

DEPARTMENT OF FIRE AND POLICE PENSIONS

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REPORT TO THE BOARD OF FIRE AND POLICE PENSION COMMISSIONERS

DATE: FEBRUARY 20, 2025 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 January 31, 2025:

Asset Class	Target Allocation	Lower Range	Upper Range	Actual Allocation ¹
Broad U.S. Equity	29%			
Domestic Large Cap Equity	23.00%	20.24%	25.76%	25.38%
Small Cap Equity	6.00%	4.71%	7.29%	6.44%
Broad International Equity	18%			
International Developed Equity	18.00%	15.30%	20.70%	16.74%
Private Equity	15%			
Private Equity	15.00%	11.25%	18.75%	16.48%

Asset Class	Target Allocation	Lower Range	Upper Range	Actual Allocation ¹
LAFPP Custom Fixed Income	22%			
Core Bonds	10.78%	10.13%	11.43%	10.66%
TIPS	3.52%	3.30%	3.74%	3.52%
High Yield Bonds	2.20%	1.89%	2.51%	2.30%
Unconstrained Fixed Income	2.20%	1.98%	2.42%	2.30%
Global Credit	3.30%	2.84%	3.76%	3.17%
Private Credit	3%			
Private Credit	3.00%	2.25%	3.75%	0.45%
LAFPP Custom Real Estate	10%			
Private Real Estate	8.50%	7.29%	9.71%	6.11%
REITs	1.50%	1.25%	1.75%	3.51%
Infrastructure	2%			
Infrastructure	2.00%	1.50%	2.50%	0.00%
Commodities	0%			
Commodities	0.00%	N/A	N/A	0.43%
Cash Equivalents	1%			
Cash	1.00%	1.00%	4.00%	2.51%
TOTAL	100%			

¹May 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.

Since the presentation of the prior Quarterly Report, the market value of the Fund increased from \$32.81 billion as of October 31, 2024, to \$33.07 billion as of January 31, 2025. During this period, Staff completed the following rebalancing activities:

- 1) Withdrew approximately \$92 million in December from the two passive public market commodities accounts as part of the Real Assets implementation plan to eliminate the Commodities allocation. The two accounts were fully liquidated and the proceeds were transferred to the Cash account.
- 2) Withdrew \$350 million in December from two passive large cap equity accounts to rebalance an overweight to the Domestic Large Cap Equity asset class due to market value appreciation and bring the asset class back within its target range. The assets were liquidated and the proceeds were transferred to the Cash account.

Staff began executing the Real Assets implementation plan that the Board approved on November 7, 2024. Liquidating the public market 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 for several years as the 12 remaining private equity commodities funds wind down naturally over time. 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 is expected to be underweight relative to its target allocation for an extended period given its recent adoption in August 2024. The Townsend contract was recently amended to include infrastructure advisory services pursuant to the Real Assets implementation plan. Staff and Townsend have initiated the development of an infrastructure strategic pacing plan, which is anticipated to be presented to the Board on March 20, 2025.

The Private Credit asset class will also continue to be underweight relative to its target allocation for an extended period given the nascency of the Private Credit program (launched in June 2023). 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 January 31, 2025, Staff conducted 19 due diligence meetings (conference calls and annual meetings via video-based platforms) with asset managers working for the Fund. Additionally, Staff conducted 22 meetings with prospective asset managers.

CASH FLOW

The actual and projected pension related cash flows (in millions) for 1Q 2025 and 2Q 2025 are summarized below:

	Jan 1 – Mar 31, 2025	Apr 1 – Jun 30, 2025
	Actual/Projected	Projected
City Contributions (Net) ¹	0.0	0.0
Member Contributions	41.1	40.3
Investment Income ²	130.1	130.1
Securities Lending	1.0	1.1
Earnings on Cash + miscellaneous	3.5	4.2
Private RE, PC and PE Cash Flow	-80.3	-67.6
DROP	-37.8	-29.3
Pension Benefits ³	-327.0	-323.0
OPEB ⁴	-43.4	-42.9
Administrative Expense	-5.2	-6.8
Net Cash Flow (est.) ⁵	-318.0	-293.9

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

Status updates on key projects related to the implementation of Board-approved structure changes for the Fixed Income and Real Assets asset classes are provided in the table below.

Investment Activities	Status
Add New Active Core Fixed Income Manager	Manager search initiated the week of May 6, 2024. On February 6, 2025, the Board approved three finalists from the search to be interviewed. The interviews have been scheduled for March 6, 2025.
Eliminate Passive Core Bond Mandate	Pending completion of the active core fixed income manager search.
Infrastructure Investment Policy and Strategic Plan	Staff and Townsend are working on developing an investment policy and guidelines for infrastructure investments. An Infrastructure Strategic Plan is tentatively scheduled to be presented to the Board on March 20, 2025.

Additionally, Staff and RVK, the Board’s General Consultant, will be initiating a Broad U.S. Equity (Domestic Large Cap Equity and Small Cap Equity) structure study to evaluate the appropriateness of the asset class structure in light of current market dynamics and asset class objectives. Preliminary results of the study are anticipated to be presented to the Board in mid-to-late 2Q 2025.

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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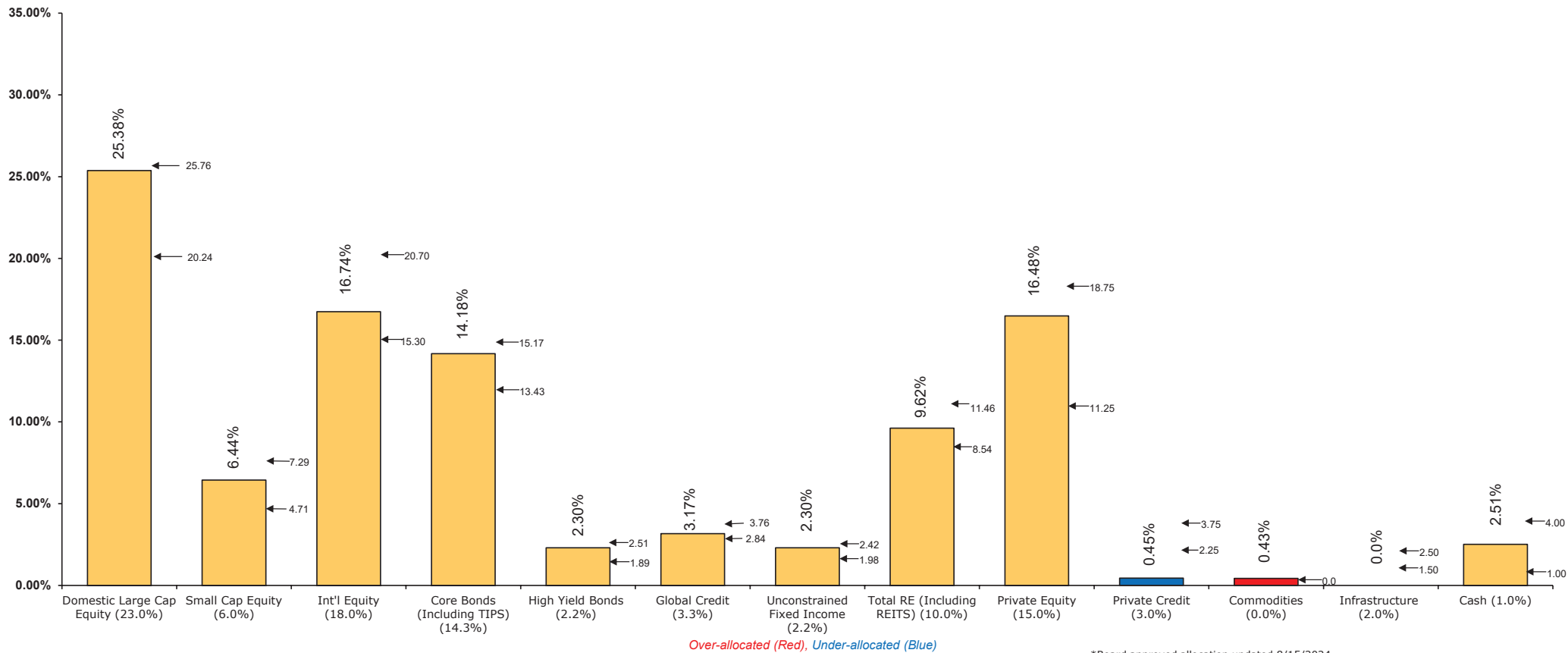
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Attachments: I – Portfolio Allocation Chart as of January 31, 2025
II – Total Plan Portfolio as of January 31, 2025



Los Angeles Fire and Police Pensions

Portfolio Allocation





Los Angeles Fire and Police Pensions

Portfolio as of January 31, 2025

EQUITIES					STOCKS	BONDS	CASH	TOTAL	ALLOC.	PRIVATE EQUITY					STOCKS / EQUITY / RE	BONDS	CASH	TOTAL	ALLOC.					
AllianceBernstein (S&P 500 Index)	2,785.8	-	4.2	2,789.9							Abbott Capital	0.9	-	-	0.9									
AllianceBernstein (Systematic Value)	873.9	-	3.1	877.1							Hamilton Lane	0.1	-	-	0.1									
Rhumblin (Russell 1000 Growth Index)	2,036.0	-	1.1	2,037.0							PCA	0.4	-	-	0.4									
NTI S&P 500 Equal Weight	1,345.6	-	7.1	1,352.8							Fairview Capital	257.8	-	-	257.8									
NTI Stoxx USA 900	627.8	-	3.9	631.7							Portfolio Advisors	4,978.4	-	-	4,978.4									
Boston Partners (Value)	691.2	-	11.7	702.9							Aldus Equity	105.5	-	-	105.5									
Terminated/Transition Domestic Equity Managers	-	-	0.1	0.1							Stepstone Group	42.5	-	-	42.5									
Core Equity Managers (23%)	8,360.3	-	31.2	8,391.5	25.38%						TCP	13.0	-	-	13.0									
Target Differential	2.38%			785.5							Greycroft Growth IV LP	15.8	-	-	15.8									
											Baillie Gfd PVC GP II	35.5	-	-	35.5									
											TOTAL PRIVATE EQUITY MGRS (15%)				5,449.9	-	-	5,449.9	16.48%					
											Target Differential				1.48%			489.5						
PRIVATE CREDIT																								
											STOCKS / EQUITY / RE				BONDS	CASH	TOTAL	ALLOC.						
											Stepstone Private Credit				147.6	-	-	147.6						
											TOTAL PRIVATE CREDIT MGRS (3%)				147.6	-	-	147.6	0.45%					
											Target Differential				(2.55)%			(844.5)						
REAL ESTATE																								
											Alliance REIT				172.4	-	1.0	173.3						
											Principal Global REIT				197.8	-	3.9	201.7						
											Principal U.S. REIT				301.0	-	7.6	308.6						
											Cohen & Steers U.S. REIT				474.0	-	1.8	475.8						
											REIT Managers (1.5%)				1,145.2	-	14.2	1,159.5	3.51%					
											Target Differential				0.51%			663.4						
											REAL ESTATE COMMINGLED FUNDS SUMMARY													
											Total Pooled Funds				1,535.2	-	-	1,535.2	4.64%					
											REAL ESTATE SEPARATE ACCT. SUMMARY BY MANAGER													
											AEW (Heitman, Sentinel)				464.1	-	-	464.1						
											Neptune Building				21.1	-	-	21.1						
											Real Estate Equity Mgrs				485.2	-	-	485.2	1.47%					
											Private Real Estate (8.5%)				2,020.3	-	-	2,020.3	6.11%					
											TOTAL REAL ESTATE (10%)				3,165.6	-	14.2	3,179.8	9.62%					
											Target Differential				(0.38)%			(127.2)						
COMMODITIES																								
Alliance (Commodities, Public Equity) CLOSED	-	-	-	-							INFRASTRUCTURE													
Rhumblin (Commodities, Public Equity)	-	-	-	-							-									-	-	-		
PA (Commodities, Private Equity)	142.1	-	-	142.1							-									-	-	-		
TOTAL COMMODITIES (0%)	142.1	-	-	142.1	0.43%						TOTAL INFRASTRUCTURE (2%)									-	-	-	-	0.00%
Target Differential	0.43%			142.1							Target Differential									(2.00)%			(661.4)	
FIXED INCOME																								
Northern Trust (Fixed Income Index)	-	808.5	10.6	819.0							CASH													
Reams Asset Mgmt. (Opportunistic)	-	915.8	-	915.8							HOUSE ACCOUNTS													
LM Capital (Opportunistic)	-	827.2	9.8	837.1							Tier 1 (Article 17)									-	-	28.9	28.9	
GIA Partners (Opportunistic)*	0.0	104.7	0.3	105.0							Tier 2 (Article 18)									-	-	515.7	515.7	
Medalist Partners (MBS)*	-	108.6	-	108.6							Tier 3 (Article 35)									-	-	0.2	0.2	
Loomis Sayles (Long Duration)	-	734.4	6.1	740.5							Tier 4 (New)									-	-	0.1	0.1	
Reams Asset Mgmt. (Passive TIPS)	-	1,161.6	0.9	1,162.5							Tier 5 (New)									-	-	283.8	283.8	
Terminated/Transition Fixed Income Managers	-	-	-	-							Tier 6 (New)									-	-	2.5	2.5	
Core Bond Mgrs (14.3%)	0.0	4,660.8	27.7	4,688.5	14.18%						Transition Account									-	-	0.0	0.0	
Target Differential	(0.12)%			(40.4)							115 Trust									-	-	0.0	0.0	
MacKay Shields (High Yield)	9.4	740.5	12.0	761.9	2.30%						CASH SUMMARY													
Loomis Sayles Global Credit	-	999.6	48.3	1,047.9	3.17%						Unallocated Cash Reserve (1%)									-	-	831.2	831.2	2.51%
Credit Fixed Income (5.5%)	9.4	1,740.2	60.3	1,809.8	5.47%						Target Differential									1.51%			500.5	
Target Differential	(0.03)%			(9.0)																				
Reams Asset Mgmt. (Unconstrained)	-	376.2	-	376.2																				
Payden & Rygel (Unconstrained)	-	384.5	-	384.5																				
Unconstrained Fixed Income (2.2%)	-	760.7	-	760.7	2.30%																			
Target Differential	0.10%			33.2																				
TOTAL FIXED INCOME MGRS (22%)																								
9.4	7,161.6	88.0	7,259.0	21.95%																				
* - Denotes Emerging Manager																								

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