

SPECIAL AGENDA

BOARD OF FIRE AND POLICE PENSION COMMISSIONERS

March 3, 2022

**10:00 a.m. or as soon thereafter as the
Board recesses its regular meeting**

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

Important Message to the Public: In accordance with Government Code Section 54953, subsections (e)(1) and (e)(3), and in light of the State of Emergency proclaimed by the Governor on March 4, 2020 relating to COVID-19 and ongoing concerns that meeting in person would present imminent risks to the health or safety of attendees and/or that the State of Emergency continues to directly impact the ability of members to meet safely in person, the March 3, 2022 meeting of the Board of Fire and Police Pension Commissioners will be conducted both in the LAFPP Boardroom and via telephone and/or video conferencing.

Members of the public who wish to attend the Board meeting in person must comply with these FOUR requirements: 1) provide proof of COVID-19 vaccination (fully vaccinated) OR negative COVID-19 test results (for test taken within 72-hours prior to building entry); 2) provide government issued photo identification; 3) submit to take a temperature scan, registering a temperature lower than 100.4 degrees; AND 4) wear appropriate face coverings regardless of vaccination status. Alternatively, members of the public will have the opportunity to observe the meeting and provide public comment telephonically.

To provide public comment telephonically, please call (669) 900-9128 or (346) 248-7799 and enter Meeting ID 862 0916 5019 (Please note: Toll charges may apply).

If you do not want to make a public comment, you may stream the meeting from the website (www.lafpp.com) or call any of the following numbers to access the Council Phone system and listen to live coverage: (213) 621-CITY (Downtown), (818) 904-9450 (Valley), (310) 471-CITY (Westside), and (310) 547-CITY (San Pedro Area).

Please refer to www.lafpp.com for more information.

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 use the telephone number provided above.

Notice to Paid Representatives: If you are compensated to monitor, attend, or speak at this meeting, City law may require you to register as a lobbyist and report your activity. See Los Angeles Municipal Code §§ 48.01 *et seq.* More information is available at ethics.lacity.org/lobbying. For assistance, please contact the Ethics Commission at (213) 978-1960 or ethics.commission@lacity.org.

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 by clicking on LAFPP's website at www.lafpp.com. 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) 279-3037 or by e-mail at evange.masud@lafpp.com.

Sign language interpreters, communication access real-time transcription, assistive listening devices, Telecommunication Relay Services (TRS) 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. CALL TO ORDER

1. Roll Call

B. GENERAL PUBLIC COMMENTS ON MATTERS WITHIN THE BOARD'S JURISDICTION

C. REPORTS TO THE BOARD

1. [VERBAL UPDATE BY INVESTMENT STAFF AND RVK ON THE PORTFOLIO EXPOSURE TO GLOBAL EVENTS](#)

March 2022

Ukraine Conflict Overview

Summary of Events, Sanctions and Market Impact



Ukraine Conflict Overview

Summary of Events

- While the seeds of this escalation date back further, the direct build-up for this event started in Q4 2021 with Russian troops deployed close to the Ukrainian border.
- In mid-January, Russian troops began arriving in Belarus.
- Diplomatic efforts, including visits to Moscow and Kyiv from French President Emmanuel Macron and German Chancellor Olaf Scholz, were conducted in early February.
- On February 21st, Russian President Vladimir Putin recognized independence of the Donetsk and Luhansk territories in eastern Ukraine.
 - As part of this recognition, President Putin also ordered “peacekeepers” into these regions of Ukraine.
- Following the recognition of Donetsk and Luhansk, the United States, EU, UK and Australia started a first wave of economic sanctions.
 - These sanctions included the freezing of the Nord Stream 2 pipeline project, a key economic and gas linkage between Russia and Germany.
- On February 24th, President Putin ordered a special military operation against Ukraine, including forces conducting operations within Ukraine’s largest cities.
- Wider and more severe sanctions have been announced in recent days including blocking Russian banks from SWIFT connections and freezing assets of the Central Bank of Russia, detailed further on the next slide.

Ukraine Conflict Overview

Current Sanctions Environment is Dynamic and Escalating

- Building upon an existing set of sanctions in place following the Russian invasion of Crimea in 2014, a wide-range of additional sanctions and other restrictions have been imposed by global governments on the Russian Federation following Russia's recognition of breakaway Ukrainian regions as sovereign on February 21, 2022 and the full-scale invasion on February 24, 2022. These have included:
 - US sanctions against a growing list of Russian Financial Institutions, Russian Sovereign Debt, and certain Russian individuals and their family members.
 - Economic, business, export restrictions, and asset freezes from various countries globally.
 - General restrictions in many countries restricting the ability of the Central Bank of Russia to transact in support of Russian currency and other market activity.
 - Agreement amongst United States and European nations on 2/26/2022 to seek removal of certain key Russian banks from the SWIFT financial messaging network. Removal details are pending.

Russian Federation Reaction

- The Central Bank of Russia has responded with the following actions:
 - Increased key interest rate from 9.5% to 20% on Monday February 28, 2022.
 - Froze the opening of its stock market and delayed trading of domestic debt and currency.
 - Instituted capital controls including a temporary 6-month order restricting the ability of foreign market participants to sell securities and receive income payments / security entitlements. Settled security positions are effectively frozen.

Ukraine Conflict Overview

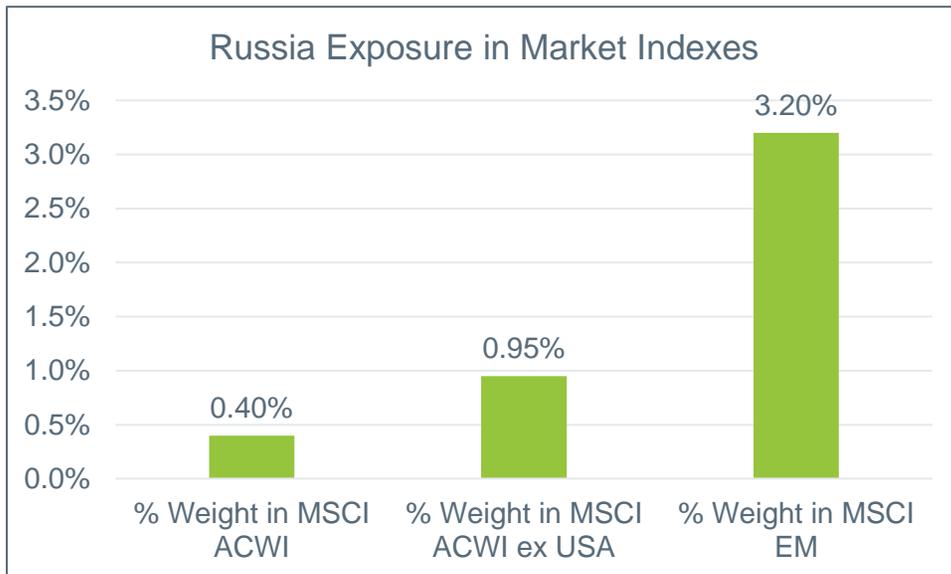
Operational Impact Overview – Items are fluid and subject to ongoing change

- The effects of the announced sanctions and associated responses are broad and continue to be digested by market participants. A sampling of the known, key impacts is provided below.
- **Ukrainian Positions:**
 - Domestic settlement in Ukraine not possible.
 - Cross border settlement through Clearstream Luxembourg not possible.
 - Foreign exchange and cash transactions in Ukraine Hryvnia (UAH) are currently suspended.
- **Russian Federation Positions:**
 - Domestic settlement and income/entitlements in Russia subject to Russian capital control restriction on foreign market participant activity. Security transactions not settled on 2/28/2022 may be subject to failure and although situation is fluid, cancellation may be warranted. Assets subject to limited / no liquidity. Asset pricing may require fair value consideration due to limits on observable inputs.
 - Initial restrictions on Russian-domiciled / Ruble-denominated positions held at Euroclear and Clearstream have expanded to include USD-denominated positions and while some internalized settlement within depository may be possible at Euroclear through 3/1/2022, given capital controls, any debit to a foreign participant account will not be permitted, even if settled via USD.
 - Russian ADR/GDR security transactions may be limited on an issue specific basis although practical limitations due to capital controls in local markets may impact liquidity and ability to trade.
 - Foreign exchange transactions (both cash and non-deliverable forwards) in Russian Ruble (RUB) have continued to be observed on a very limited basis. Significant increases in spreads; declaration of illiquidity contingencies / operational best efforts in execution; and limited liquidity are observed.
- **Cybersecurity and Market Disruption**
 - Market participants are advised to be aware of the potential for heightened risk of cyber-attacks and systematic risks to market utilities. Additional market disruption may occur if normal course transaction processes are not possible (such as SWIFT outage).

Ukraine Conflict Overview

Direct Market Impact

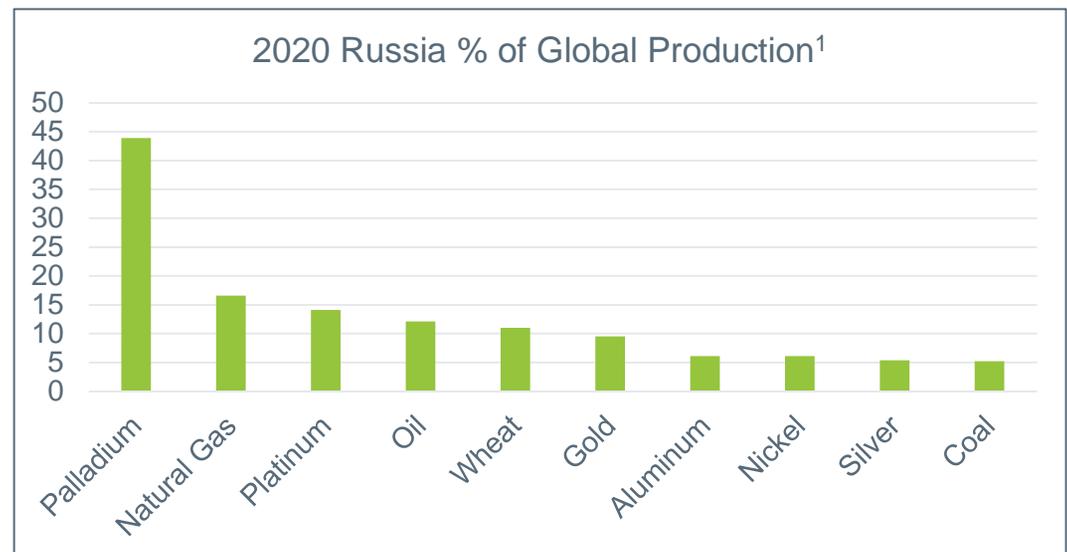
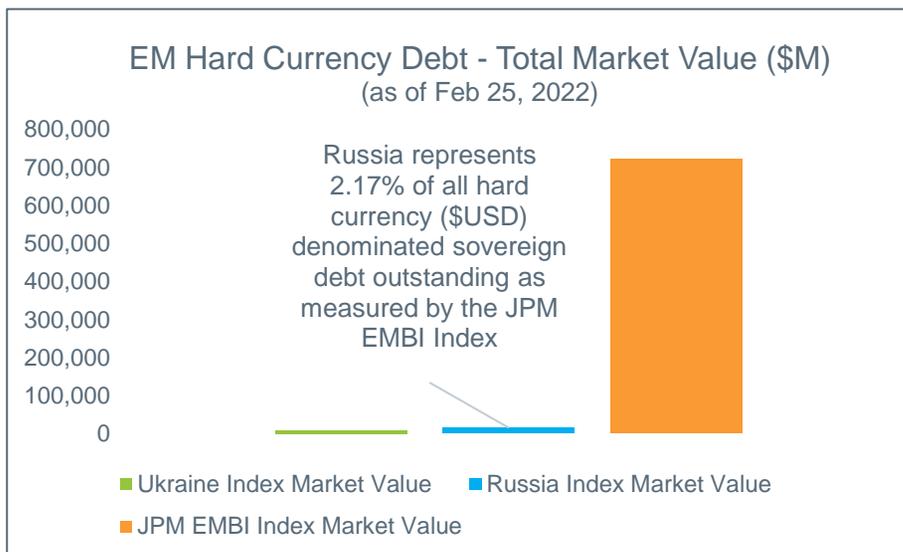
- The size of the Russian economy and market capitalization, relative to the global market and emerging markets region, has declined over the past decade.
- According to the World Bank, Russia generated 1.7% of global GDP in 2020 while Ukraine generated 0.2%. Additionally, the IMF projected that 2022 GDP growth for Russia would be roughly half (2.8%) the level forecasted for global GDP growth (5.9%) prior to this conflict.
- Although Russia and Ukraine's respective sizes as constituents in traditional market indices and total percentage of contribution to global GDP is limited, the disruption of economic activity in both regions is likely to have a significant impact on specific markets.
- The below charts illustrate the exposure to Russia within major market indexes and equity market returns thus far in 2022.



Ukraine Conflict Overview

Spillover Effects

- As shown on the previous slide and in the chart on the bottom left, the share of Russian securities in traditional equity and debt markets is relatively limited.
- However, the Russian and Ukrainian prominence as exporters of commodity goods, such as energy and wheat, are likely to materially impact the prices of these commodities over the course of the conflict, particularly across Europe, and to drive elevated price-based volatility.
- Russia's competitive advantages in niche commodity markets such as palladium and neon also has the potential to disrupt supply chains and further exacerbate production delays for several widely used manufactured goods, such as catalytic converters and semiconductors.
- The incremental contribution of the conflict to global inflationary pressures, coupled with an expected negative impact on global growth, may place central banks in a difficult position, as policymakers face a deterioration of factors on both sides of the traditional central banking mandate to jointly manage inflation and economic growth.

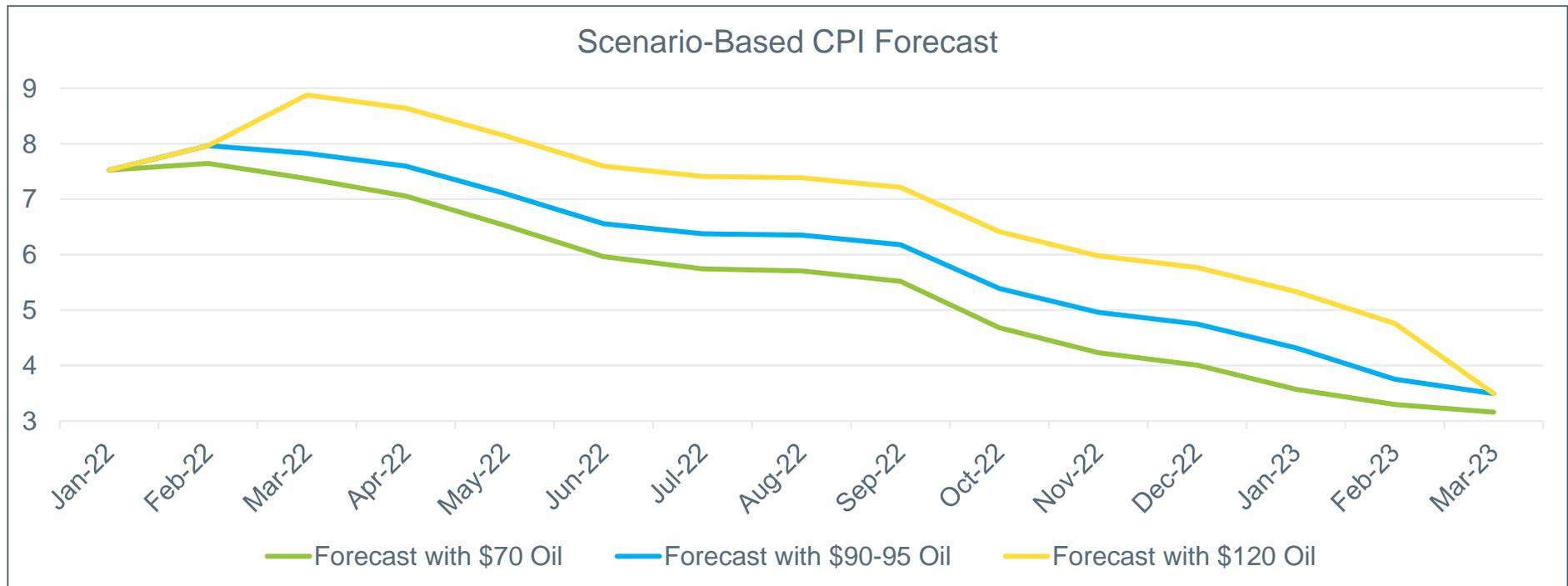


¹Source: J.P. Morgan Commodities Research, 21 January 2022

Ukraine Conflict Overview

Inflationary Environment

- The broadest impact that this crisis has on global inflation is on energy prices (oil, natural gas) with a narrower impact on certain commodities in the agriculture and metals markets.
- European energy costs already increased 27% in the twelve months ended January 2022, according to Eurostat, and futures prices are moving sharply higher in the wake of this escalation and related sanctions.
- As this conflict progresses, the associated economic pressures could pass through to an extended period of higher prices, as shown in the following the chart, and impact consumer behavior and economic growth as a result.



Ukraine Conflict Overview

Evaluation of Past Market Reactions

- The ultimate impact and market reaction of this conflict is ongoing and cannot be predicted.
- As with any point in market history, a single variable will not be the sole driver of market results as investors will continue to grapple with other issues, including inflationary pressures, global supply chain disruption and central bank behavior being key considerations.
- However, there are past instances of international conflict that point to continued volatility in the near-term (as displayed in the following table).

Equity Market Reaction to Select Geopolitical Events (%)

Event	Fed Policy Stance	S&P 500			European/UK Equities*		
		Next Day	30-Day	To Worst	Next Day	30-day	To Worst
Downing of MH17 (2014)	Steady	-0.2	-1.3	-3.6	-1.2	-5.3	-2.1
Crimea Conflict (2014)	Steady	0.8	0.7	N/A	0.0	0.8	-4.6
US Invasion of Iraq (2003)	Easing	2.5	2.2	-3.0	2.8	6.3	-6.9
September 11 Attacks (2001)	Easing	N/A	0.4	-11.6	-5.2	2.0	-16.4
Kosovo War (1999)	Tightening	2.2	7.5	N/A	0.2	4.0	-1.4
Iraq Invasion of Kuwait (1990)	Easing	-3.0	-9.3	-16.9	-3.2	-13.2	-26.2
Iran-Iraq War (1980)	Tightening	0.1	2.1	-4.4	N/A	3.2	N/A
Arab Oil Embargo (1973)	Tightening	-0.2	-5.7	-16.4	N/A	3.3	-9.8
Cuban Missile Crisis (1962)	Tightening	-3.8	9.4	-3.8	N/A	1.6	N/A
Pearl Harbor Attack (1941)	N/A	-3.8	-2.9	-10.2	N/A	-1.2	-1.2
German Invasion of Poland (1939)	N/A	1.1	14.4	N/A	N/A	-5.2	-5.2

Source: Goldman Sachs provided table using Investment Strategy Group, Council on Foreign Relations, Bloomberg, Datastream, Global Financial Data.

* Monthly UK FTSE All-Share Return Index used prior to 1986; daily Eurostoxx 50 data used since then.

Ukraine Conflict Overview

Client Portfolio Considerations

- To summarize current market conditions, there have been elevated levels of volatility and general decline in valuation across many risk assets so far in 2022 driven by inflationary concerns, anticipated adjustments in central bank policies in addition to the heightened geopolitical tensions.
- It is very difficult to anticipate precisely how these events will unfold, how other market participants might react to them, and what that will mean for price movements over the near-term.
- Investors should seek to remain informed and focus on which long-term trends or forecasts could be impacted by this conflict and how it could shift their strategic asset allocation, if at all.
- RVK continues to believe that investors are best served by a consistent, disciplined application of an appropriate strategic asset allocation strategy, reflective of the fund's purpose and circumstances.
- In these situations, RVK consistently monitors market movements for rebalancing opportunities, which serve to mitigate risk and add to long-term returns.

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