



# DEPARTMENT OF FIRE AND POLICE PENSIONS

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## REPORT TO THE BOARD OF FIRE AND POLICE PENSION COMMISSIONERS

**DATE:** DECEMBER 5, 2024 **ITEM:** D.4

**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 October 31, 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%	25.21%
Small Cap Equity	6.00%	4.71%	7.29%	6.26%
Broad International Equity	18%			
International Developed Equity	18.00%	15.30%	20.70%	16.70%

Asset Class	Target Allocation	Lower Range	Upper Range	Actual Allocation*
Private Equity	15%			
Private Equity	15.00%	11.25%	18.75%	16.80%
LAFPP Custom Fixed Income	22%			
Core Bonds	10.78%	10.13%	11.43%	10.86%
TIPS	3.52%	3.30%	3.74%	3.20%
High Yield Bonds	2.20%	1.89%	2.51%	2.30%
Unconstrained Fixed Income	2.20%	1.98%	2.42%	2.31%
Global Credit	3.30%	2.84%	3.76%	3.21%
Private Credit	3%			
Private Credit	3.00%	2.25%	3.75%	0.27%
LAFPP Custom Real Estate	10%			
Private Real Estate	8.50%	7.29%	9.71%	6.00%
REITs	1.50%	1.25%	1.75%	3.71%
Infrastructure	2%			
Infrastructure	2.00%	1.50%	2.50%	0.00%
Commodities	0%			
Commodities	0.00%	N/A	N/A	0.72%
Cash Equivalents	1%			
Cash	1.00%	1.00%	4.00%	2.42%
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, 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, Treasury Inflation-Protected Securities (TIPS), Private Credit, and Infrastructure were underallocated and Commodities were overallocated. Attachments I and II illustrate the actual allocation of each asset class and the Fund as of October 31, 2024, relative to the current target allocations.

Since the presentation of the prior Chief Investment Officer's Quarterly Report (presented on October 17, 2024, with data as of September 30, 2024), Staff completed the following rebalancing transactions. These transactions were conducted in late November 2024 and are not reflected in the table above or in Attachments I and II:

- Liquidated the passive S&P Global Water and Clean Energy accounts and transferred the total proceeds of approximately \$91 million to the cash account as part of the Board-approved plan to eliminate Commodities as an asset class

- Withdrew \$100 million from the cash account and added the funds to the TIPS account to bring the asset class within its target range

Staff began executing the Real Assets implementation plan that the Board approved on November 7, 2024. Liquidating the publicly traded commodities accounts (S&P Global Water and Clean Energy accounts) was one of several steps of the implementation plan in order to transition the Real Assets asset class to its new structure. The Commodities asset class will continue to be overallocated until the private equity commodities funds are fully realized over the next few years. Staff also continues to evaluate rebalancing the overallocation to REITs to fund Private Real Estate investments consistent with the implementation plan. In the Real Estate Annual Investment Plan presented by the Townsend Group (Townsend) at the September 19, 2024 meeting, Townsend projected that the real estate portfolio would reach the new Private Real Estate target of 8.5% by 2028.

The new Infrastructure asset class may be underweight relative to its target allocation for an extended period. Staff is currently working with Townsend to amend the real estate consulting contract to include infrastructure consulting within Townsend's scope of services, pursuant to the Real Assets implementation plan. Once the contract amendment is executed, Staff and Townsend will develop an infrastructure investment policy and strategic pacing plan for the Board's consideration (anticipated in late 1Q2025).

The Private Credit asset class will continue to be underweight relative to its target allocation for an extended period. As indicated in the Private Credit Annual Strategic Plan presented by the StepStone Group on November 7, 2024, 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 \$500 million to 13 private credit funds.

## DUE DILIGENCE MEETINGS

During the 2-month period ended November 30, 2024, Staff conducted 33 due diligence meetings (conference calls and annual meetings via phone or video-based platforms) with Asset Managers working for the Fund. Additionally, Staff conducted 66 meetings with prospective Asset Managers.

## CASH FLOW

The actual and projected pension related cash flows (in millions) for 4Q2024 and 1Q2025 are summarized below:

	Oct 1–Dec 31, 2024 Actual/Projected	Jan 1 – Mar 31, 2025 Projected
City Contributions (Net) <sup>1</sup>	0.0	0.0
Member Contributions	37.9	39.5
Investment Income <sup>2</sup>	131.1	131.1
Securities Lending	1.1	0.9
Earnings on Cash + Miscellaneous	3.3	3.4
Private RE, PC and PE Cash Flow	-62.8	-127.6
DROP	-12.2	-31.2
Pension Benefits <sup>3</sup>	-325.7	-320.0
OPEB <sup>4</sup>	-43.0	-42.5

Administrative Expense	-8.2	-6.9
Net Cash Flow (est.) <sup>5</sup>	-278.5	-353.3

<sup>1</sup>The 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.

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

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

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

<sup>5</sup>Negative 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. All but two of the Board-approved asset class changes have been implemented. The following table provides a status update on the two outstanding items.

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. Finalist recommendations for Board consideration anticipated in 1Q2025.
Eliminate Passive Core Bond Mandate	Pending completion of the active core fixed income manager search. The assets in the passive core bond account will serve as the funding source for the new active manager.

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 co-hosted an Emerging Manager Networking Forum on November 14, 2024. The forum was highly successful and productive, providing Staff the opportunity to build relationships with new firms and learn about new investment strategies across public and private market asset classes. Of 296 firms registered for the event, 18 were randomly selected to participate in face-to-face meetings with LAFPP and LACERS investment staff. An additional 40 firms participated in a meet-and-greet session during the event. In total, 48 emerging manager firms were in attendance. Given the success of this year’s event, LAFPP and LACERS investment staff plan to co-host another event next year.

## 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

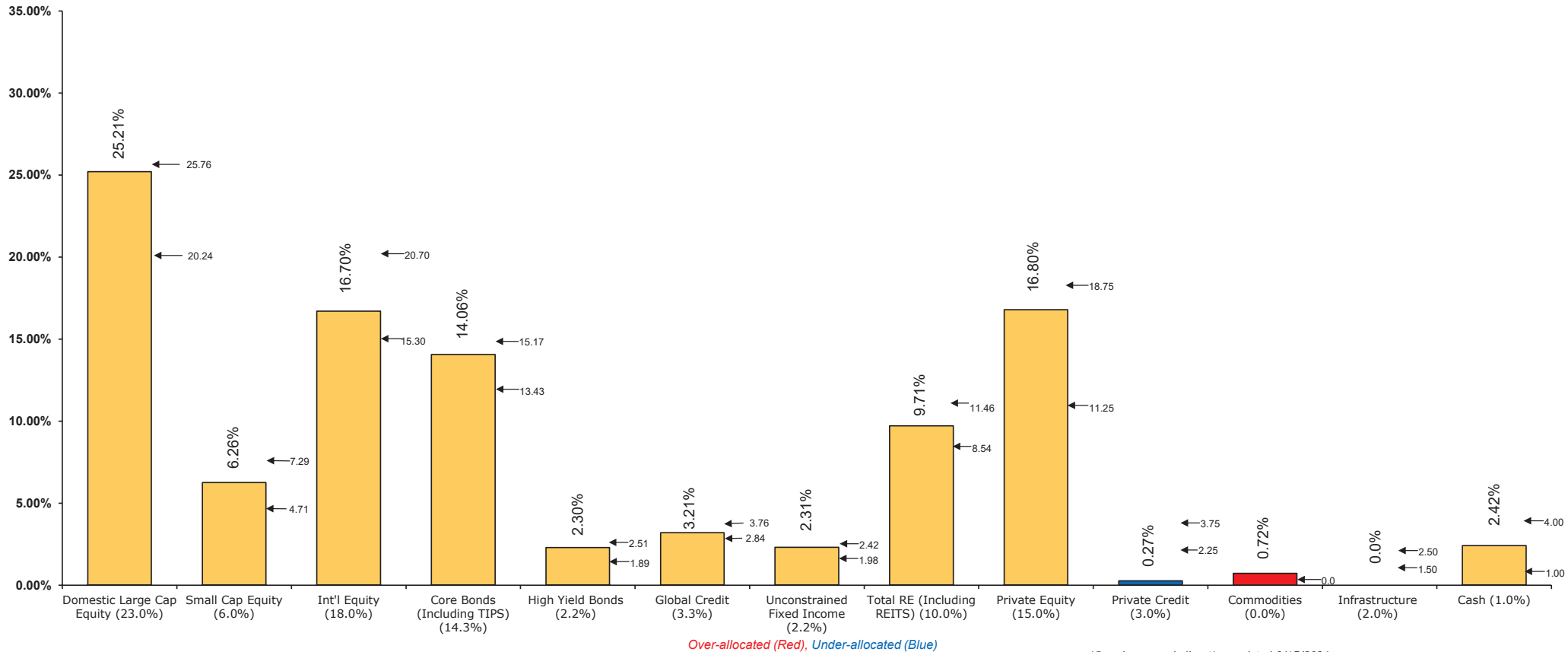
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Attachments: I – Portfolio Allocation Chart as of October 31, 2024  
II – Total Plan Portfolio as of October 31, 2024



## Los Angeles Fire and Police Pensions

### Portfolio Allocation





# Los Angeles Fire and Police Pensions

Portfolio as of October 31, 2024

EQUITIES						PRIVATE EQUITY					
	STOCKS	BONDS	CASH	TOTAL	ALLOC.	STOCKS / EQUITY / RE	BONDS	CASH	TOTAL	ALLOC.	
AllianceBernstein (S&P 500 Index)	2,822.9	-	4.5	2,827.4		Abbott Capital	1.0	-	1.0		
AllianceBernstein (Systematic Value)	839.8	-	2.5	842.4		Hamilton Lane	0.2	-	0.2		
Rhumbline (Russell 1000 Growth Index)	1,998.8	-	1.2	2,000.1		PCA	0.4	-	0.4		
NTI S&P 500 Equal Weight	1,309.8	-	6.2	1,316.0		Fairview Capital	253.3	-	253.3		
NTI Stoxx USA 900	608.0	-	1.4	609.4		Portfolio Advisors	4,905.7	-	4,905.7		
Boston Partners (Value)	662.9	-	12.3	675.2		Aldus Equity	116.0	-	116.0		
Terminated/Transition Domestic Equity Managers	-	-	0.0	0.0		Stepstone Group	42.1	-	42.1		
Core Equity Managers (23%)	8,242.3	-	28.1	8,270.4	25.21%	TCP	151.5	-	151.5		
Target Differential	2.21%				724.4	Greycroft Growth IV LP	10.8	-	10.8		
						Baillie Gfd PVC GP II	31.0	-	31.0		
Rhumbline (S&P 600 Index)	154.7	-	0.2	154.9		<b>TOTAL PRIVATE EQUITY MGRS (15%)</b>	<b>5,512.2</b>	<b>-</b>	<b>5,512.2</b>	<b>16.80%</b>	
Frontier Capital Mgt. (Growth)	659.2	-	20.1	679.4		Target Differential	1.80%			590.9	
Channing Capital Mgt. (Value)*	81.2	-	2.7	83.9							
Denali Advisors (Value)*	94.3	-	0.9	95.2		<b>PRIVATE CREDIT</b>					
Eastern Shore Capital (Core)*	62.7	-	1.5	64.2		STOCKS / EQUITY / RE	BONDS	CASH	TOTAL	ALLOC.	
Lisanti Capital (Growth)*	60.1	-	2.2	62.3		Stepstone Private Credit	88.0	-	88.0		
PIMCO Stocks Plus (Core)	247.7	-	-	247.7		<b>TOTAL PRIVATE CREDIT MGRS (3%)</b>	<b>88.0</b>	<b>-</b>	<b>88.0</b>	<b>0.27%</b>	
Palisade Capital Management (Core)	90.4	-	4.5	94.8		Target Differential	(2.73)%			(896.3)	
Phocas Financial (Value)*	81.7	-	2.3	84.0							
Westwood Management (Value)	248.2	-	3.2	251.5		<b>REAL ESTATE</b>					
AllianceBernstein (Value)	235.3	-	1.8	237.1		Alliance REIT	179.5	-	1.0	180.5	
Terminated/Transition Small Cap Equity Managers	-	-	0.0	0.0		Principal Global REIT	206.7	-	3.5	210.2	
Small Cap. Equity Mgrs (6%)	2,015.4	-	39.5	2,054.9	6.26%	Principal U.S. REIT	314.0	-	6.6	320.7	
Target Differential	0.26%				86.4	Cohen & Steers U.S. REIT	501.3	-	4.3	505.6	
						REIT Managers (1.5%)	1,201.5	-	15.5	1,217.0	
Brandes Investment Partners (Value)	1,759.6	-	30.8	1,790.4		Target Differential	0.71%			3.71%	
Blackrock (Core Passive)	1,962.3	-	7.5	1,969.9		<b>REAL ESTATE COMMINGLED FUNDS SUMMARY</b>				724.8	
Baillie Gifford (Growth)	1,218.9	-	13.2	1,232.1		Total Pooled Funds	1,490.5	-	-	1,490.5	
Boston Common (ESG)	-	-	0.4	0.4		<b>REAL ESTATE SEPARATE ACCT. SUMMARY BY MANAGER</b>				4.54%	
Principal Global Int'l Small Cap	217.1	-	3.4	220.4		AEW (Heitman, Sentinel)	458.4	-	-	458.4	
Victory Capital Mgt.	262.6	-	4.7	267.3		Neptune Building	21.1	-	-	21.1	
Terminated/Transition Int'l Equity Managers	-	-	0.1	0.1		Real Estate Equity Mgrs	479.5	-	-	479.5	
Int'l Equity Mgrs (18%)	5,420.6	-	60.1	5,480.7	16.70%	Private Real Estate (8.5%)	1,970.1	-	-	6.00%	
Target Differential	(1.30)%				(425.0)	<b>TOTAL REAL ESTATE (10%)</b>	<b>3,171.6</b>	<b>-</b>	<b>15.5</b>	<b>3,187.0</b>	
<b>TOTAL EQUITIES MANAGERS (47%)</b>	<b>15,678.3</b>	<b>-</b>	<b>127.7</b>	<b>15,806.0</b>	<b>48.18%</b>	Target Differential	(0.29)%			(93.9)	
Int'l Tax Reclaims	3.2	0.1	2.4	5.6							
<b>COMMODITIES</b>						<b>INFRASTRUCTURE</b>					
Alliance (Commodities, Public Equity) CLOSED	-	-	-	-							
Rhumbline (Commodities, Public Equity)	92.7	-	0.2	92.9		<b>TOTAL INFRASTRUCTURE (2%)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.00%</b>	
PA (Commodities, Private Equity)	144.5	-	-	144.5		Target Differential	(2.00)%			(656.2)	
<b>TOTAL COMMODITIES (0%)</b>	<b>237.2</b>	<b>-</b>	<b>0.2</b>	<b>237.4</b>	<b>0.72%</b>						
Target Differential	0.72%				237.4						
<b>FIXED INCOME</b>						<b>CASH</b>					
Northern Trust (Fixed Income Index)	-	824.1	2.7	826.8		<b>HOUSE ACCOUNTS</b>					
Reams Asset Mgmt. (Opportunistic)	-	917.5	-	917.5		Tier 1 (Article 17)	-	-	30.1	30.1	
LM Capital (Opportunistic)	-	839.5	2.3	841.8		Tier 2 (Article 18)	-	-	474.2	474.2	
GIA Partners (Opportunistic)*	0.0	103.9	0.7	104.7		Tier 3 (Article 35)	-	-	2.7	2.7	
Medalist Partners (MBS)*	-	107.1	0.4	107.4		Tier 4 (New)	-	-	10.1	10.1	
Loomis Sayles (Long Duration)	-	753.6	10.4	764.0		Tier 5 (New)	-	-	246.5	246.5	
Reams Asset Mgmt. (Passive TIPS)	-	1,050.0	0.9	1,050.9		Tier 6 (New)	-	-	29.2	29.2	
Terminated/Transition Fixed Income Managers	-	-	-	-		Transition Account	-	-	0.0	0.0	
Core Bond Mgrs (14.3%)	0.0	4,595.7	17.4	4,613.1	14.06%	115 Trust	-	-	0.2	0.2	
Target Differential	(0.24)%				(78.5)	<b>CASH SUMMARY</b>					
MacKay Shields (High Yield)	10.8	724.5	20.5	755.8	2.30%	Unallocated Cash Reserve (1%)	-	-	793.1	793.1	
Loomis Sayles Global Credit	-	1,001.2	50.7	1,052.0	3.21%	Target Differential	1.42%			2.42%	
Credit Fixed Income (5.5%)	10.8	1,725.7	71.3	1,807.8	5.51%					465.0	
Target Differential	0.01%				3.3						
Reams Asset Mgmt. (Unconstrained)	-	377.0	-	377.0		<b>TOTAL FUND</b>					
Payden & Rygel (Unconstrained)	-	381.7	-	381.7		STOCKS	BONDS	REAL ESTATE	PRIVATE EQUITY	PRIVATE CREDIT	
Unconstrained Fixed Income (2.2%)	-	758.7	-	758.7	2.31%					INFRA	
Target Differential	0.11%				36.9	COMM	CASH	TOTAL			
<b>TOTAL FIXED INCOME MGRS (22%)</b>	<b>10.8</b>	<b>7,080.1</b>	<b>88.6</b>	<b>7,179.6</b>	<b>21.88%</b>	<b>ACTUAL ASSET MIX</b>					
						Current Month	15,692.3	7,080.2	3,171.6	5,512.2	
							47.83%	21.58%	9.67%	16.80%	
						Last Month	16,121.0	7,220.4	3,161.6	5,507.8	
						% Change	-2.66%	-1.94%	0.31%	0.08%	
							5.68%	0.00%	-11.53%	1.54%	
										-1.69%	

\* - Denotes Emerging Manager

#### Notes

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.