



DEPARTMENT OF FIRE AND POLICE PENSIONS

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REPORT TO THE BOARD OF FIRE AND POLICE PENSION COMMISSIONERS

DATE: MARCH 7, 2024 **ITEM:** E.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 target asset allocation adopted by the Board on August 3, 2023 and actual allocation percentages as of January 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%	24.87%
Small Cap Equity	6.00%	4.71%	7.29%	5.92%
Broad International Equity	18%			
International Developed Equity	18.00%	15.30%	20.70%	16.43%
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%	17.14%
LAFPP Custom Fixed Income	22%			
Core Bonds	9.90%	9.31%	10.49%	9.54%
TIPS	4.40%	4.13%	4.68%	4.07%
High Yield Bonds	2.75%	2.37%	3.14%	2.42%
Unconstrained Fixed Income	2.20%	1.98%	2.42%	2.43%
Global Credit	2.75%	2.37%	3.14%	2.66%
Private Credit	3%			
Private Credit	3.00%	2.25%	3.75%	0.01%
LAFPP Custom Real Estate	10%			
Private Real Estate	7.00%	6.00%	8.00%	6.17%
REITs	3.00%	2.51%	3.50%	4.11%
Commodities	2%			
Commodities	2.00%	1.52%	2.48%	0.83%
Cash Equivalents	1%			
Cash	1.00%	1.00%	4.00%	3.39%
TOTAL	100%			

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

DISCUSSION

As shown in Attachment I, Domestic Large Cap Equity, Small Cap Equity, International Developed Equity, Core Bonds, High Yield Bonds, Global Credit, Cash, Total Real Estate (including REITs), and Private Equity were within their target ranges. Commodities and Private Credit were under-allocated; Unconstrained Fixed Income was over-allocated.

Since the presentation of the prior Chief Investment Officer's Quarterly Report, domestic equity markets have surged to all-time record highs against a backdrop of falling inflation, higher interest rates, and the unexpected resilience of the U.S. economy. The market value of the Fund increased from approximately \$28.9 billion as of September 30, 2023 to approximately \$30.5 billion as of January 31, 2024 (an increase of approximately \$1.6 billion). 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 approximately \$459 million in several tranches between October 2023 and January 2024 from two International Emerging Markets Equity accounts and contribution of those funds to the cash account.
- 2) Withdrawal of a total of \$210 million in October and December 2023 from the cash account and contribution of those funds to four Core Bond accounts to bring the asset class above its lower range target.
- 3) Withdrawal of \$40 million in October 2023 from the cash account and contribution of those funds to the High Yield Bond account to bring the asset class above its lower range target.

- 4) Withdrawal of a total of \$100 million in January and February 2024 from two REIT accounts and contribution of those funds to the cash account to reduce the overweight exposure to REITs.

The liquidation of the two International Emerging Markets Equity accounts that began in early September 2023 pursuant to the revised asset allocation policy was completed as of December 31, 2023. The total cash raised of approximately \$1.2 billion was used to increase the allocations to International Developed Equities, Core Bonds, High Yield Bonds, and Cash. Approximately \$2 million worth of securities were unsalable (primarily due to U.S. sanctions on Russia and delisted stocks) and will remain on the books indefinitely.

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 \$195 million to six private credit funds.

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 for pension payments and other liquidity needs. Staff anticipates that the REIT allocation will be within its target range in approximately 15 months. Staff also continues to monitor the slight overweight to Unconstrained Fixed Income, which has been bouncing in and out of its target range for the last several weeks. 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 January 31, 2024.

DUE DILIGENCE MEETINGS

During the 3-month period ended January 31, 2024, Staff conducted 47 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 1Q2024 and 2Q2024 are summarized below:

	Jan 1 – Mar 31, 2024	Apr 1 – Jun 30, 2024
	Actual/Projected	Projected
City Contributions (Net) ¹	0.0	0.0
Member Contributions	39.5	39.2
Investment Income ²	125.2	128.7
Securities Lending	1.3	1.4
Earnings on Cash + Miscellaneous	5.0	5.8
Private RE, PC and PE Cash Flow	0.4	13.9
DROP	-124.7	-19.0
Pension Benefits ³	-304.7	-302.8
OPEB ⁴	-39.9	-39.7

Administrative Expense	-7.0	-8.6
Net Cash Flow (est.) ⁵	-304.9	-181.1

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

Over the last several weeks, Staff and RVK have been focused on conducting the Fixed Income asset class structure review to determine the optimal mix of investment managers, strategies, and implementation styles (e.g., active versus passive management) in consideration of asset class investment objectives and the current higher interest rate environment. RVK will be presenting the results of this study at today’s meeting.

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 serving as inflation hedges. 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. The Real Estate and Commodities asset class structure study is anticipated to be presented to the Board by the end of the second quarter of 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

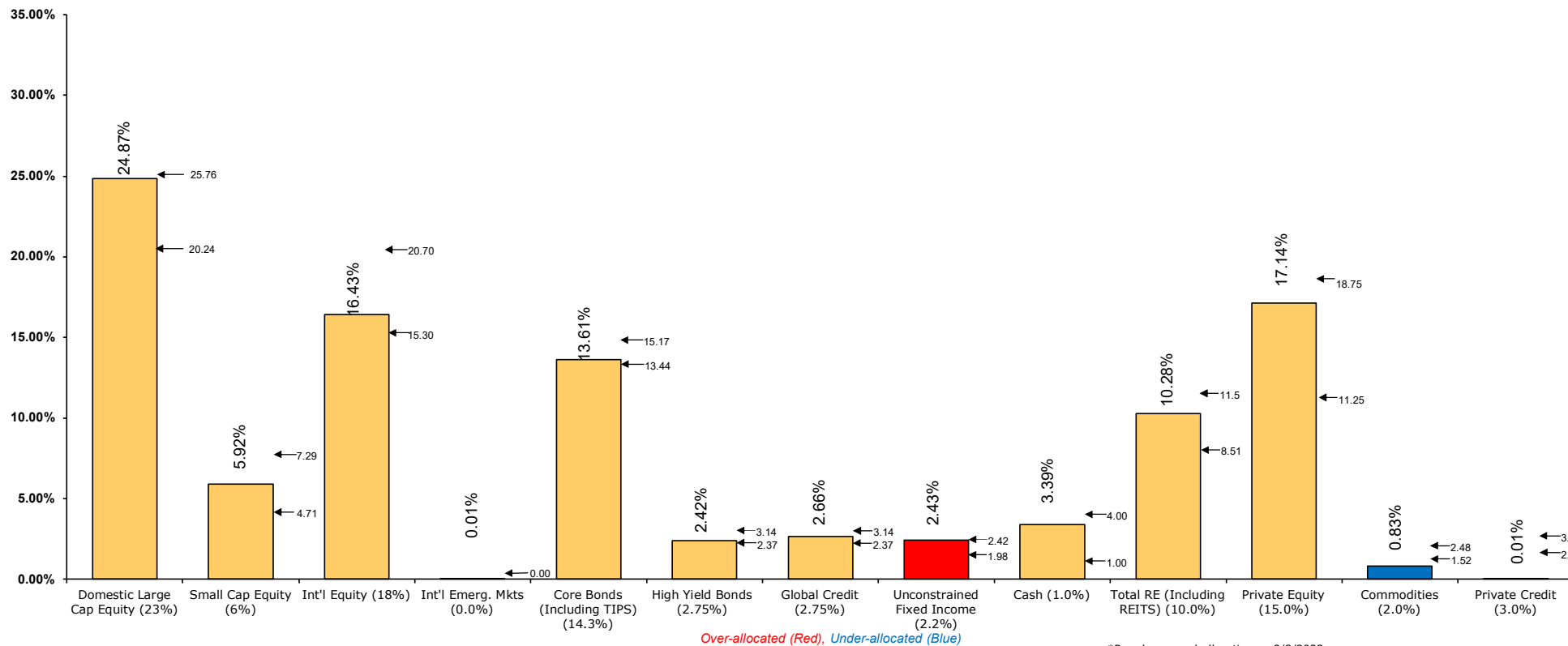
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Attachments: I – Portfolio Allocation Chart as of January 31, 2024
II – Total Plan Portfolio as of January 31, 2024



Los Angeles Fire and Police Pensions

Portfolio Allocation





Los Angeles Fire and Police Pensions

ATTACHMENT II

Portfolio as of January 31, 2024

EQUITIES						PRIVATE EQUITY								
	STOCKS	BONDS	CASH	TOTAL	ALLOC.		STOCKS / EQUITY / RE	BONDS	CASH	TOTAL	ALLOC.			
AllianceBernstein (S&P 500 Index)	2,636.7	-	1.7	2,638.4		Abbott Capital	1.2	-	-	1.2				
AllianceBernstein (Systematic Value)	748.6	-	2.2	750.8		Hamilton Lane	0.8	-	-	0.8				
Rhumbline (Russell 1000 Growth Index)	1,893.8	-	1.3	1,895.1		PCA	0.4	-	-	0.4				
NTI S&P 500 Equal Weight	1,159.8	-	8.6	1,168.4		Fairview Capital	239.0	-	-	239.0				
NTI Stoxx USA 900	547.5	-	2.1	549.7		Portfolio Advisors	4,646.4	-	-	4,646.4				
Boston Partners (Value)	578.3	-	10.5	588.8		Aldus Equity	131.2	-	-	131.2				
Terminated/Transition Domestic Equity Managers	-	-	0.0	0.0		TCP	126.5	-	-	126.5				
Core Equity Managers (23%)	7,564.8	-	26.4	7,591.2	24.87%	Greycroft Growth IV LP	6.7	-	-	6.7				
Target Differential	1.87%			569.4		Baillie Gfd PVC GP II	16.7	-	-	16.7				
						Stepstone Group	64.5	-	-	64.5				
Rhumbline (S&P 600 Index)	141.3	-	0.3	141.5		TOTAL PRIVATE EQUITY MGRS (15%)	5,233.3	-	-	5,233.3	17.14%			
Frontier Capital Mgt. (Growth)	593.6	-	7.9	601.5		Target Differential	2.14%			653.8				
Channing Capital Mgt. (Value)*	71.1	-	2.0	73.0		PRIVATE CREDIT								
Denali Advisors (Value)*	88.3	-	0.6	89.0			STOCKS / EQUITY / RE	BONDS	CASH	TOTAL	ALLOC.			
Eastern Shore Capital (Core)*	53.6	-	0.6	54.1		Stepstone Private Credit	3.4	-	-	3.4				
Lisanti Capital (Growth)*	49.0	-	2.4	51.4		TOTAL PRIVATE CREDIT MGRS (3%)	3.4	-	-	3.4	0.01%			
PIMCO Stocks Plus (Core)	197.8	-	-	197.8		Target Differential	(2.99)%			(912.5)				
Palisade Capital Management (Core)	79.8	-	3.8	83.6		REAL ESTATE								
Phocas Financial (Value)*	71.1	-	1.8	72.9			STOCKS / EQUITY / RE	BONDS	CASH	TOTAL	ALLOC.			
Westwood Management (Value)	227.6	-	2.8	230.4		Alliance REIT	211.2	-	1.1	212.3				
AllianceBernstein (Value)	210.4	-	1.5	212.0		Principal Global REIT	190.0	-	2.3	192.3				
Terminated/Transition Small Cap Equity Managers	-	-	0.0	0.0		Principal U.S. REIT	394.0	-	3.4	397.4				
Small Cap. Equity Mgrs (6%)	1,783.6	-	23.6	1,807.2	5.92%	Cohen & Steers U.S. REIT	450.2	-	2.4	452.6				
Target Differential	(0.08)%			(24.6)		REIT Managers (3%)	1,245.4	-	9.2	1,254.6	4.11%			
Brandes Investment Partners (Value)	1,638.0	-	24.1	1,662.2		Target Differential	1.11%			338.7				
Blackrock (Core Passive)	1,709.0	-	6.5	1,715.4		REAL ESTATE COMMINGLED FUNDS SUMMARY								
Baillie Gifford (Growth)	1,118.8	-	23.5	1,142.3		Total Pooled Funds	1,434.0	-	-	1,434.0	4.70%			
Boston Common (ESG)	36.7	-	0.9	37.7		REAL ESTATE SEPARATE ACCT. SUMMARY BY MANAGER								
Principal Global Int'l Small Cap	210.5	-	2.4	213.0		AEW (Heitman, Sentinel)	427.5	-	-	427.5				
Victory Capital Mgt.	243.5	-	3.1	246.7		Neptune Building	21.1	-	-	21.1				
Terminated/Transition Int'l Equity Managers	-	-	0.1	0.1		Real Estate Equity Mgrs	448.6	-	-	448.6	1.47%			
Int'l Equity Mgrs (18%)	4,956.7	-	60.6	5,017.3	16.43%	Private Real Estate (7%)	1,882.7	-	-	1,882.7	6.17%			
Target Differential	(1.57)%			(478.0)		TOTAL REAL ESTATE (10%)	3,128.1	-	9.2	3,137.3	10.28%			
Harding Loevner	-	-	0.0	0.0		Target Differential	0.28%			84.3				
Dimensional Fund Advisors	1.7	-	0.0	1.7		COMMODITIES								
Sanctioned Assets	0.3	-	-	0.3		Alliance (Commodities, Public Equity) CLOSED	-	-	(0.0)	(0.0)				
Int'l Emerg. Mkts Mgrs (0%)	2.0	-	0.1	2.1	0.01%	Rhumbline (Commodities, Public Equity)	89.0	-	0.1	89.1				
Target Differential	0.01%			2.1		PA (Commodities, Private Equity)	163.4	-	-	163.4				
TOTAL EQUITIES MANAGERS (47%)	14,307.0	-	110.7	14,417.7	47.23%	TOTAL COMMODITIES (2%)	252.4	-	0.1	252.5	0.83%			
Int'l Tax Reclaims	1.7	0.1	2.6	4.3		Target Differential	(1.17)%			(358.1)				
FIXED INCOME						CASH								
	STOCKS	BONDS	CASH	TOTAL	ALLOC.		STOCKS / EQUITY / RE	BONDS	CASH	TOTAL	ALLOC.			
Northern Trust (Fixed Income Index)	-	825.4	5.6	831.0		HOUSE ACCOUNTS								
Reams Asset Mgmt. (Opportunistic)	-	919.8	-	919.8		Tier 1 (Article 17)	-	-	66.8	66.8				
LM Capital (Opportunistic)	-	402.2	3.5	405.7		Tier 2 (Article 18)	-	-	562.2	562.2				
GIA Partners (Opportunistic)*	-	100.4	1.1	101.4		Tier 3 (Article 35)	-	-	4.4	4.4				
Medalist Partners (MBS)*	-	51.0	1.3	52.3		Tier 4 (New)	-	-	1.9	1.9				
Loomis Sayles (Long Duration)	-	591.6	11.7	603.4		Tier 5 (New)	-	-	393.3	393.3				
Reams Asset Mgmt. (Passive TIPS)	-	1,240.8	0.8	1,241.7		Tier 6 (New)	-	-	6.3	6.3				
Terminated/Transition Fixed Income Managers	-	-	-	-		Transition Account	-	-	0.0	0.0				
Core Bond Mgrs (14.3%)	-	4,131.2	24.1	4,155.3	13.61%	115 Trust	-	-	0.0	0.0				
Target Differential	(0.69)%			(210.5)		CASH SUMMARY								
MacKay Shields (High Yield)	14.3	701.5	22.1	738.0	2.42%	Unallocated Cash Reserve (1%)	-	-	1,035.0	1,035.0	3.39%			
Loomis Sayles Global Credit	-	785.5	25.1	810.6	2.66%	Target Differential	2.39%			729.7				
Credit Fixed Income (5.5%)	14.3	1,487.1	47.2	1,548.6	5.07%	TOTAL FUND								
Target Differential	(0.43)%			(130.5)			PRIVATE CREDIT	COMMODITIES	PRIVATE EQUITY	STOCKS	BONDS	REAL ESTATE	CASH	TOTAL
Reams Asset Mgmt. (Unconstrained)	-	368.3	-	368.3		ACTUAL ASSET MIX								
Payden & Rygel (Unconstrained)	-	373.9	-	373.9		Current Month	3.4	252.4	5,233.3	14,323.0	6,360.5	3,128.1	1,229.0	30,529.6
Unconstrained Fixed Income (2.2%)	-	742.2	-	742.2	2.43%	% Change	0.01%	0.83%	17.14%	46.92%	20.83%	10.25%	4.03%	100.00%
Target Differential	0.23%			70.5		Last Month	3.4	260.7	5,246.0	14,278.4	6,372.3	3,210.3	1,379.0	30,750.2
TOTAL FIXED INCOME MGRS (22%)	14.3	6,360.4	71.4	6,446.1	21.11%	% Change	0.00%	-3.19%	-0.24%	0.31%	-0.19%	-2.56%	-10.88%	-0.72%

* - Denotes Emerging Manager

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 adopted by Board on 8/3/2023. Currently executing implementation plan.