



# DEPARTMENT OF FIRE AND POLICE PENSIONS

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## REPORT TO THE BOARD OF FIRE AND POLICE PENSION COMMISSIONERS

**DATE:** JUNE 20, 2019 **ITEM:** A.11

**FROM:** RAYMOND P. CIRANNA, GENERAL MANAGER

**SUBJECT:** CHIEF INVESTMENT OFFICER'S QUARTERLY REPORT OF ASSET ALLOCATION STATUS 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 Policies Sec 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 asset allocation relative to the target allocations. If the actual allocations fall within the defined ranges, no rebalancing will be required. If 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 June 16, 2016, the Board approved the current asset allocation:

Asset Class	Target Allocation	Upper Range	Lower Range	May 31, 2019
				Actual Allocation*
Dom. Large Cap Equity	23.00%	25.80%	20.20%	24.24%
Dom. Small Cap Equity	6.00%	7.30%	4.70%	6.26%
Int'l Equity	16.00%	18.40%	13.60%	15.31%
Int'l Emerging Markets	5.00%	6.40%	3.60%	4.39%
Core Bonds	12.00%	12.70%	11.30%	11.95%

(cont'd from previous page)

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Upper Range</b>	<b>Lower Range</b>	<b>Actual Allocation*</b>
TIPS	5.00%	5.30%	4.70%	4.80%
High Yield Bonds	3.00%	3.40%	2.60%	2.66%
Unconstrained Fixed Income	2.00%	2.20%	1.80%	2.16%
Real Estate	7.00%	8.00%	6.00%	5.49%
REITS	3.00%	3.50%	2.50%	3.14%
Commodities-Energy	5.00%	6.20%	3.80%	4.29%
Private Equity	12.00%	15.00%	9.00%	10.26%
Cash Equivalent	1.00%	4.00%	1.00%	5.05%

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

Together with the General Consultant RVK and Staff, rebalancing range limits were established.

## **DISCUSSION**

As of May 31, 2019, all asset classes were within their target ranges, except for Cash which remained above its target range. Cash was managed to allocate to cheaper under-allocated asset classes but maintained at a level to ensure liabilities were met without any forced liquidation of assets under pressure.

Global equities rebounded in the first quarter of 2019 and continued into April. The boost in asset prices was due to generally positive economic data and indications from the major central banks to not raise their respective rates (which support equity prices) for the rest of 2019. The month of May however saw a decline in asset prices, primarily due to continuing trade war tensions – especially between the U.S. and China. The expectation that the central banks would not raise rates (which support bond prices) in the near term also aided in the strength of the global bond markets since the first quarter of 2019. Generally, bond values have held steady or risen.

On March 21, 2019, the Board approved the full redemption of LAFPP's investment from the Berkshire Multifamily Income Realty Fund. The fund had a net asset value of \$36.6 million as of May 31, 2019. An update will be provided when the fund has been fully redeemed.

Attachment I and II illustrate the portfolio and allocation status of each asset class as of May 31, 2019.

## **DUE DILIGENCE**

During the 3-month period ended May 31, 2019, Staff conducted 40 due diligence meetings (including site visits, manager visits, conference calls and annual meetings) with investment managers working for the Fund.

For the same period, Staff believes all fund managers that invested in public securities were investing Fund assets in compliance with their individual investment policy guidelines.

## CASH FLOW

The actual and estimated cash flows (in millions) for 2Q2019 and 3Q2019 are summarized as below:

	Apr 1 - Jun 30, 2019 Actual/Projected	Jul 1 - Sep 30, 2019 Projected
City Contributions (Net) <sup>1</sup>	0	706.6
Member Contributions	34.2	36.1
Securities Lending	1.3	1.2
Investment Income	99.0	94.8
Earnings on Cash/Misc.	6.4	7.2
Real Estate	34.9	-0.9
Private Equity	6.2	15.9
DROP	-35.5	-22.5
Benefits & Administrative Expense	-272.2	-287.5
<b>Net Cash Flow (est.)</b>	<b>-125.7</b>	<b>550.9</b>

\*Negative Cash Flow is funded by Cash.

<sup>1</sup>The 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.

## CURRENT EVENTS

A search for domestic small cap managers was completed in the 2<sup>nd</sup> quarter of 2019. Palisade Capital Management, LLC (with an allocation of \$80 million) and Pacific Investment Management Company, LLC [PIMCO (with an allocation of \$200 million)] were hired from the search. Additionally, on Jun 6, 2019, two managers were terminated and a search for domestic small cap emerging managers was approved by the Board. The search is expected to conclude in the 4<sup>th</sup> quarter of 2019. The Board also approved the sale of a real estate property, the Exelon Building, at the same meeting.

This report was prepared by:

Tom Lopez  
Chief Investment Officer

RPC:TL:SL:JV

Attachments: I. Portfolio Allocation Chart as of May 31, 2019  
II. Total Portfolio as of May 31, 2019



# Los Angeles Fire and Police Pensions

Portfolio as of June 30, 2019

EQUITIES	STOCKS	BONDS	CASH	TOTAL	ALLOC.
AllianceBernstein (S&P 500 Index)	1,806.4	-	4.5	1,810.9	
AllianceBernstein (Systematic Value)	529.9	-	2.9	532.8	
AllianceBernstein (Russell 1000 Growth Index)	1,275.5	-	4.1	1,279.6	
LA Capital (Enhanced Index-Growth)	435.8	-	1.6	437.5	
NTI S&P 500 Equal Weight	818.3	-	6.6	824.9	
NTI Stoxx USA 900	481.6	-	3.1	484.7	
Boston Partners (Value)	362.1	-	11.0	373.1	
Redwood Investments (Large Cap-Core)	35.0	-	1.2	36.2	
Terminated Domestic Equity Managers	-	-	0.1	0.1	
Core Equity Managers (23%)	5,744.6	-	35.2	5,779.8	24.94%
Target Differential	1.94%				450.5
Frontier Capital Mgt. (Growth)	501.3	-	12.4	513.7	
Daruma Capital Mgt. (Core)	0.2	-	0.1	0.3	
Channing Capital Mgt. (Core)	66.8	-	1.7	68.5	
Palisade Capital Management (Core)	-	-	80.0	80.0	
Phocas Financial (Value)	64.1	-	1.8	65.9	
Westwood Management (Value)	227.0	-	6.9	233.9	
AllianceBernstein (Value)	214.8	-	4.3	219.0	
Terminated Small Cap Equity Managers	380.5	-	(1.6)	378.9	
Small Cap. Equity Mgrs (6%)	1,454.7	-	105.7	1,560.4	6.73%
Target Differential	0.73%				170.2
Brandes Investment Partners (Value)	936.1	-	50.1	986.2	
Fisher Asset Mgt. (Core)	508.1	-	14.8	522.9	
Blackrock (Core Passive)	838.2	-	4.7	842.9	
Baillie Gifford (Growth)	708.3	-	18.1	726.4	
Boston Common (ESG)	31.4	-	0.9	32.3	
Principal Global Int'l Small Cap	193.9	-	4.1	197.9	
Victory Capital Mgt. Small Cap	193.8	-	2.6	196.4	
FIS (Mgr of Emerging Mgrs) International	112.8	-	2.6	115.4	
Terminated Int'l Equity Managers	0.3	-	-	0.3	
Int'l Equity Mgrs (16%)	3,522.9	-	97.9	3,620.8	15.63%
Target Differential	(0.37)%				(86.5)
Harding Loevner	467.2	-	13.4	480.6	
Dimensional Fund Advisors	555.2	-	3.2	558.4	
Terminated Int'l Emerg. Mkts. Mgrs.	-	-	-	-	
Int'l Emerg. Mkts Mgrs (5.0%)	1,022.4	-	16.5	1,039.0	4.48%
Target Differential	(0.52)%				(119.5)
<b>TOTAL EQUITIES MGRS (50.0%)</b>	<b>11,744.6</b>	<b>-</b>	<b>255.4</b>	<b>12,000.0</b>	<b>51.79%</b>
Int'l Tax Reclaims	-	-	0.5	0.5	
<b>FIXED INCOME</b>					
Northern Trust (Fixed Income Index)	-	766.8	6.2	773.1	
Reams Asset Mgmt. (Opportunistic)	-	728.5	-	728.5	
LM Capital (Opportunistic)	-	324.6	8.1	332.7	
GIA Partners (Opportunistic)	-	50.7	0.3	51.0	
Semper Capital Mgt.	-	50.0	1.1	51.2	
Loomis Sayles (Long Duration)	-	689.6	5.9	695.5	
CA Comm. Mort. Fund	-	0.4	-	0.4	
Bridgewater (TIPS)	-	382.0	-	382.0	
Reams Asset Mgmt. (Passive TIPS)	-	697.9	0.4	698.3	
Bridgewater Pure Alpha	-	70.5	-	70.5	
Core Bond Mgrs (17.0%)	-	3,761.0	22.0	3,783.0	16.33%
Target Differential	(0.67)%				(156.0)
MacKay Shields	8.1	590.1	8.9	607.0	
High Yield Bond Mgrs (3.0%)	8.1	590.1	8.9	607.0	2.62%
Target Differential	(0.38)%				(88.1)
Reams Asset Mgmt. (Unconstrained)	-	244.9	-	244.9	
Payden & Rygel (Unconstrained)	-	239.5	-	239.5	
Unconstrained Fixed Income (2.0%)	-	484.4	-	484.4	2.09%
Target Differential	0.09%				21.0
<b>TOTAL FIXED INCOME MGRS (22.0%)</b>	<b>8.1</b>	<b>4,835.5</b>	<b>30.9</b>	<b>4,874.4</b>	<b>21.04%</b>

PRIVATE EQUITY	STOCKS / EQUITY / RE	BONDS	CASH	TOTAL	ALLOC.
Abbott Capital	22.6	-	-	22.6	
Hamilton Lane	3.4	-	-	3.4	
PCA	10.3	-	-	10.3	
Fairview Capital	20.1	-	-	20.1	
Portfolio Advisors	2,021.9	-	-	2,021.9	
Aldus Equity	154.9	-	-	154.9	
TCP	16.6	-	-	16.6	
Stepstone Group	97.2	-	-	97.2	
<b>TOTAL PRIVATE EQUITY MGRS (12%)</b>	<b>2,347.0</b>	<b>-</b>	<b>-</b>	<b>2,347.0</b>	<b>10.13%</b>
Target Differential	(1.87)%				(433.4)

REAL ESTATE	STOCKS / EQUITY / RE	BONDS	CASH	TOTAL	ALLOC.
AllianceBernstein Global REIT	120.7	-	0.6	121.2	
Principal Global REIT	200.9	-	2.8	203.7	
Principal U.S. REIT	186.5	-	1.4	187.9	
Cohen & Steers U.S. REIT	194.4	-	4.0	198.4	
Terminated REIT Managers	-	-	-	-	
REIT Managers (3.0%)	702.5	-	8.7	711.2	3.07%
Target Differential	0.07%				16.1

REAL ESTATE COMMINGLED FUNDS SUMMARY	STOCKS / EQUITY / RE	BONDS	CASH	TOTAL	ALLOC.
Total Pooled Funds	779.3	-	-	779.3	3.36%

REAL ESTATE SEPARATE ACCT. SUMMARY BY MANAGER	STOCKS / EQUITY / RE	BONDS	CASH	TOTAL	ALLOC.
AEW (Heitman, Sentinel)	434.0	-	-	434.0	
Neptune Building	33.3	-	-	33.3	
Real Estate Equity Mgrs	467.3	-	-	467.3	2.02%
<b>TOTAL REAL ESTATE (10%)</b>	<b>1,949.0</b>	<b>-</b>	<b>8.7</b>	<b>1,957.8</b>	<b>8.45%</b>
Target Differential	(1.55)%				(359.3)

COMMODITIES	STOCKS / EQUITY / RE	BONDS	CASH	TOTAL	ALLOC.
Alliance (Commodities, Public Equity)	672.6	-	1.3	673.9	
Gresham Invest. Mgmt. (Commodities, Active)	96.6	-	6.1	102.7	
Goldman Sachs (Commodities, Enhanced Index)	101.4	-	-	101.4	
PA (Commodities, Private Equity)	135.1	-	-	135.1	
<b>TOTAL COMMODITIES (5.0%)</b>	<b>1,005.7</b>	<b>-</b>	<b>7.4</b>	<b>1,013.2</b>	<b>4.37%</b>
Target Differential	(0.63)%				(152.8)

CASH	STOCKS / EQUITY / RE	BONDS	CASH	TOTAL	ALLOC.
HOUSE ACCOUNTS					
Tier 1 (Article 17)	-	-	31.4	31.4	
Tier 2 (Article 18)	-	-	608.6	608.6	
Tier 3 (Article 35)	-	-	48.9	48.9	
Tier 4 (New)	-	-	10.4	10.4	
Tier 5 (New)	-	-	249.6	249.6	
Tier 6 (New)	-	-	28.8	28.8	

CASH SUMMARY	STOCKS / EQUITY / RE	BONDS	CASH	TOTAL	ALLOC.
Unallocated Cash Reserve (1%)	-	-	977.8	977.8	4.22%
Target Differential	3.22%				746.1
Transition	-	-	-	-	

	TOTAL FUND						
	COMMODITIES	PRIVATE EQUITY	STOCKS	BONDS	REAL ESTATE	CASH	TOTAL
<b>ACTUAL ASSET MIX</b>							
Current Month	1,005.7	2,347.0	11,752.7	4,835.5	1,949.0	1,280.8	23,170.7
	4.34%	10.13%	50.72%	20.87%	8.41%	5.53%	100.00%
Last Month	950.9	2,291.4	11,035.3	4,783.7	1,917.0	1,364.9	22,343.2
% Change	5.77%	2.43%	6.50%	1.08%	1.67%	-6.17%	3.70%

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



Los Angeles

## Fire and Police Pensions

## Real Estate Summary

COMMINGLED FUNDS	EQUITY	POOLED	CASH	TOTAL	ALLOC.
ABR Chesapeake Fund III	NA	0.2	-	0.2	
AEW Partners V	NA	0.1	-	0.1	
AEW Value Investors II	NA	0.0	-	0.0	
Almanac Securities Realty VII	NA	38.5	-	38.5	
Almanac Securities Realty VIII	NA	1.8	-	1.8	
Asana Partners	NA	28.6	-	28.6	
Asana Partners II	NA	0.2	-	0.2	
Berkshire Multifamily Income Realty Fund	NA	36.9	-	36.9	
Buchanan Fund IV	NA	4.1	-	4.1	
Calif Smart Growth IV	NA	3.6	-	3.6	
Capri Urban Investors	NA	8.5	-	8.5	
CIM Real Estate Fund III	NA	15.7	-	15.7	
CIM Urban REIT, LLC	NA	16.9	-	16.9	
CityView LA Urban Land Fund	NA	0.0	-	0.0	
Clarion Lion	NA	110.9	-	110.9	
Colony VIII	NA	0.6	-	0.6	
CPI Capital Europe (A	NA	0.5	-	0.5	
Exeter Industrial	NA	21.2	-	21.2	
Forum Asian Realty II	NA	0.0	-	0.0	
Gerrity Retail Fund	NA	30.6	-	30.6	
Heitman Value Partners II	NA	0.1	-	0.1	
Heitman Asia Pacific Property Investors	NA	23.9	-	23.9	
Heitman American Realty Trust (HART)	NA	74.7	-	74.7	
Jamestown Premier	NA	55.4	-	55.4	
Kayne Anderson Core	NA	3.0	-	3.0	
LaSalle Asia Opp. II	NA	0.1	-	0.1	
Legg Mason II	NA	0.0	-	0.0	
Metlife Core Property	NA	103.7	-	103.7	
Noble Hospitality	NA	0.0	-	0.0	
Oaktree Capital RE Opp. III	NA	0.0	-	0.0	
Praedium Fund VII	NA	0.0	-	0.0	
Principal Green I	NA	0.2	-	0.2	
Prudential PRISA	NA	81.3	-	81.3	
Rothschild Five Arrows Realty V (Almanac)	NA	1.1	-	1.1	
Savanna Real Estate Fund III	NA	44.1	-	44.1	
Starwood Distressed Opp IX	NA	9.9	-	9.9	
Standard Life Investments	NA	3.2	-	3.2	
Standard Life Investments Euro RE Club II	NA	8.9	-	8.9	
Stockbridge RE Fund II	NA	10.5	-	10.5	
Unico Core Plus Partners	NA	36.0	-	36.0	
Unico Partners I	NA	3.8	-	3.8	
Value Enhancement V (Ares)	NA	0.5	-	0.5	
<b>Total</b>		<b>779.3</b>	<b>-</b>	<b>779.3</b>	<b>3.36%</b>

SEPARATE ACCOUNT PROPERTIES	EQUITY	POOLED	CASH	TOTAL	ALLOC.
AEW (Heitman) - 121 W. Chestnut	73.9	NA	-	73.9	
AEW (Heitman) - Woodland Plaza	23.6	NA	-	23.6	
AEW (Heitman) - Twin Creeks Village	32.3	NA	-	32.3	
AEW (Heitman) - Sea Isle, Inc.	39.4	NA	-	39.4	
AEW (Sentinel) - Riverplace	30.7	NA	-	30.7	
AEW (Sentinel) - Walmart Building at Water Ridge	20.5	NA	-	20.5	
AEW (Sentinel) - Windward Place Apts.	31.2	NA	-	31.2	
AEW (Sentinel) - Jefferson Town Center Apts	55.3	NA	-	55.3	
AEW (Sentinel) - St. Louis Industrial	2.3	NA	-	2.3	
AEW (Sentinel) - NorthPointe Exec. Park	32.4	NA	-	32.4	
AEW (Sentinel) - Aerial Center Exec. Park	52.7	NA	-	52.7	
AEW (Sentinel (Urdang)) - Shadeland Station	19.7	NA	-	19.7	
AEW (Sentinel (Urdang)) - Exelon Building	0.9	NA	-	0.9	
AEW - Sycamore Hills Plaza	19.1	NA	-	19.1	
Neptune Building	33.3	NA	-	33.3	
Real Estate Managers Total Committed				434.0	
AEW (Heitman, Sentinel (Urdang))					
<b>Total</b>				<b>467.3</b>	<b>2.02%</b>



# Los Angeles Fire and Police Pensions

## Private Equity Commitment Summary

	Venture Capital		Buy-out		Special Situations		Percentage
Total	\$1,061,211,794	24%	\$2,137,919,000	49%	\$1,186,067,000	27%	100.00%
Commitment Total							<b>\$4,385,197,794</b>

## Private Equity Funding Summary

	Total Commitment	Contributions	Remaining Commitment	Percent Funded
Abbott	\$218,963,000	\$211,720,000	\$7,243,000	96.69%
Hamilton Lane	\$138,287,000	\$133,785,000	\$4,502,000	96.74%
Fairview Capital	\$35,000,000	\$10,875,000	\$24,125,000	31.07%
Portfolio Advisors Legacy	\$264,198,000	\$255,151,000	\$9,047,000	96.58%
Portfolio Advisors Current	\$3,065,892,000	\$1,714,665,000	\$1,351,227,000	55.93%
PCA	\$178,720,000	\$167,592,000	\$11,128,000	93.77%
Stepstone Group	\$178,949,000	\$169,210,000	\$9,739,000	94.56%
TCP	\$15,484,794	\$15,484,794	\$0	100.00%
Aldus Equity	\$449,718,000	\$411,305,000	\$38,413,000	91.46%
Total	\$4,545,211,794	\$3,089,787,794	\$1,455,424,000	67.98%
Unfunded Commitment			<b>\$1,455,424,000</b>	

Source: BOARD OF FIRE AND POLICE PENSION COMMISSIONERS

Data as of December 31, 2018

Data is based only on current/active funds which are funds that have remaining commitment or residual value.

## Total Fund Portfolio Allocation

