
AGENDA

BOARD OF FIRE AND POLICE PENSION COMMISSIONERS

March 2, 2017
8:30 a.m.

Sam Diannitto Boardroom
Los Angeles Fire and Police Pensions Building
701 East 3rd Street, Suite 400
Los Angeles, CA 90013

Commissioner Diannitto will participate telephonically from
4612 El Reposo Drive, Los Angeles, CA 90065

An opportunity for the public to address the Board or Committee about any item on today's agenda for which there has been no previous opportunity for public comment will be provided before or during consideration of the item. Members of the public who wish to speak on any item on today's agenda are requested to complete a speaker card for each item they wish to address, and present the completed card(s) to the commission executive assistant. Speaker cards are available at the commission executive assistant's desk.

In compliance with Government Code Section 54957.5, non-exempt writings that are distributed to a majority or all of the Board or applicable Committee of the Board in advance of their meetings may be viewed at the office of the Los Angeles Fire and Police Pension System (LAFPP), located at 701 East 3rd Street, 2nd Floor, Los Angeles, California 90013, or by clicking on LAFPP's website at www.lafpp.com, or at the scheduled meeting. Non-exempt writings that are distributed to the Board or Committee at a scheduled meeting may be viewed at that meeting. In addition, if you would like a copy of any record related to an item on the agenda, please contact the commission executive assistant, at (213) 279-3038 or by e-mail at rhonda.ketay@lafpp.com.

Sign language interpreters, communication access real-time transcription, assistive listening devices, or other auxiliary aids and/or services may be provided upon request. To ensure availability, you are advised to make your request at least 72 hours prior to the meeting you wish to attend. Due to difficulties in securing sign language interpreters, five or more business days notice is strongly recommended. For additional information, please contact the Department of Fire and Police Pensions, (213) 279-3000 voice or (213) 628-7713 TDD.

A. ITEMS FOR BOARD ACTION

1. [DISCUSSION OF THE MINIMUM QUALIFICATIONS FOR THE US REIT INVESTMENT MANAGER SEARCH AND POSSIBLE BOARD ACTION](#)
2. [REQUEST FOR APPROVAL TO CONDUCT A REAL ESTATE SEPARATE ACCOUNT MANAGER\(S\) SEARCH AND POSSIBLE BOARD ACTION](#)
3. STAFF REVIEW OF THE BRIDGEWATER TREASURY INFLATION PROTECTED SECURITIES (TIPS) ACCOUNT AND POSSIBLE BOARD ACTION

4. DISCUSSION OF HEALTH SUBSIDY AND BENEFIT COSTS AND POSSIBLE BOARD ACTION

B. REPORTS TO THE BOARD

1. PRESENTATION BY HIGH YIELD MANAGER MACKAY SHIELDS, LLC

2. Has any Board Member made any expenditure to influence State legislative or administrative action?

3. Miscellaneous correspondence from money managers, consultants, etc. – Received and Filed.

4. General Manager's Report

a. Benefits Actions approved by General Manager on February 16, 2017

b. Other business relating to Department operations

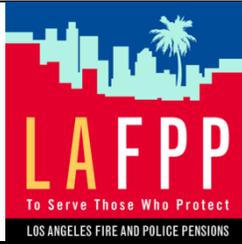
C. CONSIDERATION OF FUTURE AGENDA ITEMS

D. GENERAL PUBLIC COMMENT ON MATTERS WITHIN THE BOARD'S JURISDICTION

E. CLOSED SESSION ITEMS FOR POSSIBLE BOARD ACTION

1. CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54956.81 TO CONSIDER THE PURCHASE OF THREE (3) PARTICULAR, SPECIFIC INVESTMENTS AND POSSIBLE BOARD ACTION

2. CONTINUATION OF CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54956.81 TO CONSIDER THE PURCHASE OF ONE (1) PARTICULAR, SPECIFIC INVESTMENTS AND POSSIBLE BOARD ACTION



DEPARTMENT OF FIRE AND POLICE PENSIONS

701 E. 3rd Street, Suite 200
Los Angeles, CA 90013
(213) 279-3000

REPORT TO THE BOARD OF FIRE AND POLICE PENSION COMMISSIONERS

DATE: MARCH 2, 2017 **ITEM:** A.1

FROM: RAYMOND P. CIRANNA, GENERAL MANAGER

SUBJECT: DISCUSSION OF THE MINIMUM QUALIFICATIONS FOR THE US REIT INVESTMENT MANAGER SEARCH AND POSSIBLE BOARD ACTION

RECOMMENDATION

- 1) That the Board approve the following proposed Minimum Qualifications (MQs) for the US REIT Investment Manager search:
 - a) The firm must have more than \$600 million in assets under management;
 - b) The investment strategy must have more than \$600 million and less than \$8 billion in assets under management;
 - c) The investment strategy must have a minimum 5-year track record;
 - d) The investment strategy must offer a separate account; and
 - e) The firm must have at least one existing separate account with more than \$100 million in assets in this investment strategy.
- 2) That the Board approve using the search procedures for active manager searches adopted in March 2011.

DISCUSSION

At the December 1, 2016 Board meeting, the Board approved hiring an additional active US REIT manager. The Board had terminated its contract with active US REIT manager EII Capital Management on September 18, 2014 and divided the account's assets between one of the Board's existing passive managers (AllianceBernstein) and the remaining active US REIT manager, Principal Real Estate Investors. As of February 14, 2017, the AllianceBernstein account was valued at \$109.6 million and the Principal account was valued at \$335.1 million.

In accordance with Section 8.2 of the Board's Investment Policies, Manager Selection and Retention, the criteria for the selection of investment managers shall be tailored to the needs of the search. The recommended MQs for this search were developed by Staff and RVK for an account size of \$150 million. Attachment I is the RVK memo discussing the proposed MQs and the process for this search.

Consistent with previous active manager searches, the Board's General Consultant, RVK, will have primary responsibility for the search. As such, RVK is here today to present the proposed MQs and to answer any questions the Board may have. Staff will be actively involved in the coordination, review and oversight of the search.

BUDGET

Approval of these recommendations is not anticipated to have an effect on LAFPP's annual budget as costs associated with the search have already been projected and included in the budget.

POLICY

Approval of these recommendations will have no policy impact.

This report was prepared by:

Annie Chao, Investment Officer
Investments Division

RPC:TL:RR:PGP:AC

Attachment: RVK Memo, US REIT Minimum Qualifications Proposal



Memorandum

| | |
|---------|---|
| To | The Los Angeles Fire and Police Pensions System (“LAFPP”) |
| From | RVK, Inc. (“RVK”) |
| Subject | US REIT Minimum Qualifications Proposal |
| Date | March 2, 2017 |

Recommendation

The Board considers the following Minimum Qualifications (“MQs”) when screening for US REIT managers.

Background

At the December 1, 2016 Board meeting, the Board approved an approximately \$150-160 million mandate (one half of the current US REIT allocation) to a US REIT manager. The purpose of this memo is to propose MQs for use in a directed Request for Proposal (“RFP”) to search for potential managers for further evaluation for this mandate.

Discussion

Per section 8.2 of the current Board Investment Policy, the following criteria are specified for manager selection and retention:

1. The firm must be experienced in managing money for institutional clients in the asset class/product category/investment style specified by the Board.
2. The firm must display a record of stability in retaining and attracting qualified investment professionals, as well as a record of managing asset growth effectively, both in gaining and in retaining clients.
3. The firm must have an asset base sufficient to accommodate the Board’s portfolio. In general, managers should have at least \$100 million of discretionary institutional assets under management, and the Board’s portfolio should make up no more than 20% of the firm’s total asset base at the time of hiring. Exceptions shall be made on a case-by-case basis.
4. The firm must demonstrate adherence to the investment style sought by the Board and adherence to the firm’s stated investment discipline.
5. The firm’s fees should be competitive with industry standards for the product category.
6. The firm must comply with the “Duties of the Investment Managers” outlined herein and conform to CFA Institute (formerly AIMR) standards for performance reporting.

Some of these criteria are more subjective and will be included in the qualitative reviews conducted on each manager.



Utilizing section 8.2 and current best practices as a guide, we have developed the following suggested screening criteria for the search under consideration. There are 64 managers in the database, and based on the following criteria we have listed how many managers were eliminated at each stage.

| Proposed Criteria | Rationale |
|--|---|
| Separate Account is Open | Some strategies are closed to new investors or do not offer separate accounts in this space. |
| Minimum 5 Year Track Record | US REIT mandates tend to be well established with seasoned teams, requiring a long-term track record demonstrates stability. |
| Firm AUM > \$600 million | LAFPP is limited to 20% of firm assets; a \$150 million mandate would necessitate a firm AUM greater than \$600 million (\$750 million after \$150 million mandate added). |
| Strategy AUM > \$600 million but < \$8 billion | Avoid LAFPP account representing more than one fifth of a strategy's assets. Also avoid strategies that have above what RVK believes is prudent in this space (in general, we believe managers should close their US REIT products at or before \$8 billion). |
| Separate Account with > \$100 million | To ensure firm has experience and capabilities managing a large separate account. |

The screening criteria recommended above for the search process are intended to serve as minimum qualifications for managers to be considered for this mandate. RVK will use the eVestment database information to perform the minimum qualification screens. RVK has compared the universe of US REIT managers in eVestment to Morningstar and found it to have a larger population. A summary of how the MQs narrow the universe down to a smaller subset is provided below.

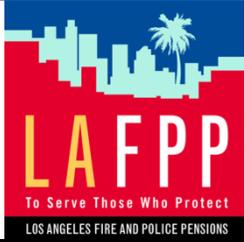
| Minimum Qualification | Starting Universe | Products Eliminated |
|--|-------------------|---------------------|
| Separate Account is Open | 56 | 11 |
| Minimum 5 Year Track Record | 45 | 2 |
| Firm AUM > \$600 million | 43 | 1 |
| Strategy AUM > \$600 million but < \$8 billion | 42 | 15 |
| Separate Account with > \$100 million | 27 | 0 |
| Potential Candidate Universe | 27 | --- |



After all managers are screened, the list of approximately 27 managers will be evaluated against additional characteristics to cull the list down further and establish a group of candidates that will be considered for investment. These characteristics will include:

- **Firm** – ownership, regulatory compliance, assets, insurance levels, organizational stability
- **Team** – years of experience in the industry and at the firm, overall team stability
- **Performance** – consistency of returns and peer rankings as well as risk adjusted return metrics
- **Volatility** – standard deviation and downside market capture over various time periods
- **Product** – multiple attributes such as: number of holdings, sector allocation and limits, turnover, cash position, assets
- **Fees**
- **Complementary to other LAFPP US REIT managers**

Utilizing the above referenced screening characteristics, we believe the search process will result in a list of 10-12 qualified managers to be evaluated in further detail. After analyzing the screening results, Staff and RVK will collectively determine the candidates that are the most attractive options and recommend 3 of those candidates present to the Board for final interviews.



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REPORT TO THE BOARD OF FIRE AND POLICE PENSION COMMISSIONERS

DATE: MARCH 2, 2017

ITEM: A.2

FROM: RAYMOND P. CIRANNA, GENERAL MANAGER

SUBJECT: REQUEST FOR APPROVAL TO CONDUCT A REAL ESTATE SEPARATE ACCOUNT MANAGER(S) SEARCH AND POSSIBLE BOARD ACTION

RECOMMENDATION

That the Board:

1. Approve and direct The Townsend Group (Townsend) and Staff to conduct a search for Real Estate Separate Account Manager(s); and
2. Direct Townsend and Staff to develop Minimum Qualifications for the search and return to the Board for approval.

BACKGROUND

At its meeting on February 16, 2017 the Board requested that Staff prepare a report authorizing a separate account real estate manager search. A search will help the Board determine if the level of services provided by the current real estate separate account managers and the fees paid for those services are competitive to the current market.

DISCUSSION

The Board has two separate account real estate managers, Heitman Capital Management (Heitman) and Sentinel Trust Company (Sentinel) that oversee the individual properties owned directly by the Plan. Heitman and Sentinel were hired by the Board as separate account managers in 1988 and 1998 respectively. The combined separate account portfolio consists of a total 15 properties with a gross asset value of \$729 million, excluding the Neptune Building.

Earlier in 2016 the Board asked that both Heitman and Sentinel make presentations to the Board and discuss their firms, the properties being managed for the Plan, the services provided and the fees charged for their services. As a result of these presentations, the Board requested that Townsend prepare a report on the fees being paid by the Plan for its core real estate investments.

Townsend's analysis concluded that the fees being paid by the Plan to its separate account managers are competitive. However, subsequent discussion indicated a Board desire to search the marketplace of providers of these services, to more fully understand the breadth of that

marketplace and the nature and scope of fees commonly charged. A matrix of some of the roles and responsibilities of a separate account manager are listed on the attachment.

Should the recommendations be approved, Staff will work with Townsend to develop Minimum Qualifications for a search and will return to the Board for its approval.

The most recent 3-year contracts with Heitman and Sentinel began on January 1, 2016 and will expire on December 31, 2018, but can be terminated at anytime with 30 days notice.

BUDGET

Approval of these recommendations may influence LAFPP's annual budget as costs associated with the potential selection of new separate account manager are expected to be different than current budgeted levels.

POLICY

Approval of these recommendations will have no policy impact.

This report was prepared by:

Paul Palmer, Investment Officer
Investment Division

RPC:TL:RR:PGP

Attachment: Separate Account Real Estate Manager's Roles and Responsibilities Matrix

Roles and Responsibilities Matrix

| | Asset Management | Property Management |
|--|------------------|---------------------|
| Provides Investment Management Oversight | Leads/Executes | |
| Sets Portfolio Strategies | Leads/Executes | |
| Identifies Investment Opportunities | Leads/Executes | |
| Buys and Sells Assets | Leads/Executes | |
| Establishes and Executes Business Plan | Leads/Executes | |
| Procures Capital Solutions (mortgage, refinance, etc.) | Leads | |
| Identifies Legal Issues | Leads | |
| Establishes Leasing and Property Management Plan | Leads | Contributes |
| Establishes Capital Improvements/Repositioning Plan | Leads | Contributes |
| Prepares Investor/Consultant Reports | Leads | Contributes |
| Conducts Property Inspections | Contributes | Leads/Executes |
| Recruits, Trains and Manages Property-Level Staff <i>(in-house and third party)</i> | Review/Oversight | Leads/Executes |
| Keeps Property Accounting (and bank reconciliations) | Review/Oversight | Leads/Executes |
| Executes Capital Improvements | Contributes | Executes |
| Coordinates Tenant Move In/Out | | Leads/Executes |
| Collects Rents and Pays Expenses | | Leads/Executes |
| Facilitates Maintenance and Repairs | | Leads/Executes |

See Appendix for a detailed list of the roles and responsibilities.