange County Local Agency Formation Commission	29	96	28	94
	200,801	433,426	194,832	425,660
Contributions Before Prepaid Discount	200,801	433,426	194,832	425,660
Prepaid Employer Contributions Discount	-	(15,807)	-	(17,652)
Total Pension Trust Fund Contributions	200,801	417,619	194,832	408,008
Health Care Fund - County Contributions	-	33,578	-	44,226
Health Care Fund - OCFA Contributions	-	1,651	-	1,736
Total Contributions	\$ 200,801	\$ 452,848	\$ 194,832	\$ 453,970

¹ Unfunded actuarial accrued liability payments were made in 2018 and 2017 for \$3.3 million and \$12.2 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 This balance reflects the payoff of \$1.5 million of the Orange County Public Law Library's full unfunded actuarial accrued liability (UAAL) on December 15, 2017, reducing the UAAL contributions rate to 0%.

Schedule of Investment Expenses
For the Nine Months Ended September 30, 2018
(with summarized comparative amounts for the Nine Months Ended September 30, 2017)
(Dollars in Thousands)

	<u>2018</u>	<u>2017</u>
Investment Management Fees*		
Global Public Equity		
U.S. Equity	\$ 2,284	\$ 977
Global Equity	-	545
International Equity	3,877	3,423
Emerging Markets Equity	<u>3,679</u>	<u>3,019</u>
Total Global Public Equity	<u>9,840</u>	<u>7,964</u>
Core Fixed Income		
U.S. Fixed Income	<u>1,464</u>	<u>700</u>
Total Core Fixed Income	<u>1,464</u>	<u>700</u>
Credit		
High Yield	1,049	1,862
Emerging Market Debt	485	517
Direct Lending	1,837	3,451
Mortgage	-	3,874
Multi-Strategy	2,461	2,928
Non-U.S. Direct Lending	<u>1,502</u>	<u>915</u>
Total Credit	<u>7,334</u>	<u>13,547</u>
Real Assets		
Real Estate	11,568	9,534
Real Return		
Timber	986	996
Agriculture	861	805
Infrastructure	616	322
Energy	<u>7,614</u>	<u>3,800</u>
Total Real Return	<u>10,077</u>	<u>5,923</u>
Total Real Assets	<u>21,645</u>	<u>15,457</u>
Absolute Return		
Direct Hedge Fund	14	2,128
GTAA	<u>-</u>	<u>1,406</u>
Total Absolute Return	<u>14</u>	<u>3,534</u>
Private Equity	7,598	4,505
Risk Mitigation	3,974	4,129
Short-Term Investments	<u>231</u>	<u>213</u>
Total Investment Management Fees	<u>52,100</u>	<u>50,049</u>
Other Fund Expenses	<u>8,762</u>	<u>4,460</u>
Other Investment Expenses (Expenses Not Subject to the Statutory Limit)		
Consulting/Research Fees	1,212	777
Investment Department Expenses	1,234	867
Legal Services	366	307
Custodian Services	431	294
Investment Service Providers	<u>14</u>	<u>28</u>
Total Other Investment Expenses	<u>3,257</u>	<u>2,273</u>
Security Lending Activity		
Security Lending Fees	303	310
Rebate Fees	<u>3,616</u>	<u>1,021</u>
Total Security Lending Activity	<u>3,919</u>	<u>1,331</u>
Total Investment Expenses	<u>\$ 68,038</u>	<u>\$ 58,113</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, 2018
(with summarized comparative amounts for the Nine Months Ended September 30, 2017)
(Dollars in Thousands)

	2018	2017
Pension Trust Fund Administrative Expenses		
Expenses Subject to the Statutory Limit		
Personnel Services		
Employee Salaries and Benefits	\$ 8,147	\$ 7,329
Board Members' Allowance	12	12
Total Personnel Services	8,159	7,341
Operating Expenses		
Depreciation/Amortization	1,720	1,719
General Office and Administrative Expenses	1,352	1,018
Professional Services	1,213	961
Rent/Leased Real Property	375	419
Total Office Operating Expenses	4,660	4,117
Total Expenses Subject to the Statutory Limit	12,819	11,458
Expenses Not Subject to the Statutory Limit		
Actuarial Fees	350	228
Equipment / Software	215	87
Information Technology Consulting	241	1,014
Total Expenses Not Subject to the Statutory Limit	806	1,329
Total Pension Fund Administrative Expenses	13,625	12,787
Health Care Fund - County Administrative Expenses	15	16
Health Care Fund - OCFA Administrative Expenses	16	22
Total Administrative Expenses	\$ 13,656	\$ 12,825

Administrative Expense Compared to Actuarial Accrued Liability

For the Nine Months Ended September 30, 2018

(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>12,819</u>
Excess of Allowed Over Actual Expense	<u>30,581</u>
Actual Administrative Expense as a Percentage of Projected Actuarial Accrued Liability as of December 31, 2018	0.06%
Actual Administrative Expense as a Percentage of Projected Actuarial Accrued Liability as of December 31, 2017	0.06%
 ¹ Administrative Expense Reconciliation	
Administrative expense per Statement of Changes in Fiduciary Net Position	\$ 13,625
Less administrative expense not considered per CERL section 31596.1	<u>(806)</u>
Administrative Expense allowable under CERL section 31580.2	<u>\$ 12,819</u>