



# DEPARTMENT OF FIRE AND POLICE PENSIONS

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

**DATE:** APRIL 2, 2020 **ITEM:** A.5

**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 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 June 16, 2016, the Board approved the current asset allocation:

February 29, 2020

| <b>Asset Class</b>     | <b>Target Allocation</b> | <b>Upper Range</b> | <b>Lower Range</b> | <b>Actual Allocation*</b> |
|------------------------|--------------------------|--------------------|--------------------|---------------------------|
| Dom. Large Cap Equity  | 23.00%                   | 25.80%             | 20.20%             | 24.45%                    |
| Dom. Small Cap Equity  | 6.00%                    | 7.30%              | 4.70%              | 6.15%                     |
| Int'l Equity           | 16.00%                   | 18.40%             | 13.60%             | 14.65%                    |
| Int'l Emerging Markets | 5.00%                    | 6.40%              | 3.60%              | 4.20%                     |
| Core Bonds             | 12.00%                   | 12.70%             | 11.30%             | 12.36%                    |

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| <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%              | 4.70%                    |
| High Yield Bonds           | 3.00%                    | 3.40%              | 2.60%              | 2.65%                    |
| Unconstrained Fixed Income | 2.00%                    | 2.20%              | 1.80%              | 2.09%                    |
| Real Estate                | 7.00%                    | 8.00%              | 6.00%              | 5.48%                    |
| REITS                      | 3.00%                    | 3.50%              | 2.50%              | 2.99%                    |
| Commodities                | 5.00%                    | 6.20%              | 3.80%              | 4.03%                    |
| Private Equity             | 12.00%                   | 15.00%             | 9.00%              | 10.76%                   |
| Cash Equivalent            | 1.00%                    | 4.00%              | 1.00%              | 5.49%                    |

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

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

## **DISCUSSION**

As shown in Attachment I, all the asset classes were within their target ranges, except for Cash which remains above its target range. Cash was maintained at a level to ensure liabilities were met without any forced liquidation of assets and to allocate to cheaper under-allocated asset classes as opportunities presented themselves. Real Estate (including REITs) was under-allocated due to recent dispositions in the separate account portfolio.

Attachment I and II illustrate the allocation status of each asset class and the plan portfolio as of February 29, 2020.

## **DUE DILIGENCE**

During the 3-month period ended February 29, 2020, Staff conducted 17 due diligence meetings (including site visits, manager visits, conference calls and annual meetings) with investment managers working for the Fund.

## **CASH FLOW**

The actual and estimated cash flows (in millions) for 1Q2020 and 2Q2020 are summarized as below:

|                                       | Jan 1 - Mar 31, 2020<br>Actual/Projected | Apr 1 - Jun 30, 2020<br>Projected |
|---------------------------------------|--|-----------------------------------|
| City Contributions (Net) <sup>1</sup> | 0  | 0                                 |
| Member Contributions                  | 41.2                                     | 43.0                              |
| Securities Lending                    | 1.3                                      | 1.1                               |

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|  | Jan 1 – Mar 31, 2020<br>Actual/Projected | Apr 1 – June 30, 2020<br>Projected |
|--|--|------------------------------------|
| Investment Income                            | 87.6                                     | 85.1                               |
| Earnings on Cash/Misc.                       | 6.5                                      | 5.4                                |
| Real Estate                                  | 24.1                                     | 5.6                                |
| Private Equity                               | -35.5                                    | -28.4                              |
| DROP   | -58.9                                    | -43.8                              |
| <u>Benefits &amp; Administrative Expense</u> | <u>-349.0</u>                            | <u>-326.7</u>                      |
| Net Cash Flow (est.)                         | -282.7                                   | -258.7                             |

\*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

LAFPP's Asset Allocation Study is now underway. At the January and February 2020 Board meetings, RVK presented an overview of the process and provided their Capital Market Assumptions. During the February 20, 2020 Board meeting, the search for the Small Cap US Equity Emerging Manager mandate concluded with the selection of three firms, Denali Advisors, LLC, Eastern Shore Capital Management and Lisanti Capital Growth, LLC. Staff and the City Attorney are reviewing the proposed contracts for the three new Emerging Small Cap Managers. The Fixed Income Emerging Manager search is pending a decision by the Board on whether or not to proceed.

This report was prepared by:

Tom Lopez  
Chief Investment Officer

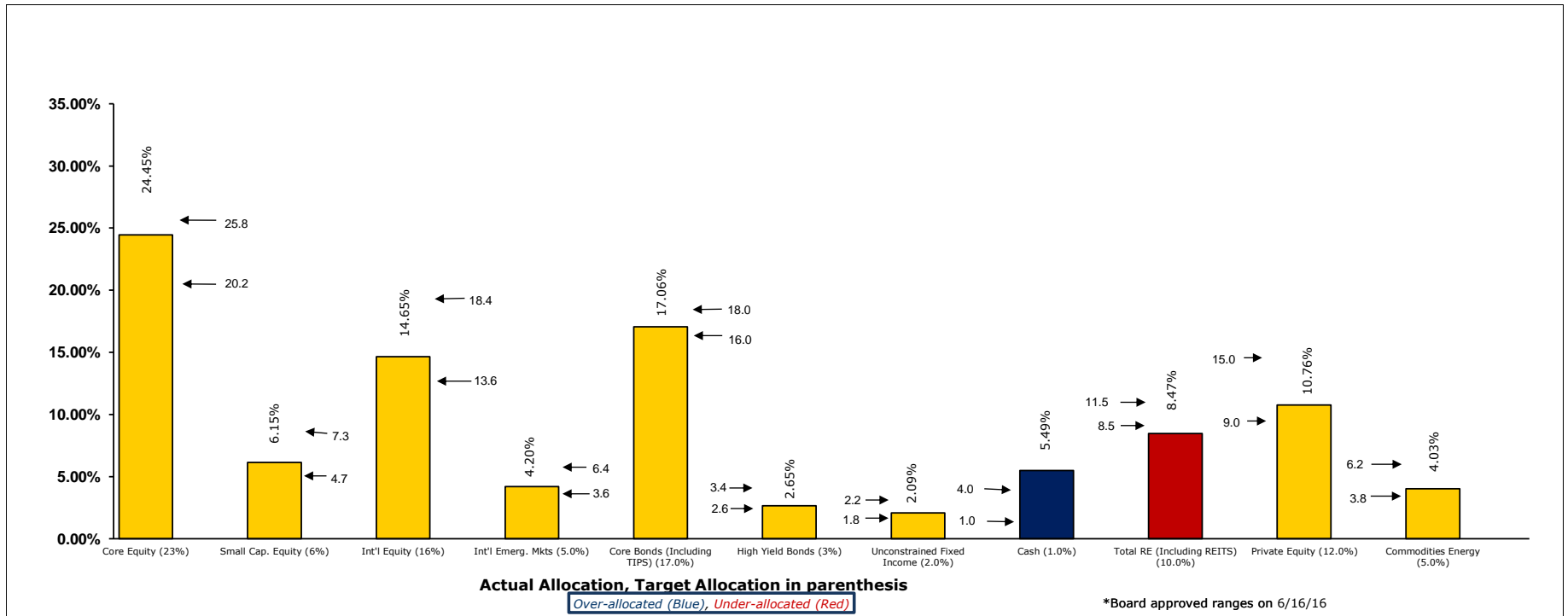
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Attachments: I. Portfolio Allocation Chart as of February 29, 2020  
II. Total Plan Portfolio as of February 29, 2020



# Los Angeles Fire and Police Pensions

## Total Fund Portfolio Allocation (ATTACHMENT I)





# Los Angeles Fire and Police Pensions

2/29/2020 (ATTACHMENT II)

| EQUITIES                                      | STOCKS          | BONDS          | CASH         | TOTAL           | ALLOC.        |
|---|-----------------|----------------|--------------|-----------------|---------------|
| AllianceBernstein (S&P 500 Index)             | 1,811.0         | -              | 4.2          | 1,815.3         |               |
| AllianceBernstein (Systematic Value)          | 508.4           | -              | 7.3          | 515.7           |               |
| AllianceBernstein (Russell 1000 Growth Index) | 1,352.2         | -              | 5.2          | 1,357.4         |               |
| LA Capital (Enhanced Index-Growth)            | 455.7           | -              | 1.2          | 456.9           |               |
| NTI S&P 500 Equal Weight                      | 782.6           | -              | 8.3          | 790.9           |               |
| NTI Stoxx USA 900                             | 472.8           | -              | 3.2          | 476.0           |               |
| Boston Partners (Value)                       | 345.6           | -              | 7.6          | 353.2           |               |
| Terminated Domestic Equity Managers           | -               | -              | 0.2          | 0.2             |               |
| Core Equity Managers (23%)                    | 5,728.3         | -              | 37.2         | 5,765.5         | 24.45%        |
| Target Differential                           | 1.45%           |                |              |                 | 342.2         |
| AllianceBernstein (S&P 600 Index)             | 126.8           | -              | 0.2          | 127.0           |               |
| Frontier Capital Mgt. (Growth)                | 500.0           | -              | 15.0         | 515.1           |               |
| Channing Capital Mgt. (Core)                  | 60.5            | -              | 1.0          | 61.5            |               |
| Palisade Capital Management (Core)            | 70.4            | -              | 3.3          | 73.7            |               |
| PIMCO Stocks Plus                             | 199.4           | -              | -            | 199.4           |               |
| Phocas Financial (Value)                      | 59.0            | -              | 1.8          | 60.8            |               |
| Westwood Management (Value)                   | 210.3           | -              | 5.0          | 215.3           |               |
| AllianceBernstein (Value)                     | 195.2           | -              | 3.2          | 198.4           |               |
| Terminated Small Cap Equity Managers          | -               | -              | 0.0          | 0.0             |               |
| Small Cap. Equity Mgrs (6%)                   | 1,421.6         | -              | 29.5         | 1,451.1         | 6.15%         |
| Target Differential                           | 0.15%           |                |              |                 | 36.3          |
| Brandes Investment Partners (Value)           | 883.7           | -              | 19.8         | 903.6           |               |
| Fisher Asset Mgt. (Core)                      | -               | -              | 2.8          | 2.8             |               |
| Blackrock (Core Passive)                      | 1,045.4         | -              | 2.8          | 1,048.2         |               |
| Baillie Gifford (Growth)                      | 965.8           | -              | 10.6         | 976.4           |               |
| Boston Common (ESG)                           | 31.7            | -              | 0.2          | 31.9            |               |
| Principal Global Int'l Small Cap              | 186.6           | -              | 1.5          | 188.1           |               |
| Victory Capital Mgt. Small Cap                | 187.9           | -              | 2.2          | 190.0           |               |
| FIS (Mgr of Emerging Mgrs) International      | 109.4           | -              | 3.2          | 112.6           |               |
| Terminated Int'l Equity Managers              | 0.2             | -              | -            | 0.2             |               |
| Int'l Equity Mgrs (16%)                       | 3,410.7         | -              | 43.0         | 3,453.8         | 14.65%        |
| Target Differential                           | (1.35)%         |                |              |                 | (318.9)       |
| Harding Loevner                               | 456.6           | -              | 13.0         | 469.5           |               |
| Dimensional Fund Advisors                     | 518.5           | -              | 2.5          | 520.9           |               |
| Terminated Int'l Emerg. Mkts. Mgrs.           | -               | -              | -            | -               |               |
| Int'l Emerg. Mkts Mgrs (5.0%)                 | 975.1           | -              | 15.4         | 990.5           | 4.20%         |
| Target Differential                           | (0.80)%         |                |              |                 | (188.5)       |
| <b>TOTAL EQUITIES MGRS (50.0%)</b>            | <b>11,535.7</b> | <b>-</b>       | <b>125.1</b> | <b>11,660.8</b> | <b>49.45%</b> |
| Int'l Tax Reclaims                            | -               | -              | 0.4          | 0.4             |               |
| <b>FIXED INCOME</b>                           |                 |                |              |                 |               |
| Northern Trust (Fixed Income Index)           | -               | 805.5          | 3.1          | 808.6           |               |
| Reams Asset Mgmt. (Opportunistic)             | -               | 683.8          | 76.5         | 760.3           |               |
| LM Capital (Opportunistic)                    | -               | 335.4          | 8.6          | 344.0           |               |
| GIA Partners (Opportunistic)                  | -               | 53.5           | 0.7          | 54.2            |               |
| Semper Capital Mgt.                           | -               | 52.4           | 0.8          | 53.1            |               |
| Loomis Sayles (Long Duration)                 | -               | 783.1          | 1.5          | 784.6           |               |
| CA Comm. Mort. Fund                           | -               | 0.4            | -            | 0.4             |               |
| Bridgewater (TIPS)                            | -               | 407.0          | -            | 407.0           |               |
| Reams Asset Mgmt. (Passive TIPS)              | -               | 737.6          | 0.4          | 738.0           |               |
| Bridgewater Pure Alpha                        | -               | 71.4           | -            | 71.4            |               |
| Core Bond Mgrs (17.0%)                        | -               | 3,930.0        | 91.5         | 4,021.5         | 17.06%        |
| Target Differential                           | 0.06%           |                |              |                 | 13.0          |
| Mackay Shields                                | 7.6             | 587.2          | 30.9         | 625.6           |               |
| High Yield Bond Mgrs (3.0%)                   | 7.6             | 587.2          | 30.9         | 625.6           | 2.65%         |
| Target Differential                           | (0.35)%         |                |              |                 | (81.8)        |
| Reams Asset Mgmt. (Unconstrained)             | -               | 250.2          | -            | 250.2           |               |
| Payden & Rygel (Unconstrained)                | -               | 242.4          | -            | 242.4           |               |
| Unconstrained Fixed Income (2.0%)             | -               | 492.7          | -            | 492.7           | 2.09%         |
| Target Differential                           | 0.09%           |                |              |                 | 21.1          |
| <b>TOTAL FIXED INCOME MGRS (22.0%)</b>        | <b>7.6</b>      | <b>5,009.8</b> | <b>122.4</b> | <b>5,139.8</b>  | <b>21.80%</b> |

| PRIVATE EQUITY                         | STOCKS / EQUITY / RE | BONDS    | CASH     | TOTAL          | ALLOC.        |
|--|----------------------|----------|----------|----------------|---------------|
| Abbott Capital                         | 15.7                 | -        | -        | 15.7           |               |
| Hamilton Lane                          | 3.2                  | -        | -        | 3.2            |               |
| PCA                                    | 8.5                  | -        | -        | 8.5            |               |
| Fairview Capital                       | 35.9                 | -        | -        | 35.9           |               |
| Portfolio Advisors                     | 2,215.9              | -        | -        | 2,215.9        |               |
| Aldus Equity                           | 145.8                | -        | -        | 145.8          |               |
| TCP                                    | 26.6                 | -        | -        | 26.6           |               |
| Stepstone Group                        | 84.9                 | -        | -        | 84.9           |               |
| <b>TOTAL PRIVATE EQUITY MGRS (12%)</b> | <b>2,536.6</b>       | <b>-</b> | <b>-</b> | <b>2,536.6</b> | <b>10.76%</b> |
| Target Differential                    | (1.24)%              |          |          |                | (292.9)       |

| REAL ESTATE                   | STOCKS / EQUITY / RE | BONDS | CASH | TOTAL | ALLOC. |
|-------------------------------|----------------------|-------|------|-------|--------|
| AllianceBernstein Global REIT | 116.9                | -     | 0.5  | 117.4 |        |
| Principal Global REIT         | 200.0                | -     | 1.4  | 201.4 |        |
| Principal U.S. REIT           | 186.7                | -     | 0.3  | 187.0 |        |
| Cohen & Steers U.S. REIT      | 197.7                | -     | 0.9  | 198.6 |        |
| Terminated REIT Managers      | -                    | -     | -    | -     |        |
| REIT Managers (3.0%)          | 701.4                | -     | 3.1  | 704.5 | 2.99%  |

Target Differential (0.01)% (2.9)

| REAL ESTATE COMMINGLED FUNDS SUMMARY | STOCKS / EQUITY / RE | BONDS | CASH | TOTAL | ALLOC. |
|--------------------------------------|----------------------|-------|------|-------|--------|
| Total Pooled Funds                   | 787.9                | -     | -    | 787.9 | 3.34%  |

| REAL ESTATE SEPARATE ACCT. SUMMARY BY MANAGER | STOCKS / EQUITY / RE | BONDS    | CASH       | TOTAL          | ALLOC.       |
|---|----------------------|----------|------------|----------------|--------------|
| AEW (Heitman, Sentinel)                       | 471.2                | -        | -          | 471.2          |              |
| Neptune Building                              | 33.3                 | -        | -          | 33.3           |              |
| Real Estate Equity Mgrs                       | 504.5                | -        | -          | 504.5          | 2.14%        |
| <b>TOTAL REAL ESTATE (10%)</b>                | <b>1,993.7</b>       | <b>-</b> | <b>3.1</b> | <b>1,996.8</b> | <b>8.47%</b> |
| Target Differential                           | (1.53)%              |          |            |                | (361.1)      |

| COMMODITIES                                 | STOCKS / EQUITY / RE | BONDS    | CASH       | TOTAL        | ALLOC.       |
|---|----------------------|----------|------------|--------------|--------------|
| Alliance (Commodities, Public Equity)       | 624.1                | -        | 1.2        | 625.2        |              |
| Gresham Invest. Mgmt. (Commodities, Active) | 87.7                 | -        | 8.0        | 95.7         |              |
| Goldman Sachs (Commodities, Enhanced Index) | 99.3                 | -        | -          | 99.3         |              |
| PA (Commodities, Private Equity)            | 130.0                | -        | -          | 130.0        |              |
| <b>TOTAL COMMODITIES (5.0%)</b>             | <b>941.1</b>         | <b>-</b> | <b>9.1</b> | <b>950.2</b> | <b>4.03%</b> |
| Target Differential                         | (0.97)%              |          |            |              | (228.7)      |

| CASH                | STOCKS / EQUITY / RE | BONDS | CASH  | TOTAL | ALLOC. |
|---------------------|----------------------|-------|-------|-------|--------|
| HOUSE ACCOUNTS      |                      |       |       |       |        |
| Tier 1 (Article 17) | -                    | -     | 38.6  | 38.6  |        |
| Tier 2 (Article 18) | -                    | -     | 708.4 | 708.4 |        |
| Tier 3 (Article 35) | -                    | -     | 45.3  | 45.3  |        |
| Tier 4 (New)        | -                    | -     | 13.6  | 13.6  |        |
| Tier 5 (New)        | -                    | -     | 434.2 | 434.2 |        |
| Tier 6 (New)        | -                    | -     | 54.5  | 54.5  |        |

| CASH SUMMARY                  | STOCKS / EQUITY / RE | BONDS | CASH    | TOTAL   | ALLOC.  |
|-------------------------------|----------------------|-------|---------|---------|---------|
| Unallocated Cash Reserve (1%) | -                    | -     | 1,294.5 | 1,294.5 | 5.49%   |
| Target Differential           | 4.49%                |       |         |         | 1,058.7 |
| Transition                    | -                    | -     | -       | -       |         |

|                         | TOTAL FUND  |                |          |         |             |         |          |
|-------------------------|-------------|----------------|----------|---------|-------------|---------|----------|
|                         | COMMODITIES | PRIVATE EQUITY | STOCKS   | BONDS   | REAL ESTATE | CASH    | TOTAL    |
| <b>ACTUAL ASSET MIX</b> |             |                |          |         |             |         |          |
| Current Month           | 941.1       | 2,536.6        | 11,543.2 | 5,009.8 | 1,993.7     | 1,554.7 | 23,579.2 |
|                         | 3.99%       | 10.76%         | 48.96%   | 21.25%  | 8.46%       | 6.59%   | 100.00%  |
| Last Month              | 1,007.7     | 2,518.0        | 12,567.6 | 5,018.9 | 2,052.1     | 1,574.3 | 24,738.5 |
| % Change                | -6.61%      | 0.74%          | -8.15%   | -0.18%  | -2.84%      | -1.24%  | -4.69%   |

Note: City Pension Contribution received on 7/12/19

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