



Memorandum

DATE: May 20, 2024
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, 2024**

Written Report

Background/Discussion

The attached financial statements reflect the unaudited financial activity for the three months ended March 31, 2024. These statements are unaudited and are not the official financial statements of OCERS. The following statements represent a review of the progress to date for the first quarter of 2024. The official financial statements of OCERS are included in the Annual Comprehensive Financial Report (ACFR), which will be available for the year ended December 31, 2023, on our website, www.ocers.org, after the completion of the 2023 year-end audit in June 2024.

Summary

Statement of Fiduciary Net Position (Unaudited)

As of March 31, 2024, the net position restricted for pension, other postemployment benefits and employer is \$23.3 billion, an increase of \$2.4 billion, or 11.7%, from March 31, 2023. The change is a result of an increase in total assets of \$2.6 billion, offset by an increase in total liabilities of \$183 million as described below:

The \$2.6 billion increase in total assets can be attributed to increases of \$258.1 million in total cash and short-term investments, \$272.6 million in total receivables and \$2.1 billion in total investments at fair value, offset by a decrease of \$1.9 million in capital assets.

The increase of \$258.1 million in total cash and short-term investments consists of a \$227.3 million increase in cash and cash equivalents due to the timing of investing employee and employer contributions received during the quarter and a \$30.8 million increase in securities lending collateral driven by an increase in demand in the securities lending program for OCERS' U.S. corporate bond and equity positions.

The increase of \$272.6 million in total receivables consists of a \$229.1 million increase in security sales due to the timing of investment activity at the end of the quarter and contributions, which increased by \$41.8 million. The increase in contributions is attributed to the County of Orange opting to not participate in the FY 2023-2024 contribution prepayment program resulting in a higher accrual for contributions earned, but not yet received.

Total investments at fair value increased \$2.1 billion, or 10.1% from March 31, 2023 to March 31, 2024. The total portfolio reported a net return of 13% for the one-year period ending March 31, 2024, compared to a net loss of

-3% for the same one-year period ending March 31, 2023. The first quarter for 2024 continued to see a rally across global public markets which started in the fourth quarter of 2023 as inflation continued its path toward the Federal Reserve target without showing any meaningful economic deceleration, supporting the soft-landing scenario, with multiple interest rate cuts anticipated in 2024. Global public equity increased by \$1.7 billion, private equity increased by \$274.9 million, real assets increased by \$40.5 million, risk mitigation increased by \$196 million and unique strategies increased by \$91.2 million. These increases were offset by a decrease in income strategies of \$204.6 million. Global public equity saw the strongest performance coming from U.S. Large Cap Stocks and reported a one-year return of 24.5%, which exceeded the benchmark of 22.5%. Private equity managers continued to assess the higher interest rate environment and reported a one-year return of 5.1%, which marks an improvement from the previous quarter's one-year return of 2.5%. Income strategies reported a one-year return of 5.3% with future interest rate cuts acting as a possible factor that may lift this asset class in the short and medium term. The U.S. private debt strategies portfolio delivered a one-year return of 10.2%. Real assets reported a loss of -1.9% for the one-year period. The real estate portfolio has continued to post losses due to the higher interest rate environment posting losses of -10.2% compared to positive returns for its peers in energy and infrastructure of 9.1% and 6.9%, respectively. Risk mitigation, designed to protect the portfolio during down periods, reported a return of 8.4% for the one-year period mainly driven by a 23.8% return from the alternative risk premia sub-asset class. Unique strategies reported a one-year return of 3.5% with a strong contribution from a general partner stake investment.

The decrease in capital assets of \$1.9 million from the prior year represents depreciation expense, which is primarily attributed to the Pension Administration System Solution (PASS).

Total liabilities increased \$183 million, or 25.3%, from March 31, 2023 to March 31 2024, primarily due to securities purchased which increased \$196.1 million related to the timing of securities purchased, as well as retiree payroll payable, which increased \$84.9 million due to the timing of when the April 1 payroll was paid out in 2024 compared to 2023. April 1st fell on a Saturday in 2023 so retiree payroll was paid out on March 30 which led to a smaller liability in the prior year. In 2024, April 1st landed on a Monday. These increases were offset by a decrease of \$134.1 million in unearned contributions due to the County of Orange opting to not participate in the FY 2023-2024 contribution prepayment program, as mentioned earlier.

Statement of Changes in Fiduciary Net Position (Unaudited)

The ending net position restricted for pension, other postemployment benefits and employer as of March 31, 2024, increased by \$2.4 billion or 11.7%, when compared to the same period ending March 31, 2023.

Total additions to fiduciary net position increased 33.4% or \$309.1 million from the previous year. Net investment income for the three months ended March 31, 2024, was \$962.2 million versus \$664.6 million for the three months ended March 31, 2023, an increase of \$297.6 million or 44.8%. The increase can be attributed to the net appreciation in fair value of investments, which increased \$187.2 million from the prior year, in addition to an increase in dividends, interest, and other investment income of \$110 million. The first quarter in 2024 reported a year-to-date net return of 4.7%, compared to a year-to-date net return of 3.3% for the first quarter in 2023. This can be attributed to stronger year-to-date returns in 2024 compared to year-to-date returns in 2023 across most investment categories, including global public equity and unique strategies. Private equity and risk mitigation

reported positive year-to-date returns in 2024 compared to negative year-to-date returns in 2023. These gains were offset by a negative return in real assets, which reported a year-to-date loss for the first quarter in 2024 of -1.4% in comparison to year-to-date return of 0.1% in 2023. Total investment fees and expenses decreased by \$747,000 in March 2024 primarily due to a \$9.3 million decrease in other fund expenses, which includes indirect flow-through investment expenses in limited partner structures. This decrease was offset by an increase in investment management fees of \$8.4 million. Security lending rebate fees increased \$840,000 due to increases in the “risk free rate,” such as the Federal Funds Target Range or Overnight Bank Funding Rate (OBFR), that are used to negotiate rebates to borrowers.

Total contributions increased \$11.4 million over the prior year due to employer contributions, which increased \$7.5 million, and employee contributions, which increased \$3.8 million. These increases can be attributed to increases in contribution rates.

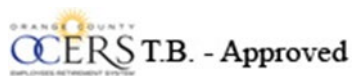
Total deductions from fiduciary net position increased 5.8%, or \$18.1 million, from the previous year. Participant benefits increased by \$16.8 million, which is expected due to the continued growth in member pension benefit payments, both in the total number of OCERS’ retired members receiving a pension benefit and an increase in the average benefit received. In March 2024, there were 21,093 payees with an average benefit payment of \$4,844 compared to 20,494 payees with an average benefit payment of \$4,673 in March 2023.

Other Supporting Schedules

In addition to the basic financial statements for the three months ended March 31, 2024, 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, 2024

Orange County Employees Retirement System

Unaudited Financial Statements For the Three Months Ended March 31, 2024

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 March 31, 2024

(with summarized comparative amounts as of March 31, 2023)

(Dollars in Thousands)

	Pension Trust Fund	Health Care Fund- County	Health Care Fund- OCFA	Custodial Fund - OCTA	Total Funds	Comparative Totals 2023
Assets						
Cash and Short-Term Investments						
Cash and Cash Equivalents	\$ 432,145	\$ 9,136	\$ 1,541	\$ 474	\$ 443,296	\$ 216,029
Securities Lending Collateral	<u>261,790</u>	<u>5,535</u>	<u>934</u>	<u>-</u>	<u>268,259</u>	<u>237,418</u>
Total Cash and Short-Term Investments	693,935	14,671	2,475	474	711,555	453,447
Receivables						
Investment Income	22,166	469	79	-	22,714	21,547
Securities Sales	478,477	10,116	1,707	-	490,300	261,193
Contributions	60,045	-	-	-	60,045	18,244
Foreign Currency Forward Contracts	3	-	-	-	3	646
Other Receivables	<u>7,809</u>	<u>165</u>	<u>28</u>	<u>-</u>	<u>8,002</u>	<u>6,841</u>
Total Receivables	568,500	10,750	1,814	-	581,064	308,471
Investments at Fair Value						
Global Public Equity	10,863,723	229,679	38,751	14,477	11,146,630	9,451,250
Private Equity	3,538,072	74,801	12,620	-	3,625,493	3,350,607
Income Strategies	2,934,787	62,047	10,468	5,502	3,012,804	3,217,420
Real Assets	2,940,532	62,168	10,489	-	3,013,189	2,972,721
Risk Mitigation	1,857,914	39,280	6,627	-	1,903,821	1,707,818
Unique Strategies	<u>162,338</u>	<u>3,432</u>	<u>579</u>	<u>-</u>	<u>166,349</u>	<u>75,161</u>
Total Investments at Fair Value	22,297,366	471,407	79,534	19,979	22,868,286	20,774,977
Capital Assets, Net	<u>6,537</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,537</u>	<u>8,416</u>
Total Assets	<u>23,566,338</u>	<u>496,828</u>	<u>83,823</u>	<u>20,453</u>	<u>24,167,442</u>	<u>21,545,311</u>
Liabilities						
Obligations Under Securities Lending Program	261,790	5,535	934	-	268,259	237,419
Securities Purchased	392,543	8,299	1,400	-	402,242	206,161
Unearned Contributions	99,078	-	-	-	99,078	233,196
Foreign Currency Forward Contracts	730	15	3	-	748	1,503
Retiree Payroll Payable	99,866	5,142	690	-	105,698	20,800
Other	<u>28,704</u>	<u>607</u>	<u>102</u>	<u>-</u>	<u>29,413</u>	<u>23,316</u>
Total Liabilities	<u>882,711</u>	<u>19,598</u>	<u>3,129</u>	<u>-</u>	<u>905,438</u>	<u>722,395</u>
Net Position Restricted for Pension, Other Postemployment Benefits and Employer	<u>\$22,683,627</u>	<u>\$ 477,230</u>	<u>\$ 80,694</u>	<u>\$ 20,453</u>	<u>\$23,262,004</u>	<u>\$20,822,916</u>

Statement of Changes in Fiduciary Net Position (Unaudited)

For the Three Months Ended March 31, 2024

(with summarized comparative amounts for the Three Months Ended March 31, 2023)

(Dollars in Thousands)

	Pension Trust Fund	Health Care Fund- County	Health Care Fund- OCFA	Custodial Fund - OCTA	Total Funds	Comparative Totals 2023
Additions						
Contributions						
Employer	\$ 197,303	\$ -	\$ 1,633	\$ -	\$ 198,936	\$ 191,395
Employee	72,693	-	-	-	72,693	68,872
Employer OPEB Contributions	-	-	-	259	259	180
Total Contributions	269,996	-	1,633	259	271,888	260,447
Investment Income						
Net Appreciation in Fair Value of Investments	850,970	19,518	3,241	1,143	874,872	687,682
Dividends, Interest, & Other Investment Income	126,383	2,672	451	7	129,513	19,845
Securities Lending Income						
Gross Earnings	3,348	71	12	-	3,431	2,574
Less: Borrower Rebates and Bank Charges	(3,113)	(66)	(11)	-	(3,190)	(2,355)
Net Securities Lending Income	235	5	1	-	241	219
Total Investment Income	977,588	22,195	3,693	1,150	1,004,626	707,746
Investment Fees and Expenses	(41,409)	(875)	(148)	-	(42,432)	(43,179)
Net Investment Income	936,179	21,320	3,545	1,150	962,194	664,567
Total Additions	1,206,175	21,320	5,178	1,409	1,234,082	925,014
Deductions						
Participant Benefits	306,921	8,921	1,858	-	317,700	300,858
Death Benefits	693	-	-	-	693	131
Member Withdrawals and Refunds	4,891	-	-	-	4,891	4,444
Employer OPEB Payments	-	-	-	414	414	370
Administrative Expenses	7,472	7	5	6	7,490	7,262
Total Deductions	319,977	8,928	1,863	420	331,188	313,065
Net Increase	886,198	12,392	3,315	989	902,894	611,949
Net Position Restricted For Pension, Other Postemployment Benefits and Employer, Beginning of Year	21,797,429	464,838	77,379	19,464	22,359,110	20,210,967
Ending Net Position Restricted For Pension, Other Postemployment Benefits and Employer	\$ 22,683,627	\$ 477,230	\$ 80,694	\$ 20,453	\$ 23,262,004	\$ 20,822,916

Total Plan Reserves

For the Three Months Ended March 31, 2024

(with summarized comparative amounts for the Three Months Ended March 31, 2023)

(Dollars in Thousands)

	2024	2023
Pension Reserve	\$ 12,864,211	\$ 11,709,335
Employee Contribution Reserve	3,917,908	3,787,609
Employer Contribution Reserve	3,414,642	3,632,324
Annuity Reserve	2,909,449	2,644,789
Health Care Reserve	557,924	514,378
Custodial Fund Reserve	20,453	18,084
County Investment Account (POB Proceeds) Reserve	150,317	142,958
OCSD UAAL Deferred Reserve	16,025	14,398
Contra Account and Actuarial Deferred Return	(588,925)	(1,640,959)
Total Net Position Restricted for Pension, Other Postemployment Benefits and Employer	<u>\$ 23,262,004</u>	<u>\$ 20,822,916</u>

Schedule of Contributions

For the Three Months Ended March 31, 2024

(with summarized comparative amounts for the Three Months Ended March 31, 2023)

(Dollars in Thousands)

	2024		2023	
	Employee	Employer	Employee	Employer
Pension Trust Fund Contributions				
County of Orange	\$ 53,950	\$ 152,744	\$ 51,418	\$ 148,787
Orange County Fire Authority	8,148	20,654 ¹	7,748	21,985 ¹
Orange County Superior Court of California	4,310	11,506	3,827	11,267
Orange County Transportation Authority	3,083	8,195	2,858	8,427
Orange County Sanitation District	2,228	2,327	2,150	2,221
Orange County Employees Retirement System	395	1,269	346	1,150
UCI - Medical Center and Campus	-	717 ²	-	770 ²
City of San Juan Capistrano	162	554	151	575
Transportation Corridor Agencies	218	246	188	216
Orange County Department of Education	-	54 ²	-	79 ²
Orange County Cemetery District	50	65	48	72
Orange County Local Agency Formation Commission	14	54	14	61
Orange County In-Home Supportive Services Public Authority	44	52	38	50
Children and Families Commission of Orange County	47	63	44	68
Orange County Public Law Library	<u>44</u>	<u>32</u>	<u>42</u>	<u>32</u>
Contributions Before Prepaid Discount	72,693	198,532	68,872	195,760
Prepaid Employer Contributions Discount	-	(1,229)	-	(9,440)
Total Pension Trust Fund Contributions	72,693	197,303	68,872	186,320
Health Care Fund - OCFA Contributions	-	1,633	-	5,075
Custodial Fund - OCTA OPEB Contributions	-	259	-	180
Total Contributions	<u>\$ 72,693</u>	<u>\$ 199,195</u>	<u>\$ 68,872</u>	<u>\$ 191,575</u>

¹ Unfunded actuarial accrued liability payments were made in 2024 for \$3.5 million and 2023 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, 2024

(with summarized comparative amounts for the Three Months Ended March 31, 2023)

(Dollars in Thousands)

	2024	2023
Investment Management Fees*		
Global Public Equity	\$ 3,260	\$ 2,936
Income Strategies	3,616	3,017
Real Assets	13,267	9,352
Private Equity	13,474	11,316
Risk Mitigation	2,585	2,082
Unique Strategies	1,139	258
Short-Term Investments	33	43
Total Investment Management Fees	37,374	29,004
Other Fund Expenses¹	2,613	11,872
Other Investment Expenses		
Consulting/Research Fees	575	547
Investment Department Expenses	1,635	1,469
Legal Services	76	137
Custodian Services	145	145
Investment Service Providers	14	5
Total Other Investment Expenses	2,445	2,303
Security Lending Activity		
Security Lending Fees	51	56
Rebate Fees	3,139	2,299
Total Security Lending Activity	3,190	2,355
Total Investment Expenses	\$ 45,622	\$ 45,534

* 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, 2024

(with summarized comparative amounts for the Three Months Ended March 31, 2023)

(Dollars in Thousands)

	2024	2023
Pension Trust Fund Administrative Expenses		
Expenses Subject to the Statutory Limit		
Personnel Services		
Employee Salaries and Benefits	\$ 4,991	\$ 4,455
Board Members' Allowance	2	2
Total Personnel Services	<u>4,993</u>	<u>4,457</u>
Office Operating Expenses		
Depreciation/Amortization	630	672
Professional Services	623	712
General Office and Administrative Expenses	725	658
Rent/Leased Real Property	<u>306</u>	<u>268</u>
Total Office Operating Expenses	<u>2,284</u>	<u>2,310</u>
Total Expenses Subject to the Statutory Limit	<u>7,277</u>	<u>6,767</u>
Expenses Not Subject to the Statutory Limit		
Information Technology Professional Services	127	122
Information Security Professional Services	21	33
Finance Software Professional Services	1	5
Actuarial Fees ¹	(5)	95
Equipment/Software	<u>51</u>	<u>224</u>
Total Expenses Not Subject to the Statutory Limit	<u>195</u>	<u>479</u>
Total Pension Trust Fund Administrative Expenses	7,472	7,246
Health Care Fund - County Administrative Expenses	7	6
Health Care Fund - OCFA Administrative Expenses	5	4
Custodial Fund - OCTA Administrative Expenses	<u>6</u>	<u>6</u>
Total Administrative Expenses	<u>\$ 7,490</u>	<u>\$ 7,262</u>

¹ The \$5,000 credit in 2024 is related to actuarial fees reimbursed by an employer for an employer specific project.

Administrative Expense Compared to Projected Actuarial Accrued Liability

For the Three Months Ended March 31, 2024

(Dollars in Thousands)

Projected Actuarial Accrued Liability (AAL) as of 12/31/23	\$	26,477,040
Maximum Allowed for Administrative Expense (AAL * 0.21%)		55,602
Actual Administrative Expense ¹		<u>7,277</u>
Excess of Allowed Over Actual Expense	\$	<u>48,314</u>
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%
Actual Administrative Expense for the three months ended 3/31/23 as a Percentage of Projected Actuarial Accrued Liability as of 12/31/22		0.03%
¹ Administrative Expense Reconciliation		
Administrative Expense per Statement of Changes in Fiduciary Net Position	\$	7,472
Less: Administrative Expense Not Considered per CERL Section 31596.1		<u>(195)</u>
Administrative Expense Allowable Under CERL Section 31580.2	\$	<u>7,277</u>