



DEPARTMENT OF FIRE AND POLICE PENSIONS

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REPORT TO THE BOARD OF FIRE AND POLICE PENSION COMMISSIONERS

DATE: MAY 16, 2024 **ITEM:** D.2

FROM: JOSEPH SALAZAR, GENERAL MANAGER

SUBJECT: CHIEF INVESTMENT OFFICER'S QUARTERLY REPORT OF INVESTMENT ACTIVITY AND POSSIBLE BOARD ACTION

RECOMMENDATION

That the Board approve the actual asset allocation of the Fund and Staff's plans for bringing asset classes currently outside of their target allocation ranges back within their allocation ranges.

BACKGROUND

The Rebalancing Policy (Board Investment Policies Section 1.7) specifies that the Board will review and affirmatively approve any allocations of Fund assets outside of their target ranges. It states:

Staff will monitor the portfolio's actual asset allocation relative to the target allocations. If the actual allocations fall within the defined ranges, no rebalancing will be required. If the actual allocations fall outside the predetermined range, Staff will implement a rebalancing back within the range of the target allocation.

Staff will report all rebalancing activities to the Board on a quarterly basis at a minimum. In circumstances where it is impractical to rebalance the portfolio for any market or portfolio-specific reason, Staff shall assess the rebalancing options, notify the Board of the out of balance situation, and report its recommendations to the Board. Staff shall seek approval from the Board to implement rebalancing according to Staff's recommended rebalancing plan in situations that involve leaving the portfolio, or some portion of the portfolio out of balance for an extended period of time.

The following table displays the current target asset allocation plan and actual allocation percentages as of April 30, 2024:

| Asset Class | Target Allocation | Lower Range | Upper Range | Actual Allocation* |
|--------------------------------|-------------------|-------------|-------------|--------------------|
| Broad U.S. Equity | 29% | | | |
| Domestic Large Cap Equity | 23.00% | 20.24% | 25.76% | 24.18% |
| Small Cap Equity | 6.00% | 4.71% | 7.29% | 6.11% |
| Broad International Equity | 18% | | | |
| International Developed Equity | 18.00% | 15.30% | 20.70% | 17.40% |
| International Emerging Markets | 0.00% | N/A | N/A | 0.01% |

| Asset Class | Target Allocation | Lower Range | Upper Range | Actual Allocation* |
|-----------------------------|-------------------|-------------|-------------|--------------------|
| Private Equity | 15% | | | |
| Private Equity | 15.00% | 11.25% | 18.75% | 17.50% |
| LAFPP Custom Fixed Income** | 22% | | | |
| Core Bonds | 10.78% | 10.13% | 11.43% | 10.33% |
| TIPS | 3.52% | 3.30% | 3.74% | 3.98% |
| High Yield Bonds | 2.20% | 1.89% | 2.51% | 2.40% |
| Unconstrained Fixed Income | 2.20% | 1.98% | 2.42% | 2.40% |
| Global Credit | 3.30% | 2.84% | 3.76% | 3.10% |
| Private Credit | 3% | | | |
| Private Credit | 3.00% | 2.25% | 3.75% | 0.02% |
| LAFPP Custom Real Estate | 10% | | | |
| Private Real Estate | 7.00% | 6.00% | 8.00% | 6.08% |
| REITs | 3.00% | 2.51% | 3.50% | 3.77% |
| Commodities | 2% | | | |
| Commodities | 2.00% | 1.52% | 2.48% | 0.81% |
| Cash Equivalents | 1% | | | |
| Cash | 1.00% | 1.00% | 4.00% | 1.89% |
| TOTAL | 100% | | | |

*May not sum exactly to 100% due to rounding.

**The table reflects the new Fixed Income asset class structure adopted by the Board on March 7, 2024.

DISCUSSION

As shown in Attachment I, Domestic Large Cap Equity, Domestic Small Cap Equity, International Developed Equity, Core Bonds (including TIPS), High Yield Bonds, Global Credit, Unconstrained Fixed Income, Cash, Total Real Estate (including REITs), and Private Equity were within their target ranges. Commodities and Private Credit were below their target ranges. International Emerging Markets was above its target range.

Since the presentation of the prior Chief Investment Officer's Quarterly Report, the market value of the Fund has remained approximately the same (\$30.53 billion as of January 31, 2024 versus \$30.55 billion as of April 30, 2024). At the March 7, 2024 meeting, the Board adopted changes to the targets within the Fixed Income asset class, which are reflected in the table above. To manage asset class exposures and continue the implementation of the revised asset allocation policy adopted by the Board on August 3, 2023, Staff completed the following rebalancing transactions:

- 1) Withdrawal of \$325 million total in two tranches in March 2024 and April 2024 from the cash account to a Core Bonds account; and a withdrawal of \$200 million in April 2024 from the cash account to a Core Bonds emerging manager account (\$50 million) and the Global Credit account (\$150 million) pursuant to the new Fixed Income asset class structure.
- 2) Withdrawal of \$175 million from the cash account to an International Developed Equity account in March 2024 to bring the asset class closer to its target allocation.

- 3) Withdrawal of \$500 million total from two Domestic Large Cap Equity accounts in March 2024 and April 2024 to realize gains from the asset class with the cash proceeds used for pension payments and other liquidity needs.

Regarding the overweights and underweights to various asset classes, the International Emerging Markets asset class continues to have a marginal overweight relative to its target allocation (0%) due to approximately \$2 million worth of non-tradable securities that remain on the books from the liquidation of the asset class. The securities are non-tradable primarily due to the U.S. sanctions on Russian companies and stocks that have been delisted.

The Private Credit asset class will continue to be underweight relative to its target allocation for an extended period. To date, the Board has approved 11 private credit fund commitments totaling \$440 million. As forecasted in the Private Credit implementation plan reviewed by the Board on June 1, 2023, the target allocation to Private Credit is expected to be achieved within five to six years as the Board commits to new private credit funds at a measured pace.

Staff continues to seek opportunities to reduce the overweight to REITs. Since December 2022, Staff has rebalanced the domestic REIT portfolio by a total of \$520 million with the cash proceeds used to fund commitments in private real estate, pension payments, and other liquidity needs. Staff anticipates that the REIT allocation will be within its target range in approximately one year.

The underweight to Commodities is discussed in the Current Events section of this report.

Attachments I and II illustrate the allocation status of each asset class and the Fund as of April 30, 2024.

DUE DILIGENCE MEETINGS

During the 3-month period ended April 30, 2024, Staff conducted 51 due diligence meetings (on-site meetings, conference calls, and annual meetings via phone or video-based platforms) with Asset Managers working for the Fund.

CASH FLOW

The actual and projected pension related cash flows (in millions) for 2Q2024 and 3Q2024 are summarized below:

| | Apr 1 – Jun 30, 2024 Actual/Projected | Jul 1 – Sep 30, 2024 Projected |
|---|--|-----------------------------------|
| City Contributions (Net) ¹ | 0.0 | 673.3 |
| Member Contributions | 38.1 | 45.7 |
| Investment Income ² | 130.4 | 133.8 |
| Securities Lending | 1.3 | 1.3 |
| Earnings on Cash + Miscellaneous | 5.1 | 5.5 |
| Private RE, PC and PE Cash Flow | -16.7 | -30.1 |
| DROP | -20.9 | -11.7 |
| Pension Benefits ³ | -310.3 | -308.5 |
| OPEB ⁴ | -41.2 | -40.6 |
| Administrative Expense | -7.7 | -8.6 |
| Net Cash Flow (est.)⁵ | -221.9 | 460.1 |

¹The Net City Contribution = (the Total General Fund Contribution – the retirement contribution payment from LAFPP to LACERS for LAFPP Staff) + the Special Fund (Harbor) contribution + the Special Fund (LAWA) contribution received in the beginning of the fiscal year.

²Investment income (dividends and interest) withdrawals resumed in March 2023 and are used to fund the pension payrolls.

³Pension Benefits include: service pensions, disability pensions, surviving spouse/domestic partner pensions, minor/dependent pensions, and refund of contributions.

⁴Other Postemployment Benefits (OPEB) include: health insurance premium subsidy, dental insurance premium subsidy, Medicare reimbursement, and health insurance premium reimbursement.

⁵Negative Cash Flow is funded by Cash and rebalancing.

CURRENT EVENTS

At the March 7, 2024 meeting, RVK presented the results of the Fixed Income asset class structure study. The Board approved several recommendations that included eliminating the passive Core Bond mandate, conducting a search for a new active Core Bond investment manager, changing the duration of the Treasury Inflation-Protected Securities (TIPS) portfolio, and reallocating assets across existing Fixed Income strategies, including increasing the account sizes of two emerging managers. Staff is in progress of implementing the restructuring of the asset class. To date, the following tasks have been completed:

- The Board approved the minimum qualifications for the active Core Bond investment manager search on April 18, 2024. Staff placed advertisements of the search with the *Pensions & Investments* and *FinDaily/Emerging Manager Monthly* publications; the ads started running the week of May 6, 2024. The ads were also distributed to various industry organizations including the Association of Asian American Investment Managers (AAAIM); New America Alliance (NAA); National Association of Investment Companies (NAIC); National Association of Securities Professionals (NASP); and Women in Institutional Investments Network (WIIIN). RVK will begin screening the eVestments database for qualified candidates on June 3, 2024.
- Staff revised the investment guidelines of LAFPP's existing passive TIPS investment manager, changing the benchmark from the Bloomberg U.S. Government Inflation-Linked Bond Index to the Bloomberg U.S. TIPS 1-5 Year Index in order to shorten the duration of the strategy; the new guidelines became effective May 1, 2024.
- Staff began rebalancing the Fixed Income asset class according to the new structure, as highlighted in the Discussion section of this report.
- Staff negotiated investment fee reductions with two Fixed Income managers as discussed in the May 2, 2024 report to the Board.

The implementation of the new Fixed Income asset class structure is expected to be completed by June 30, 2025. The timing of completion will largely depend on the amount of time required to complete the search for and execute a contract with the new active Core Bond investment manager.

Additionally, in December 2023, the Board approved Staff's recommendation to conduct a combined study on the Real Estate and Commodities asset classes to evaluate the effectiveness of existing strategies of providing portfolio diversification and inflation protection. Accordingly, Staff also recommended halting the implementation of the 1% increase to the target allocation of the Commodities asset class pursuant to the revised asset allocation until this study is completed. As a result, the Commodities asset class is currently underweight relative to its target allocation range.

The Real Estate and Commodities asset class structure study is anticipated to be completed and presented to the Board early in the third quarter of 2024. The study will evaluate the Real Estate and Commodities asset classes within the context of a broader “Real Assets” asset class and may introduce new inflation mitigating strategies (e.g., infrastructure investments) for the Board’s consideration. To assist the Board with making well-informed decisions, RVK will conduct two educational presentations on Real Assets prior to presenting preliminary ideas for asset class structure changes and final recommendations. Part I of the education will be presented at today’s meeting.

Further, as part of Staff’s efforts to promote diversity, equity, and inclusion (DEI) within the Investment Program pursuant to Business Plan Project No. 13, Staff has partnered with the New America Alliance (NAA) to conduct an emerging manager virtual outreach event on May 23, 2024. The event will be hosted by the NAA and focused on educating emerging managers about LAFPP’s Emerging Managers Policy and program. It will consist of a 30-minute fireside chat between LAFPP’s Chief Investment Officer and the NAA’s Chief Executive Officer, followed by a 60-minute panel discussion with LAFPP’s Investment Officers. The event will be exclusive to LAFPP and NAA members.

Lastly, also as part of Staff’s efforts to promote DEI within the Investment Program pursuant to Business Plan Project No. 13, Staff has partnered with the Girls Who Invest (GWI) organization to identify and hire two college students who will serve as summer interns within LAFPP’s Investments Division. GWI is a non-profit organization that offers tuition-free educational programs to undergraduate students to develop and advance women investors. The interns are scheduled to begin working in July 2024 for a period of seven weeks.

BUDGET

This report has no budget impact.

POLICY

There is no policy impact associated with this report.

CONTRACTOR DISCLOSURE INFORMATION

There is no contractor disclosure information required with this report.

This report was prepared by:

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Investments Division

JS:BF:AC:SL:CN

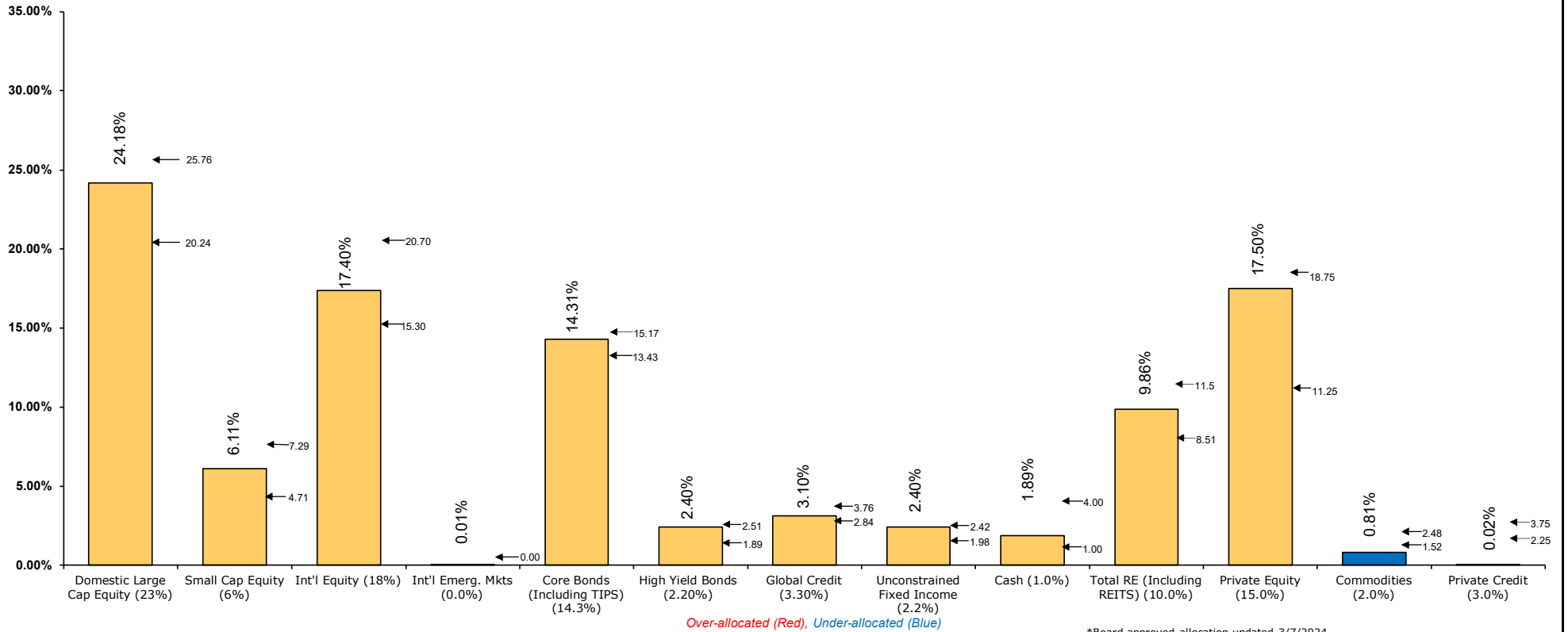
Attachments: I – Portfolio Allocation Chart as of April 30, 2024
II – Total Plan Portfolio as of April 30, 2024



Los Angeles Fire and Police Pensions

ATTACHMENT I

Portfolio Allocation





Los Angeles Fire and Police Pensions

ATTACHMENT II

Portfolio as of April 30, 2024

| EQUITIES | STOCKS | BONDS | CASH | TOTAL | ALLOC. |
|---|-----------------|----------|--------------|-----------------|---------------|
| AllianceBernstein (S&P 500 Index) | 2,493.3 | - | 2.7 | 2,496.0 | |
| AllianceBernstein (Systematic Value) | 770.3 | - | 2.7 | 773.0 | |
| Rhumbline (Russell 1000 Growth Index) | 1,723.7 | - | 1.4 | 1,725.1 | |
| NTI S&P 500 Equal Weight | 1,196.8 | - | 6.9 | 1,203.7 | |
| NTI Stoxx USA 900 | 564.3 | - | 1.7 | 565.9 | |
| Boston Partners (Value) | 616.1 | - | 7.4 | 623.5 | |
| Terminated/Transition Domestic Equity Managers | - | - | 0.0 | 0.0 | |
| Core Equity Managers (23%) | 7,364.4 | - | 22.8 | 7,387.2 | 24.18% |
| Target Differential | 1.18% | | | | 360.0 |
| Rhumbline (S&P 600 Index) | 141.7 | - | 0.3 | 141.9 | |
| Frontier Capital Mgt. (Growth) | 629.6 | - | 11.2 | 640.7 | |
| Channing Capital Mgt. (Value)* | 74.0 | - | 2.7 | 76.7 | |
| Denali Advisors (Value)* | 89.4 | - | 1.0 | 90.4 | |
| Eastern Shore Capital (Core)* | 53.8 | - | 1.6 | 55.5 | |
| Lisanti Capital (Growth)* | 53.1 | - | 1.6 | 54.7 | |
| PIMCO Stocks Plus (Core) | 198.5 | - | - | 198.5 | |
| Palisade Capital Management (Core) | 83.3 | - | 3.3 | 86.6 | |
| Phocas Financial (Value)* | 72.8 | - | 2.7 | 75.6 | |
| Westwood Management (Value) | 230.8 | - | 1.6 | 232.4 | |
| AllianceBernstein (Value) | 214.0 | - | 0.9 | 214.9 | |
| Terminated/Transition Small Cap Equity Managers | - | - | 0.0 | 0.0 | |
| Small Cap. Equity Mgrs (6%) | 1,840.9 | - | 26.9 | 1,867.8 | 6.11% |
| Target Differential | 0.11% | | | | 34.7 |
| Brandes Investment Partners (Value) | 1,690.5 | - | 37.0 | 1,727.5 | |
| Blackrock (Core Passive) | 1,913.4 | - | 9.5 | 1,922.8 | |
| Baillie Gifford (Growth) | 1,132.1 | - | 21.7 | 1,153.7 | |
| Boston Common (ESG) | 37.2 | - | 0.9 | 38.1 | |
| Principal Global Int'l Small Cap | 213.8 | - | 3.0 | 216.8 | |
| Victory Capital Mgt. | 251.8 | - | 3.9 | 255.7 | |
| Terminated/Transition Int'l Equity Managers | - | - | 0.1 | 0.1 | |
| Int'l Equity Mgrs (18%) | 5,238.8 | - | 76.0 | 5,314.8 | 17.40% |
| Target Differential | (0.60)% | | | | (184.7) |
| Harding Loevner | - | - | 0.0 | 0.0 | |
| Dimensional Fund Advisors | 1.7 | - | 0.1 | 1.7 | |
| Sanctioned Assets | 0.3 | - | - | 0.3 | |
| Int'l Emerg. Mkts Mgrs (0%) | 2.0 | - | 0.1 | 2.1 | 0.01% |
| Target Differential | 0.01% | | | | 2.1 |
| TOTAL EQUITIES MANAGERS (47%) | 14,446.1 | - | 125.7 | 14,571.8 | 47.69% |
| Int'l Tax Reclaims | 1.6 | 0.1 | 2.5 | 4.2 | |

| FIXED INCOME | STOCKS | BONDS | CASH | TOTAL | ALLOC. |
|---|-------------|----------------|--------------|----------------|---------------|
| Northern Trust (Fixed Income Index) | - | 796.3 | 2.2 | 798.5 | |
| Reams Asset Mgmt. (Opportunistic) | - | 884.5 | - | 884.5 | |
| LM Capital (Opportunistic) | - | 690.1 | 24.1 | 714.2 | |
| GIA Partners (Opportunistic)* | 0.0 | 98.6 | 0.6 | 99.3 | |
| Medalist Partners (MBS)* | - | 99.7 | 1.4 | 101.1 | |
| Loomis Sayles (Long Duration) | - | 551.6 | 7.6 | 559.2 | |
| Reams Asset Mgmt. (Passive TIPS) | - | 1,017.7 | 197.9 | 1,215.7 | |
| Terminated/Transition Fixed Income Managers | - | - | - | - | |
| Core Bond Mgrs (14.3%) | 0.0 | 4,138.6 | 233.8 | 4,372.5 | 14.31% |
| Target Differential | 0.01% | | | | 3.4 |
| MacKay Shields (High Yield) | 10.7 | 704.4 | 19.6 | 734.7 | 2.40% |
| Loomis Sayles Global Credit | - | 897.9 | 48.1 | 946.1 | 3.10% |
| Credit Fixed Income (5.5%) | 10.7 | 1,602.3 | 67.7 | 1,680.8 | 5.50% |
| Target Differential | 0.00% | | | | 0.4 |
| Reams Asset Mgmt. (Unconstrained) | 1.1 | 357.3 | - | 358.4 | |
| Payden & Rygel (Unconstrained) | - | 376.2 | - | 376.2 | |
| Unconstrained Fixed Income (2.2%) | 1.1 | 733.6 | - | 734.7 | 2.40% |
| Target Differential | 0.20% | | | | 62.5 |
| TOTAL FIXED INCOME MGRS (22%) | 11.8 | 6,474.5 | 301.5 | 6,787.9 | 22.22% |

* - Denotes Emerging Manager

| PRIVATE EQUITY | STOCKS / EQUITY / RE | BONDS | CASH | TOTAL | ALLOC. |
|--|----------------------|----------|----------|----------------|---------------|
| Abbott Capital | 1.2 | - | - | 1.2 | |
| Hamilton Lane | 0.7 | - | - | 0.7 | |
| PCA | 0.4 | - | - | 0.4 | |
| Fairview Capital | 243.7 | - | - | 243.7 | |
| Portfolio Advisors | 4,763.2 | - | - | 4,763.2 | |
| Aldus Equity | 132.3 | - | - | 132.3 | |
| TCP | 125.1 | - | - | 125.1 | |
| Greycroft Growth IV LP | 10.3 | - | - | 10.3 | |
| Baillie Gfd PVC GP II | 20.7 | - | - | 20.7 | |
| Stepstone Group | 49.4 | - | - | 49.4 | |
| TOTAL PRIVATE EQUITY MGRS (15%) | 5,347.0 | - | - | 5,347.0 | 17.50% |
| Target Differential | 2.50% | | | | 764.1 |

| PRIVATE CREDIT | STOCKS / EQUITY / RE | BONDS | CASH | TOTAL | ALLOC. |
|---------------------------------------|----------------------|----------|----------|------------|--------------|
| Stepstone Private Credit | 6.9 | - | - | 6.9 | |
| TOTAL PRIVATE CREDIT MGRS (3%) | 6.9 | - | - | 6.9 | 0.02% |
| Target Differential | (2.98)% | | | | (909.7) |

| REAL ESTATE | STOCKS / EQUITY / RE | BONDS | CASH | TOTAL | ALLOC. |
|--------------------------|----------------------|-------|------|---------|--------|
| Alliance REIT | 202.8 | - | 1.0 | 203.8 | |
| Principal Global REIT | 183.5 | - | 2.0 | 185.6 | |
| Principal U.S. REIT | 345.5 | - | 5.9 | 351.3 | |
| Cohen & Steers U.S. REIT | 409.1 | - | 2.8 | 411.9 | |
| REIT Managers (3%) | 1,141.0 | - | 11.7 | 1,152.7 | 3.77% |
| Target Differential | 0.77% | | | | 236.1 |

| REAL ESTATE COMMINGLED FUNDS SUMMARY | STOCKS / EQUITY / RE | BONDS | CASH | TOTAL | ALLOC. |
|--|----------------------|----------|-------------|----------------|--------------|
| Total Pooled Funds | 1,418.1 | - | - | 1,418.1 | 4.64% |
| REAL ESTATE SEPARATE ACCT. SUMMARY BY MANAGER | | | | | |
| AEW (Heitman, Sentinel) | 419.5 | - | - | 419.5 | |
| Neptune Building | 21.1 | - | - | 21.1 | |
| Real Estate Equity Mgrs | 440.6 | - | - | 440.6 | 1.44% |
| Private Real Estate (7%) | 1,858.7 | - | - | 1,858.7 | 6.08% |
| TOTAL REAL ESTATE (10%) | 2,999.7 | - | 11.7 | 3,011.4 | 9.86% |
| Target Differential | (0.14)% | | | | (43.9) |

| COMMODITIES | STOCKS / EQUITY / RE | BONDS | CASH | TOTAL | ALLOC. |
|--|----------------------|----------|------------|--------------|--------------|
| Alliance (Commodities, Public Equity) CLOSED | - | - | (0.0) | (0.0) | |
| Rhumbline (Commodities, Public Equity) | 91.0 | - | 0.1 | 91.1 | |
| PA (Commodities, Private Equity) | 155.0 | - | - | 155.0 | |
| TOTAL COMMODITIES (2%) | 246.0 | - | 0.1 | 246.0 | 0.81% |
| Target Differential | (1.19)% | | | | (365.0) |

| CASH | STOCKS / EQUITY / RE | BONDS | CASH | TOTAL | ALLOC. |
|-------------------------------|----------------------|-------|-------|-------|--------|
| HOUSE ACCOUNTS | | | | | |
| Tier 1 (Article 17) | - | - | 30.3 | 30.3 | |
| Tier 2 (Article 18) | - | - | 270.6 | 270.6 | |
| Tier 3 (Article 35) | - | - | 5.4 | 5.4 | |
| Tier 4 (New) | - | - | 2.4 | 2.4 | |
| Tier 5 (New) | - | - | 249.1 | 249.1 | |
| Tier 6 (New) | - | - | 19.5 | 19.5 | |
| Transition Account | - | - | 0.0 | 0.0 | |
| 115 Trust | - | - | 0.0 | 0.0 | |
| CASH SUMMARY | | | | | |
| Unallocated Cash Reserve (1%) | - | - | 577.4 | 577.4 | 1.89% |
| Target Differential | 0.89% | | | | 271.9 |

| ACTUAL ASSET MIX | TOTAL FUND | | | | | | | |
|------------------|----------------|-------------|----------------|----------|---------|-------------|---------|----------|
| | PRIVATE CREDIT | COMMODITIES | PRIVATE EQUITY | STOCKS | BONDS | REAL ESTATE | CASH | TOTAL |
| Current Month | 6.9 | 246.0 | 5,347.0 | 14,459.6 | 6,474.6 | 2,999.7 | 1,018.9 | 30,552.8 |
| | 0.02% | 0.81% | 17.50% | 47.33% | 21.19% | 9.82% | 3.33% | 100.00% |
| Last Month | 6.7 | 247.6 | 5,290.6 | 15,178.3 | 6,516.2 | 3,086.7 | 1,114.5 | 31,440.7 |
| % Change | 0.07% | -0.68% | 1.07% | -4.73% | -0.64% | -2.82% | -8.57% | -2.82% |

Notes

City Pension Contribution received on 7/12/23

Subtotals & totals may not sum up exactly due to rounding.

Data is unaudited; Dollars expressed in Millions.

Asset allocation updated by Board on 3/7/2024. Currently executing implementation plan.