



DEPARTMENT OF FIRE AND POLICE PENSIONS

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REPORT TO THE BOARD OF FIRE AND POLICE PENSION COMMISSIONERS

DATE: OCTOBER 17, 2024 **ITEM:** D.5

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 September 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%	25.00%
Small Cap Equity	6.00%	4.71%	7.29%	6.18%
Broad International Equity	18%			
International Developed Equity	18.00%	15.30%	20.70%	17.46%
International Emerging Markets	0.00%	N/A	N/A	0.01%
Private Equity	15%			

Asset Class	Target Allocation	Lower Range	Upper Range	Actual Allocation*
Private Equity	15.00%	11.25%	18.75%	16.50%
LAFPP Custom Fixed Income	22%			
Core Bonds	10.78%	10.13%	11.43%	11.04%
TIPS	3.52%	3.30%	3.74%	3.17%
High Yield Bonds	2.20%	1.89%	2.51%	2.28%
Unconstrained Fixed Income	2.20%	1.98%	2.42%	2.29%
Global Credit	3.30%	2.84%	3.76%	3.20%
Private Credit	3%			
Private Credit	3.00%	2.25%	3.75%	0.25%
LAFPP Custom Real Estate	10%			
Private Real Estate	8.50%	7.29%	9.71%	5.74%
REITs	1.50%	1.25%	1.75%	3.78%
Infrastructure	2%			
Infrastructure	2.00%	1.50%	2.50%	0.00%
Commodities	0%			
Commodities	0.00%	N/A	N/A	0.80%
Cash Equivalents	1%			
Cash	1.00%	1.00%	4.00%	2.27%
TOTAL	100%			

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

DISCUSSION

As shown in the table above and in Attachment I, Domestic Large Cap Equity, Small Cap Equity, International Developed Equity, Core Bonds (including TIPS), High Yield Bonds, Global Credit, Unconstrained Fixed Income, Private Equity, and Cash were within their target ranges. While the total exposure to Real Estate (public and privately traded) was within its target range, Private Real Estate was underallocated and Real Estate Investment Trusts (REITs) were overallocated. Additionally, Private Credit and Infrastructure were underallocated and Commodities were overallocated. At the August 15, 2024 meeting, the Board adopted changes to the targets within the Real Assets asset class (specifically, Real Estate, Commodities, and Infrastructure), which are reflected in the table and in Attachment I.

Since the presentation of the prior Chief Investment Officer's Quarterly Report, the market value of the Fund has increased from \$30.6 billion as of April 30, 2024, to \$33.4 billion as of September 30, 2024, primarily driven by strong, but volatile, public equities performance. During this period, Staff completed the following rebalancing activities:

- 1) Withdrew \$200 million in May from a passive fixed income account and transferred the funds to the cash account as part of the fixed income restructure implementation adopted by the Board on March 7, 2024.

- 2) Transferred approximately \$180 million in July from the cash account and added funds to various active core fixed income manager accounts to rebalance the fixed income portfolio according to target allocations.
- 3) Withdrew \$41 million in September from an active international equities manager account due to expiration of the manager's contract.
- 4) Withdrew \$150 million in September from two REIT accounts as part of the regular rebalancing of the Real Estate portfolio.
- 5) Transferred \$175 million in September from the cash account and added funds to an active global credit manager account and an active core fixed income manager account to rebalance the fixed income portfolio according to target allocations.

At the August 15, 2024 meeting, the Board reviewed the Real Assets structure study conducted by RVK and Staff and adopted a new asset allocation that eliminated the 2% target allocation to Commodities and added a new 2% allocation to Infrastructure. The Board also approved a reduction of the allocation to REITs from 3% to 1.5% and an increase of the allocation to Private Real Estate from 7% to 8.5%. Staff continues to methodically liquidate the existing overallocation to REITs to fund Private Real Estate investments. Private Real Estate will remain underallocated for approximately the next three to four years based on projections provided by the Townsend Group (Townsend) in the 2025 Real Estate Annual Investment Plan (presented to the Board at the September 19, 2024 meeting). Townsend anticipates that the portfolio will get to the new Private Real Estate target (and new REITs target) by 2028. The Commodities asset class will continue to be overallocated until the Plan's public commodities strategies are liquidated and private equity commodities funds are fully realized. The new Infrastructure asset class will be underallocated for an undefined period of time. As directed by the Board at the August 15, 2024 meeting, Staff is currently developing a Real Assets implementation plan that will provide details on the approach and timing of implementing the target allocation changes to Private Real Estate, REITs, Commodities, and Infrastructure; this plan will be presented to the Board at a future meeting.

The Private Credit asset class will continue to be underweight relative to its target allocation for an extended period. 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. To date, the Board has approved total commitments of \$470 million to twelve private credit funds.

Attachments I and II illustrate the actual allocation of each asset class and the Fund as of September 30, 2024, relative to the current target allocations.

DUE DILIGENCE MEETINGS

During the 5-month period ended September 30, 2024, Staff conducted 68 due diligence 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 3Q2024 and 4Q2024 are summarized below:

	Jul 1 – Sep 30, 2024 Actual/Projected	Oct 1 – Dec 31, 2024 Projected
City Contributions (Net) ¹	663.9	0.0
Member Contributions	37.9	39.5
Investment Income ²	132.5	131.1
Securities Lending	1.1	1.2
Earnings on Cash + Miscellaneous	3.3	4.2
Private RE, PC and PE Cash Flow	-58.2	-81.0
DROP	-11.5	-20.0
Pension Benefits ³	-324.2	-317.1
OPEB ⁴	-43.0	-42.0
Administrative Expense	-10.1	-6.1
Net Cash Flow (est.)⁵	391.7	-290.2

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.

OTHER INVESTMENT ACTIVITIES

At the March 7, 2024 meeting, the Board adopted a new Fixed Income asset class structure based on a study conducted by RVK and Staff. Status updates on the implementation of the approved asset class changes are provided below.

Approved Fixed Income Asset Class Change	Status
Add New Active Core Fixed Income Manager	Manager search initiated the week of May 6, 2024; Evaluation of qualified candidates in progress.
Eliminate Passive Core Bond Mandate	Pending completion of the active core fixed income manager search.
Reduction of allocation to TIPS	Completed in May 2024.
Reduction of duration of TIPS mandate	Completed in May 2024.
Increase in allocation to Global Credit mandate	Completed in April 2024.
Reduction of allocation to Long Duration Bond and High Yield Bond mandates	Completed. No action was required as actual allocations were near new targets at the time the Board approved changes.
Increase in allocations to two successful emerging manager mandates	Completed in April 2024.

The Investments Division hosted two college interns from the *Girls Who Invest* program for a seven-week period that began on July 1st and concluded on August 15th. During this period, the interns worked on several projects related to LAFPP's investment portfolio and developed a core skillset in

public pension fund investing. This inaugural investment internship program was a highly rewarding experience for Staff and the interns, and the program was deemed a success. Staff plans to host another internship program in the summer of 2025 through a continued partnership with *Girls Who Invest*.

As part of Staff's efforts to enhance outreach to emerging managers per the 2024-2025 Annual Plan, Strategic Goal Project #2, LAFPP and LACERS investment staff will be co-hosting an Emerging Manager Networking Forum on November 14, 2024 at LACERS' offices. This half-day event will provide 18 randomly selected emerging managers the opportunity to present their investment strategies and network with the investment staff of both plans. The event was broadly marketed to LAFPP's and LACERS' existing emerging manager contacts, investment consultants and their emerging manager contacts, and emerging manager organizations. Event information was also prominently posted to the LAFPP and LACERS websites. Event registration closed on October 11, 2024.

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

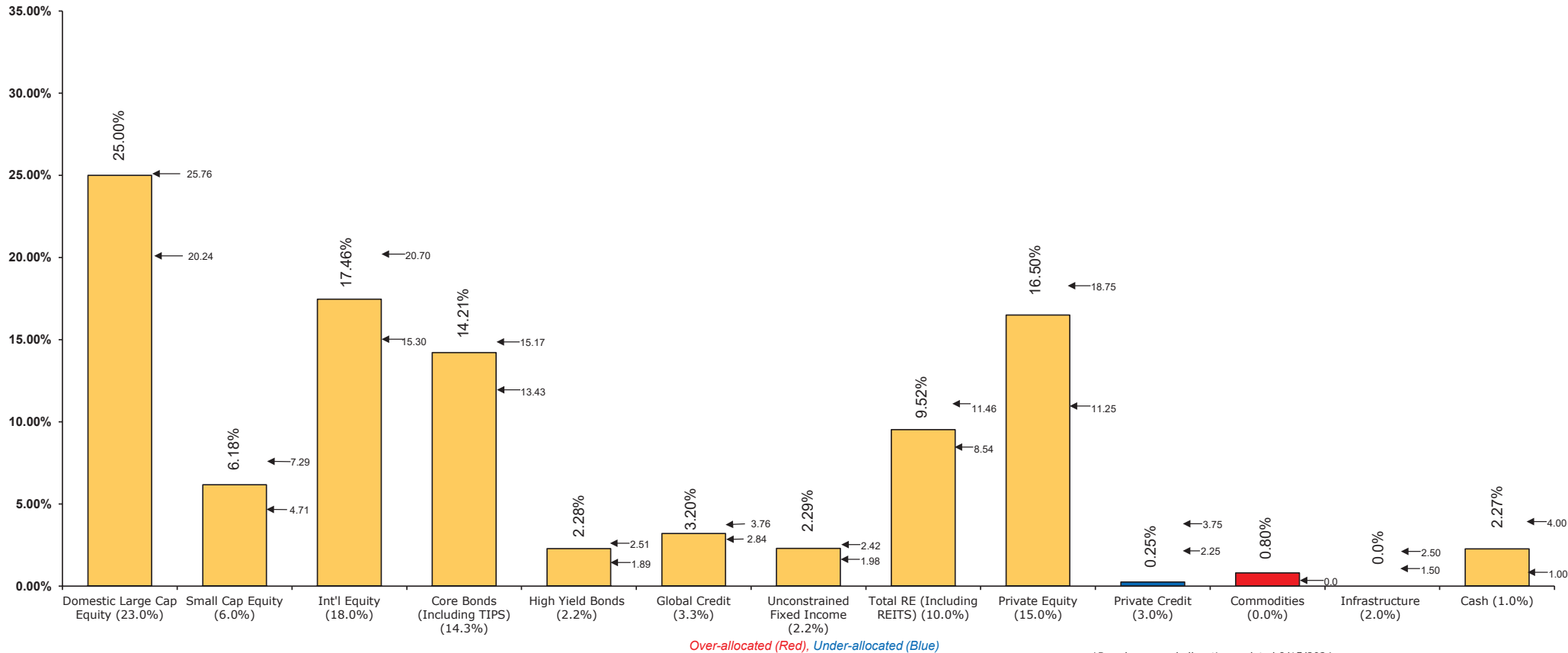
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Attachments: I – Portfolio Allocation Chart as of September 30, 2024
II – Total Plan Portfolio as of September 30, 2024



Los Angeles Fire and Police Pensions

Portfolio Allocation





Los Angeles Fire and Police Pensions

Portfolio as of September 30, 2024

EQUITIES						PRIVATE EQUITY									
	STOCKS	BONDS	CASH	TOTAL	ALLOC.	STOCKS / EQUITY / RE	BONDS	CASH	TOTAL	ALLOC.					
AllianceBernstein (S&P 500 Index)	2,853.1	-	3.2	2,856.3		Abbott Capital	1.0	-	1.0						
AllianceBernstein (Systematic Value)	848.8	-	2.9	851.7		Hamilton Lane	0.2	-	0.2						
Rhumbline (Russell 1000 Growth Index)	2,006.1	-	1.6	2,007.7		PCA	0.4	-	0.4						
NTI S&P 500 Equal Weight	1,331.4	-	6.0	1,337.4		Fairview Capital	250.0	-	250.0						
NTI Stoxx USA 900	614.4	-	1.1	615.5		Portfolio Advisors	4,900.6	-	4,900.6						
Boston Partners (Value)	665.6	-	10.2	675.8		Aldus Equity	126.7	-	126.7						
Terminated/Transition Domestic Equity Managers	-	-	0.0	0.0		TCP	148.0	-	148.0						
Core Equity Managers (23%)	8,319.4	-	25.0	8,344.4	25.00%	Greycroft Growth IV LP	10.9	-	10.9						
Target Differential	2.00%	-	-	668.3	668.3	Baillie Gfd PVC GP II	27.2	-	27.2						
						Stepstone Group	42.7	-	42.7						
Rhumbline (S&P 600 Index)	159.1	-	0.3	159.3		TOTAL PRIVATE EQUITY MGRS (15%)	5,507.8	-	5,507.8	16.50%					
Frontier Capital Mgt. (Growth)	681.0	-	3.8	684.8		Target Differential	1.50%	-	501.6	501.6					
Channing Capital Mgt. (Value)*	81.0	-	2.5	83.6											
Denali Advisors (Value)*	98.2	-	1.2	99.3		PRIVATE CREDIT									
Eastern Shore Capital (Core)*	62.4	-	1.5	64.0		STOCKS / EQUITY / RE	BONDS	CASH	TOTAL	ALLOC.					
Lisanti Capital (Growth)*	61.4	-	1.4	62.8		Stepstone Private Credit	83.3	-	83.3						
PIMCO Stocks Plus (Core)	227.5	-	-	227.5		TOTAL PRIVATE CREDIT MGRS (3%)	83.3	-	83.3	0.25%					
Palisade Capital Management (Core)	91.9	-	3.2	95.1		Target Differential	(2.75)%	-	(918.0)	(918.0)					
Phocas Financial (Value)*	82.2	-	2.1	84.2											
Westwood Management (Value)	256.6	-	1.7	258.4		REAL ESTATE									
AllianceBernstein (Value)	240.9	-	1.1	242.0		Alliance REIT	189.7	-	0.9	190.6					
Terminated/Transition Small Cap Equity Managers	-	-	0.0	0.0		Principal Global REIT	217.7	-	3.7	221.3					
Small Cap. Equity Mgrs (6%)	2,042.1	-	18.9	2,061.0	6.18%	Principal U.S. REIT	326.1	-	5.6	331.8					
Target Differential	0.18%	-	-	58.5	58.5	Cohen & Steers U.S. REIT	512.4	-	6.7	519.1					
Brandes Investment Partners (Value)	1,880.4	-	43.6	1,924.0		REIT Managers (1.5%)	1,245.9	-	16.9	1,262.7					
Blackrock (Core Passive)	2,077.5	-	9.3	2,086.8		Target Differential	0.78%	-	762.1	762.1					
Baillie Gifford (Growth)	1,276.8	-	23.3	1,300.1		REAL ESTATE COMMINGLED FUNDS SUMMARY									
Boston Common (ESG)	0.0	-	0.4	0.4		Total Pooled Funds	1,500.8	-	-	1,500.8					
Principal Global Int'l Small Cap	232.8	-	1.7	234.5		REAL ESTATE SEPARATE ACCT. SUMMARY BY MANAGER									
Victory Capital Mgt.	277.7	-	4.0	281.7		AEW (Heitman, Sentinel)	393.8	-	-	393.8					
Terminated/Transition Int'l Equity Managers	-	-	0.1	0.1		Neptune Building	21.1	-	-	21.1					
Int'l Equity Mgrs (18%)	5,745.2	-	82.4	5,827.6	17.46%	Real Estate Equity Mgrs	414.9	-	-	414.9					
Target Differential	(0.54)%	-	-	(179.8)	(179.8)	Private Real Estate (8.5%)	1,915.8	-	-	1,915.8					
TOTAL EQUITIES MANAGERS (47%)	16,106.7	-	126.2	16,232.9	48.64%	TOTAL REAL ESTATE (10%)	3,161.6	-	16.9	3,178.5					
Int'l Tax Reclaims	3.3	0.1	2.5	5.8		Target Differential	(0.48)%	-	(158.9)	(158.9)					
COMMODITIES						INFRASTRUCTURE									
Alliance (Commodities, Public Equity) CLOSED	-	-	(0.0)	(0.0)											
Rhumbline (Commodities, Public Equity)	100.7	-	0.2	100.9											
PA (Commodities, Private Equity)	167.5	-	-	167.5		TOTAL INFRASTRUCTURE (2%)	-	-	-	0.00%					
TOTAL COMMODITIES (0%)	268.1	-	0.2	268.4	0.80%	Target Differential	(2.00)%	-	(667.5)	(667.5)					
Target Differential	0.80%	-	-	268.4	268.4										
FIXED INCOME						CASH									
Northern Trust (Fixed Income Index)	-	846.6	3.9	850.4		HOUSE ACCOUNTS									
Reams Asset Mgmt. (Opportunistic)	-	949.0	-	949.0		Tier 1 (Article 17)	-	-	32.6	32.6					
LM Capital (Opportunistic)	-	846.8	18.0	864.7		Tier 2 (Article 18)	-	-	372.1	372.1					
GIA Partners (Opportunistic)*	0.0	106.2	0.6	106.8		Tier 3 (Article 35)	-	-	2.3	2.3					
Medalist Partners (MBS)*	-	109.3	1.0	110.3		Tier 4 (New)	-	-	9.8	9.8					
Loomis Sayles (Long Duration)	-	793.7	9.0	802.6		Tier 5 (New)	-	-	319.5	319.5					
Reams Asset Mgmt. (Passive TIPS)	-	1,057.8	0.8	1,058.6		Tier 6 (New)	-	-	22.1	22.1					
Terminated/Transition Fixed Income Managers	-	-	-	-		Transition Account	-	-	0.0	0.0					
Core Bond Mgrs (14.3%)	0.0	4,709.4	33.2	4,742.6	14.21%	115 Trust	-	-	0.2	0.2					
Target Differential	(0.09)%	-	-	(29.9)	(29.9)	CASH SUMMARY									
MacKay Shields (High Yield)	11.1	726.7	23.8	761.5	2.28%	Unallocated Cash Reserve (1%)	-	-	758.7	758.7					
Loomis Sayles Global Credit	-	1,018.9	50.3	1,069.3	3.20%	Target Differential	1.27%	-	425.0	425.0					
Credit Fixed Income (5.5%)	11.1	1,745.6	74.1	1,830.8	5.49%										
Target Differential	(0.01)%	-	-	(4.8)	(4.8)										
Reams Asset Mgmt. (Unconstrained)	-	384.4	-	384.4		TOTAL FUND									
Payden & Rygel (Unconstrained)	-	381.0	-	381.0		STOCKS	BONDS	REAL ESTATE	PRIVATE EQUITY	PRIVATE CREDIT	INFRA	COMM	CASH	TOTAL	
Unconstrained Fixed Income (2.2%)	-	765.4	-	765.4	2.29%	ACTUAL ASSET MIX									
Target Differential	0.09%	-	-	31.2	31.2	Current Month	16,121.0	7,220.4	3,161.6	5,507.8	83.3	-	268.1	1,011.9	33,374.1
						Last Month	15,787.4	6,957.6	3,247.2	5,491.6	58.9	-	268.8	1,232.8	33,044.4
TOTAL FIXED INCOME MGRS (22%)	11.1	7,220.3	107.3	7,338.8	21.99%	% Change	2.11%	3.78%	-2.64%	0.30%	41.33%	0.00%	-0.26%	-17.92%	1.00%
						Notes									

* - Denotes Emerging Manager

City Pension Contribution received on 7/12/24
Subtotals & totals may not sum up exactly due to rounding.
Data is unaudited; Dollars expressed in Millions.
Asset allocation updated by Board on 8/15/2024. Currently executing implementation plan.