



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: FEBRUARY 17, 2022 **ITEM:** C.7

FROM: RAYMOND P. CIRANNA, GENERAL MANAGER

SUBJECT: CHIEF INVESTMENT OFFICER'S QUARTERLY REPORT OF ASSET ALLOCATION AND INVESTMENT ACTIVITY AND POSSIBLE BOARD ACTION

RECOMMENDATION

That the Board approves the actual asset allocation of the Fund and Staff's plans to bring the asset classes currently outside of the target allocation ranges back within the allocation ranges.

BACKGROUND

The Rebalancing Policy (Board Policies Sec 1.7) specifies that the Board will review and affirmatively approve any allocations of the Fund's assets outside of the target ranges. It states:

Staff will monitor the portfolio's 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 to 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.

On August 20, 2020, the Board approved the current asset allocation:

December 31, 2021

Asset Class	Target Allocation	Upper Range	Lower Range	Actual Allocation*
Dom. Large Cap Equity	23.00%	25.76%	20.24%	23.60%
Dom. Small Cap Equity	6.00%	7.29%	4.71%	5.94%
Int'l Equity	16.00%	18.40%	13.60%	14.31%
Int'l Emerging Markets	5.00%	6.40%	3.60%	4.65%
Core Bonds	12.00%	12.72%	11.28%	8.91%

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Asset Class	Target Allocation	Upper Range	Lower Range	Actual Allocation
TIPS	5.00%	5.31%	4.69%	3.96%
High Yield Bonds	3.00%	3.42%	2.58%	2.12%
Unconstrained Fixed Income	2.00%	2.20%	1.80%	5.12%
Private Credit	2.00%	2.50%	0.00%	0.00%
Real Estate	7.00%	8.00%	6.00%	4.72%
REITS	3.00%	3.50%	2.51%	7.00%
Commodities	1.00%	1.24%	0.76%	3.60%
Private Equity	14.00%	17.50%	10.50%	14.49%
Cash Equivalent	1.00%	4.00%	1.00%	1.57%

***May not add up to 100% due to rounding**

The General Consultant RVK and the Staff established the upper and lower range limits; the Board subsequently approved the range limits on October 1, 2020.

DISCUSSION

Attachment I illustrates that most asset classes were within their target ranges, except for Unconstrained Fixed Income, Total Real Estate and Commodities which, were above their target ranges, while Core, TIPS, and High Yield Bonds were under their target ranges. The Staff has been rebalancing the investment portfolio since June 2021 to mitigate risk. The Staff has continued to follow the Board's Asset Allocation Plan and reduced the equity allocation during the 4th quarter of 2021.

At the beginning of December 2021, the Staff trimmed approximately \$975 million, in two tranches (\$500 million and \$475 million), from the Large Cap Growth Equity index. Despite the large liquidation, the rebalancing action moved the Board's Domestic Large Cap Equity Allocation to the target level. The Large Cap Growth sale proceeds were reinvested into the Unconstrained Fixed Income option. The Unconstrained Fixed Income over-allocation is a temporary proxy for the upcoming Global Credit mandate approved by the Board on December 2, 2021. Likewise, the Plan is overallocated to REITS to compensate for the under allocation to private real estate. The Staff has been analyzing the Board's Commodities over-allocation and will reduce the assets to target over time.

Attachments I and II illustrate the allocation status of each asset class and the plan portfolio as of December 31, 2021.

DUE DILIGENCE

During the two months ending December 31, 2021, the Staff conducted 30 due diligence meetings (conference calls and annual meetings via phone or video-based platforms) with investment managers working for the Fund.

CASH FLOW

The actual and projected cash flows (in millions) for 1Q2022 and 2Q2022 are summarized below.

	Jan 1 – Mar 31, 2022	Apr 1 – Jun 30, 2022
	Actual/Projected	Projected
City Contributions (Net) ¹	0.0	0.0
Member Contributions	38.3	38.9
Securities Lending	1.0	1.0
Investment Income ²	0.0	0.0
Earnings on Cash/Misc.	0.2	0.3
Real Estate	15.1	19.2
Private Equity	24.5	23.7
DROP	-34.6	-27.9
Benefits & Administrative Expense	-349.7	-343.1
Net Cash Flow (est.)	-305.2	-287.9

*Negative Cash Flow is funded by Cash.

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.

²Investment income (dividends and interest) withdrawals have been discontinued and will be reinvested with LAFPP's investment managers.

CURRENT EVENTS

As the fourth quarter of 2021 ended, the Staff developed and distributed an ESG Survey to the Board's public and private investment managers. The Staff is currently monitoring the responses with the intent to aggregate the data and present the findings to the Board at a future Board meeting. The Staff plans to evaluate the ESG survey process, make improvements as necessary, and begin the LAFPP Diversity, Equity, and Inclusion (DEI) Survey soon.

The Staff and RVK currently are conducting two separate searches:

1. Multi-Index Managers
2. Global Credit Managers

As the Staff and RVK continue making progress on the searches, the Staff will provide updates at future Board meetings.

Additionally, the Board approved a comprehensive risk assessment of the Fund. The Staff and RVK intend to review the significant contributors to total plan risk and run scenario analysis based on various economic environments. With the results of the risk assessment as context, RVK will conduct an Asset/Liability analysis that the Board can utilize to determine the optimal, risk-adjusted portfolio to meet future liabilities.

At the August 20, 2020, Board meeting, the Board approved a 2% increase to the Private Equity target allocation (12% to 14%). The Board also approved a 2% target allocation to a new Private Credit mandate. The implementation of the Private Credit program is currently under review, and Staff will provide an update at a future Board meeting. Also, at the August 2020 meeting, the Board approved

a reduction to the Commodities target allocation from 5% to 1%. The reduction has been accomplished except for the closures of the Commodity public equity index accounts.

When looking to reallocate assets, the Staff and RVK believe that the public equity Commodities assets should fund the new Private Credit mandate. However, while implementing the Private Credit mandate is underway, the Staff is also aware that the Board is underweighting the Core Fixed Income allocation by approximately 2-3% from the target allocation.

In the ongoing evaluation of the risk/return characteristics of the Board's portfolio and the implementation of the Board's asset allocation plan, the Staff plan to complete the liquidation of the public equity Commodities portfolio during the coming months. However, the Staff and RVK are hesitant to bring the Core Bond allocation to target for the following reasons:

1. Any additional investment in Core Bonds will earn a historically low nominal and negative real interest rate, and,
2. Economic conditions and Federal Reserve Policy are skewing the direction of interest rates upwards.

As a reminder, when interest rates rise, the price of fixed-income investments decrease. This risk is known as duration risk, and the higher the duration risk, the more sensitive a fixed income portfolio is to movements in interest rates. Staff and RVK have evaluated different investment options that will absorb the proceeds from the public equity Commodities liquidation within the Board's Fixed Income portfolio.

Based on the risk/return analysis of all Board's available fixed income options, the Unconstrained Fixed Income portfolio has the lowest amount of interest rate risk and can act as a temporary Private Credit proxy. During the 4th quarter of 2021, the Staff prioritized taking gains from the Domestic Large Cap Equity portfolio as opposed to reducing the Commodities portfolio. The Large Cap Equity proceeds were moved into the Unconstrained Fixed Income portfolio. As we start 2022, the Staff is beginning to trim the Commodities allocation into Cash due to increases in benefit payments.

This report was prepared by:

Ray Joseph
Chief Investment Officer

RPC:RJ:KN:NC:SL:DO

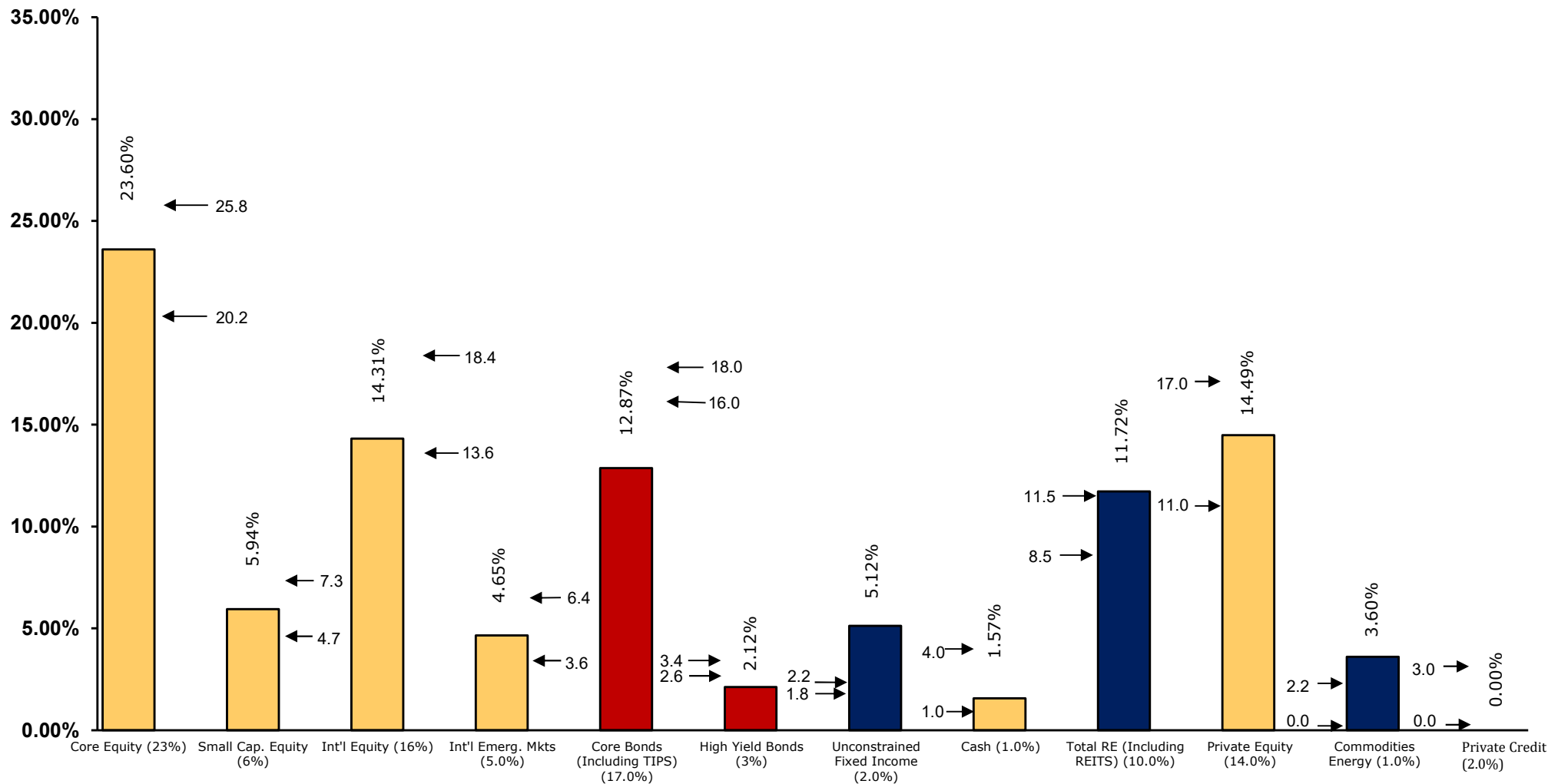
Attachments: I – Portfolio Allocation Chart as of December 31, 2021
II – Total Plan Portfolio as of December 31, 2021



Los Angeles Fire and Police Pensions

ATTACHMENT I

Portfolio Allocation



Actual Allocation, Target Allocation in parenthesis

Over-allocated (Blue), Under-allocated (Red)

*Board approved allocation on 10/1/20



Los Angeles Fire and Police Pensions

ATTACHMENT II

Portfolio as of December 31, 2021

EQUITIES	STOCKS	BONDS	CASH	TOTAL	ALLOC.
AllianceBernstein (S&P 500 Index)	2,698.9	-	3.7	2,702.6	
AllianceBernstein (Systematic Value)	799.5	-	5.2	804.7	
AllianceBernstein (Russell 1000 Growth Index)	1,866.1	-	3.3	1,869.4	
NTI S&P 500 Equal Weight	1,250.7	-	15.4	1,266.1	
NTI Stoxx USA 900	538.1	-	0.9	539.0	
Boston Partners (Value)	526.5	-	10.0	536.5	
Terminated/Transition Domestic Equity Managers	-	-	-	-	
Core Equity Managers (23%)	7,679.7	-	38.6	7,718.3	23.60%
Target Differential	0.60%				197.4
AllianceBernstein (S&P 600 Index)	153.9	-	0.1	153.9	
Frontier Capital Mgt. (Growth)	612.4	-	9.0	621.4	
Channing Capital Mgt. (Value)	72.8	-	1.4	74.2	
Denali Advisors (Value)	78.3	-	1.1	79.4	
Eastern Shore Capital (Core)	64.0	-	0.6	64.6	
Lisanti Capital (Growth)	73.9	-	2.2	76.0	
PIMCO Stocks Plus (Core)	229.6	-	-	229.6	
Palisade Capital Management (Core)	85.6	-	3.7	89.3	
Phocas Financial (Value)	71.4	-	1.7	73.2	
Westwood Management (Value)	234.4	-	1.0	235.4	
AllianceBernstein (Value)	244.4	-	1.8	246.2	
Terminated/Transition Small Cap Equity Managers	-	-	0.0	0.0	
Small Cap. Equity Mgrs (6%)	1,920.6	-	22.6	1,943.1	5.94%
Target Differential	(0.06)%				(18.8)
Brandes Investment Partners (Value)	1,351.3	-	32.6	1,383.9	
Blackrock (Core Passive)	1,383.3	-	3.3	1,386.6	
Baillie Gifford (Growth)	1,327.9	-	19.6	1,347.5	
Boston Common (ESG)	41.8	-	1.2	42.9	
Principal Global Int'l Small Cap	238.1	-	2.7	240.8	
Victory Capital Mgt.	274.5	-	2.9	277.4	
Terminated/Transition Int'l Equity Managers	0.0	-	0.1	0.1	
Int'l Equity Mgrs (16%)	4,616.8	-	62.4	4,679.2	14.31%
Target Differential	(1.69)%				(552.7)
Harding Loevner	557.7	-	16.7	574.4	
Dimensional Fund Advisors	942.7	-	4.3	947.0	
Int'l Emerg. Mkts Mgrs (5.0%)	1,500.4	-	21.0	1,521.4	4.65%
Target Differential	(0.35)%				(113.6)
TOTAL EQUITIES MGRS (50.0%)	15,717.5	-	144.5	15,862.0	48.51%
Int'l Tax Reclaims	0.2	0.1	1.8	2.1	
FIXED INCOME					
Northern Trust (Fixed Income Index)	-	798.0	-	798.0	
Reams Asset Mgmt. (Opportunistic)	-	849.0	-	849.0	
LM Capital (Opportunistic)	-	330.8	15.0	345.8	
GIA Partners (Opportunistic)	-	57.4	0.5	57.9	
Semper Capital Mgt.	-	54.5	0.6	55.1	
Loomis Sayles (Long Duration)	-	802.9	3.2	806.1	
Reams Asset Mgmt. (Passive TIPS)	-	1,296.3	0.2	1,296.4	
Terminated/Transition Fixed Income Managers	-	-	-	-	
Core Bond Mgrs (17%)	-	4,188.8	19.5	4,208.4	12.87%
Target Differential	(4.13)%				(1,350.5)
Mackay Shields	18.3	643.2	31.9	693.4	
High Yield Bond Mgrs (3.0%)	18.3	643.2	31.9	693.4	2.12%
Target Differential	(0.88)%				(287.6)
Reams Asset Mgmt. (Unconstrained)	-	837.4	-	837.4	
Payden & Rygel (Unconstrained)	-	836.9	-	836.9	
Unconstrained Fixed Income (2.0%)	3.12%	1,674.2	-	1,674.2	5.12%
Target Differential					1,020.2
TOTAL FIXED INCOME MGRS (22.0%)	18.3	6,506.3	51.4	6,576.0	20.11%

PRIVATE EQUITY	STOCKS / EQUITY / RE	BONDS	CASH	TOTAL	ALLOC.
Abbott Capital	4.5	-	-	4.5	
Hamilton Lane	3.1	-	-	3.1	
PCA	1.3	-	-	1.3	
Fairview Capital	156.2	-	-	156.2	
Portfolio Advisors	4,262.4	-	-	4,262.4	
Aldus Equity	163.4	-	-	163.4	
TCP	58.8	-	-	58.8	
Baillie Gfd PVC GP II	5.5	-	-	5.5	
Stepstone Group	81.4	-	-	81.4	
TOTAL PRIVATE EQUITY MGRS (14%)	4,736.7	-	-	4,736.7	14.49%
Target Differential	0.49%				158.7

PRIVATE CREDIT	STOCKS / EQUITY / RE	BONDS	CASH	TOTAL	ALLOC.
TOTAL PRIVATE CREDIT MGRS (2%)		-	-		0.00%
Target Differential	(2.00)%				(654.0)

REAL ESTATE	STOCKS / EQUITY / RE	BONDS	CASH	TOTAL	ALLOC.
Alliance REIT	286.1	-	1.6	287.7	
Principal Global REIT	246.1	-	3.2	249.4	
Principal U.S. REIT	783.5	-	11.3	794.8	
Cohen & Steers U.S. REIT	948.7	-	7.2	956.0	
REIT Managers (3.0%)	2,264.5	-	23.3	2,287.9	7.00%
Target Differential	4.00%				1,306.9

REAL ESTATE COMMINGLED FUNDS SUMMARY	STOCKS / EQUITY / RE	BONDS	CASH	TOTAL	ALLOC.
Total Pooled Funds	1,024.4	-	-	1,024.4	3.13%
REAL ESTATE SEPARATE ACCT. SUMMARY BY MANAGER					
AEW (Heitman, Sentinel)	500.2	-	-	500.2	
Neptune Building	21.1	-	-	21.1	
Real Estate Equity Mgrs	521.3	-	-	521.3	1.59%
TOTAL REAL ESTATE (10%)	3,810.2	-	23.3	3,833.5	11.72%
Target Differential	1.72%				563.6

COMMODITIES	STOCKS / EQUITY / RE	BONDS	CASH	TOTAL	ALLOC.
AllianceBernstein (Commodities, Public Equity)	1,024.7	-	4.3	1,029.1	
PA (Commodities, Private Equity)	148.0	-	-	148.0	
TOTAL COMMODITIES (1.0%)	1,172.8	-	4.3	1,177.1	3.60%
Target Differential	2.60%				850.1

CASH	STOCKS / EQUITY / RE	BONDS	CASH	TOTAL	ALLOC.
HOUSE ACCOUNTS					
Tier 1 (Article 17)	-	-	19.6	19.6	
Tier 2 (Article 18)	-	-	119.9	119.9	
Tier 3 (Article 35)	-	-	6.0	6.0	
Tier 4 (New)	-	-	7.0	7.0	
Tier 5 (New)	-	-	339.3	339.3	
Tier 6 (New)	-	-	20.2	20.2	
CASH SUMMARY					
Unallocated Cash Reserve (1%)	-	-	512.0	512.0	1.57%
Target Differential	0.57%				185.0

ACTUAL ASSET MIX	TOTAL FUND						
	COMMODITIES	PRIVATE EQUITY	STOCKS	BONDS	REAL ESTATE	CASH	TOTAL
Current Month	1,172.8	4,736.7	15,736.1	6,506.3	3,810.2	737.4	32,699.4
Last Month	3.59%	14.49%	48.12%	19.90%	11.65%	2.26%	100.00%
% Change	1,133.2	4,710.8	16,010.8	5,527.7	3,630.9	713.7	31,727.1
	3.49%	0.55%	-1.72%	17.70%	4.94%	3.32%	3.06%

Note: City Pension Contribution received on 7/6/21

Subtotals & totals may not sum up exactly due to rounding.
Note: Data is unaudited; Dollars expressed in Millions.