



DEPARTMENT OF FIRE AND POLICE PENSIONS

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REPORT TO THE BOARD OF FIRE AND POLICE PENSION COMMISSIONERS

DATE: MARCH 2, 2023 **ITEM:** D.8

FROM: JOSEPH SALAZAR, INTERIM GENERAL MANAGER

SUBJECT: CHIEF INVESTMENT OFFICER'S QUARTERLY REPORT OF INVESTMENT ACTIVITY 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 (see Board Investment Policies Section 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 actual 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 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.

The following table displays the current target asset allocation plan and actual allocation percentages as of December 31, 2022:

Asset Class	Target Allocation	Lower Range	Upper Range	Actual Allocation
Broad US Equity	29%			
Domestic Large Cap Equity	23.00%	20.24%	25.76%	22.84%
Small Cap. Equity	6.00%	4.71%	7.29%	5.60%
Broad International Equity	21%			
International Developed Equity	16.00%	13.60%	18.40%	13.88%

International Emerging Markets	5.00%	3.60%	6.40%	4.34%
Private Equity	14%			
Private Equity	14.00%	10.50%	17.50%	17.25%
LAFPP Custom Fixed Income	22%			
Core Bonds	9.90%	9.31%	10.49%	8.72%
TIPS	4.40%	4.13%	4.68%	4.26%
High Yield Bonds	2.75%	2.37%	3.14%	2.30%
Unconstrained Fixed Income	2.20%	1.98%	2.42%	2.68%
Global Credit	2.75%	2.37%	3.14%	2.77%
Private Credit	2%			
Private Credit	2.00%	1.50%	2.50%	0.00%
LAFPP Custom Real Estate	10%			
Private Real Estate	7.00%	6.00%	8.00%	6.91%
REITs	3.00%	2.51%	3.50%	5.54%
Commodities	1%			
Commodities	1.00%	0.76%	1.24%	0.63%
Cash Equivalents	1%			
Cash	1.00%	1.00%	4.00%	2.26%
TOTAL	100%			100%

DISCUSSION

As shown in Attachment I, Broad U.S. Equity, Broad International Equity, Private Equity, Private Real Estate, and Cash were within their target ranges. Some of the LAFPP Custom Fixed Income mix, REITs, Private Credit, and Commodities were outside their target ranges. Unconstrained Fixed Income and REITs were above their respective upper ranges. Core Bonds, High Yield Bonds, Private Credit, and Commodities were below their respective lower ranges. Attachments I and II illustrate the allocation status of each asset class and the Plan portfolio as of December 31, 2022.

DUE DILIGENCE MEETINGS

During the 3-month period ended December 31, 2022, Staff conducted 23 due diligence meetings (conference calls and annual meetings via phone or video-based platforms) with Asset Managers working for the Fund.

CASH FLOW

The actual and projected pension related cash flows (in millions) for 1Q2023 and 2Q2023 are summarized below.

	Jan 1 – Mar 31, 2023 Actual/Projected	Apr 1 – Jun 30, 2023 Projected
City Contributions (Net) ¹	0.0	0.0
Member Contributions	49.0	54.1
Investment Income ²	13.7	41.0
Securities Lending	1.1	0.9
Earnings on Cash + Misc	3.8	3.1
Private RE and PE Cash Flow	-22	-15
DROP	-73.5	-57.6
Pension Benefits ³	-373.3	-404.8
OPEB ⁴	-49.9	-54.7
Net Cash Flow (est.)*	-451.1	-433.0

*Negative Cash Flow is funded by Cash and rebalancing.

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 received in the beginning of the fiscal year.

²Investment income (dividends and interest) withdrawals resumed in March 2023 and are used to fund the pension payrolls.

³Pension Benefits include: service pensions, disability pensions, surviving spouse/domestic partner pensions, minor/dependent pensions, and refund of contributions.

⁴Other Postemployment Benefits (OPEB) include: health insurance premium subsidy, dental insurance premium subsidy, Medicare reimbursement, and health insurance premium reimbursement.

CURRENT EVENTS

On December 1, 2022, the Board approved Staff's recommendation to arrange for the purchase and sale, through Reams Asset Management, of up to \$800 million of short-term U.S. Treasuries with maturities up to two years. The investment is expected to generate a higher yield than from the Plan's cash accounts held in LAFPP's custodian bank's Short-Term Investment Fund. There is no cost to the Plan and the authorization will end on June 30, 2023. Staff executed the plan shortly after the Board's approval for a total \$200 million in purchases in four allotments. In the ongoing evaluation of the Plan's asset allocation, Staff has been systematically reducing the overweight to REITs and returning it to its target allocation. The domestic REIT portfolio was rebalanced recently and the cash proceeds of \$150 million were used to purchase short-term U.S. Treasuries.

Staff and RVK have been conducting asset class structure reviews, where each asset class is analyzed in depth. RVK presented the first structure review on public equity at the October 20, 2022 Board meeting. A second presentation was provided more specifically on domestic equity at the February 2, 2023 Board meeting. The next asset class structure presentation will be on international equity.

At the June 2, 2022 meeting, the Board approved the minimum qualifications for a Private Credit consultant search. The search finalists presented at the January 19, 2023 meeting and the Board selected StepStone Group to consult on and manage LAFPP's new private credit portfolio. Staff is in contracting discussions with the firm. Staff and RVK are progressing on the Private Equity (Core, Commodity and Specialized) consultant search, which was approved by the Board at the September 15, 2022 Board meeting. Staff and RVK are conducting additional due diligence and expect the completion of the search to be within the second quarter of 2023.

BUDGET

This report has no budget impact.

POLICY

There is no policy impact associated with this report.

CONTRACTOR DISCLOSURE INFORMATION

There is no contractor disclosure information required with this report.

This report was prepared by:

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Investments Division

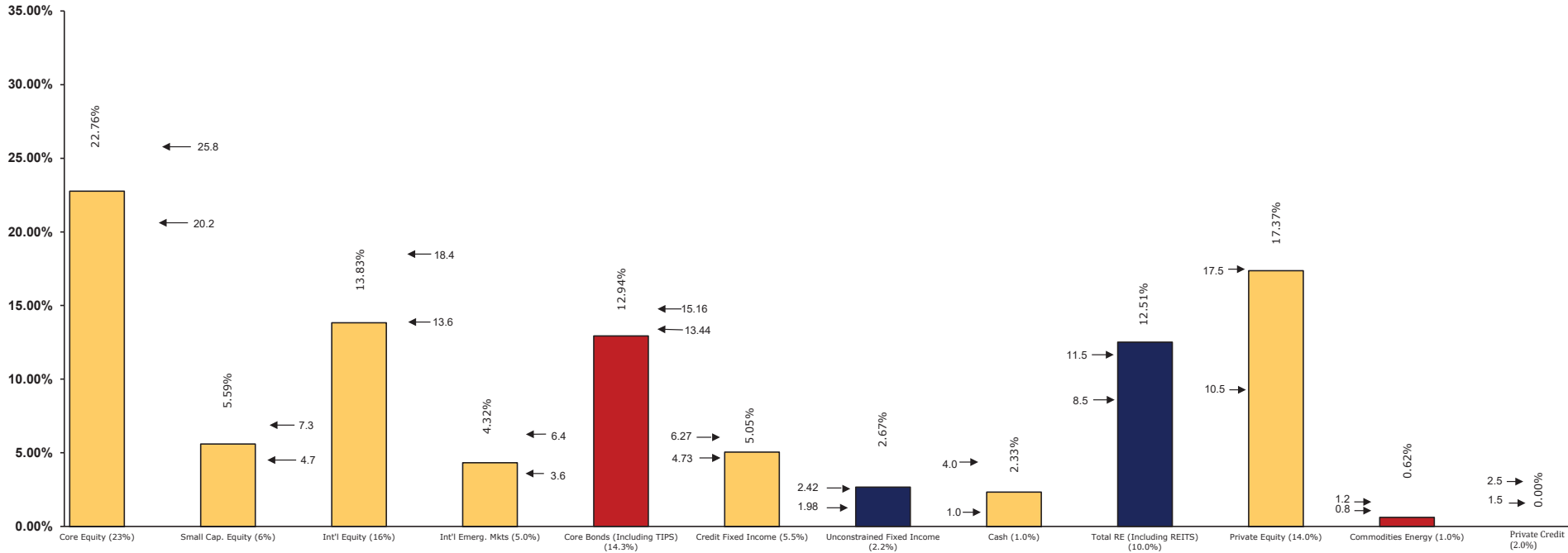
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Attachments: I – Portfolio Allocation Chart as of December 31, 2022
II – Total Plan Portfolio as of December 31, 2022



Los Angeles Fire and Police Pensions

Portfolio Allocation



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

*Board approved asset allocation on 10/6/22



Los Angeles Fire and Police Pensions



Portfolio as of December 31, 2022

EQUITIES	STOCKS	BONDS	CASH	TOTAL	ALLOC.
AllianceBernstein (S&P 500 Index)	2,211.8	-	2.6	2,214.4	
AllianceBernstein (Systematic Value)	707.6	-	3.7	711.3	
AllianceBernstein (Russell 1000 Growth Index)	1,317.8	-	8.4	1,326.2	
NTI S&P 500 Equal Weight	1,111.1	-	9.3	1,120.5	
NTI Stoxx USA 900	536.5	-	1.0	537.5	
Boston Partners (Value)	498.8	-	17.0	515.8	
Terminated/Transition Domestic Equity Managers	-	-	-	-	
Core Equity Managers (23%)	6,383.5	-	42.0	6,425.6	22.76%
Target Differential	(0.24)%				(67.3)
AllianceBernstein (S&P 600 Index)	129.1	-	0.2	129.2	
Frontier Capital Mgt. (Growth)	480.7	-	11.2	491.8	
Channing Capital Mgt. (Value)*	59.9	-	1.9	61.9	
Denali Advisors (Value)*	70.2	-	1.0	71.2	
Eastern Shore Capital (Core)*	46.1	-	1.9	48.0	
Lisanti Capital (Growth)*	46.5	-	1.6	48.1	
PIMCO Stocks Plus (Core)	175.6	-	-	175.6	
Palisade Capital Management (Core)	72.6	-	2.9	75.5	
Phocas Financial (Value)*	61.0	-	1.9	62.9	
Westwood Management (Value)	204.7	-	3.2	207.9	
AllianceBernstein (Value)	205.1	-	1.9	207.0	
Terminated/Transition Small Cap Equity Managers	-	-	-	-	
Small Cap. Equity Mgrs (6%)	1,551.4	-	27.7	1,579.1	5.59%
Target Differential	(0.41)%				(114.7)
Brandes Investment Partners (Value)	1,284.0	-	20.1	1,304.1	
Blackrock (Core Passive)	1,190.4	-	1.8	1,192.2	
Baillie Gifford (Growth)	949.3	-	16.9	966.2	
Boston Common (ESG)	33.0	-	0.8	33.8	
Principal Global Int'l Small Cap	189.0	-	2.4	191.4	
Victory Capital Mgt.	213.4	-	2.9	216.3	
Terminated/Transition Int'l Equity Managers	-	-	0.1	0.1	
Int'l Equity Mgrs (16%)	3,859.0	-	45.0	3,904.0	13.83%
Target Differential	(2.17)%				(612.7)
Harding Loevner	415.9	-	10.9	426.8	
Dimensional Fund Advisors	787.7	-	4.9	792.6	
Sanctioned Assets	0.3	-	-	0.3	
Int'l Emerg. Mkts Mgrs (5.0%)	1,203.8	-	15.8	1,219.6	4.32%
Target Differential	(0.68)%				(191.8)
	12,997.9	-	130.5	13,128.4	46.51%
Int'l Tax Reclaims	1.7	0.1	2.7	4.5	
FIXED INCOME					
Northern Trust (Fixed Income Index)	-	693.8	0.7	694.5	
Reams Asset Mgmt. (Opportunistic)	-	744.4	-	744.4	
LM Capital (Opportunistic)	-	296.1	8.1	304.2	
GIA Partners (Opportunistic)*	-	73.2	2.4	75.6	
Semper Capital Management (MBS)*	-	46.9	1.4	48.3	
Loomis Sayles (Long Duration)	-	579.4	8.0	587.4	
Reams Asset Mgmt. (Passive TIPS)	-	1,197.2	-	1,197.2	
Terminated/Transition Fixed Income Managers	-	-	-	-	
Core Bond Mgrs (14.3%)	-	3,631.1	20.7	3,651.8	12.94%
Target Differential	(1.36)%				(385.1)
MacKay Shields (High Yield)	16.3	605.3	25.0	646.6	
Loomis Sayles Global Credit	(62.4)	836.3	4.0	777.9	
Credit Fixed Income (5.5%)	(46.1)	1,441.6	29.1	1,424.5	5.05%
Target Differential	(0.45)%				(128.1)
Reams Asset Mgmt. (Unconstrained)	-	396.3	-	396.3	
Payden & Rygel (Unconstrained)	-	357.0	-	357.0	
Unconstrained Fixed Income (2.2%)	-	753.3	-	753.3	2.67%
Target Differential	0.47%				132.3
TOTAL FIXED INCOME MGRS (22.0%)	(46.1)	5,826.1	49.7	5,829.6	20.65%

* - Denotes Emerging Manager

PRIVATE EQUITY	STOCKS / EQUITY / RE	BONDS	CASH	TOTAL	ALLOC.
Abbott Capital	2.3	-	-	2.3	
Hamilton Lane	1.9	-	-	1.9	
PCA	0.7	-	-	0.7	
Fairview Capital	219.7	-	-	219.7	
Portfolio Advisors	4,353.8	-	-	4,353.8	
Aldus Equity	145.9	-	-	145.9	
TCP	100.0	-	-	100.0	
Greycroft Growth IV LP	4.5	-	-	4.5	
Baillie Gfd PVC GP II	11.9	-	-	11.9	
Stepstone Group	62.8	-	-	62.8	
TOTAL PRIVATE EQUITY MGRS (14%)	4,903.4	-	-	4,903.4	17.37%
Target Differential	3.37%				951.2

PRIVATE CREDIT	STOCKS / EQUITY / RE	BONDS	CASH	TOTAL	ALLOC.
TOTAL PRIVATE CREDIT MGRS (2%)	-	-	-	-	0.00%
Target Differential	(2.00)%				(564.6)

REAL ESTATE	STOCKS / EQUITY / RE	BONDS	CASH	TOTAL	ALLOC.
Alliance REIT	217.2	-	0.6	217.7	
Principal Global REIT	183.5	-	0.9	184.4	
Principal U.S. REIT	513.2	-	7.5	520.7	
Cohen & Steers U.S. REIT	629.0	-	5.3	634.3	
REIT Managers (3.0%)	1,542.9	-	14.3	1,557.1	5.52%
Target Differential	2.52%				710.2

REAL ESTATE COMMINGLED FUNDS SUMMARY	STOCKS / EQUITY / RE	BONDS	CASH	TOTAL	ALLOC.
Total Pooled Funds	1,378.2	-	-	1,378.2	4.88%
REAL ESTATE SEPARATE ACCT. SUMMARY BY MANAGER					
AEW (Heitman, Sentinel)	576.2	-	-	576.2	
Neptune Building	21.1	-	-	21.1	
Private Real Estate (7.0%)	1,975.5	-	-	1,975.5	7.00%
Real Estate Equity Mgrs	597.3	-	-	597.3	2.12%
TOTAL REAL ESTATE (10%)	3,518.4	-	14.3	3,532.6	12.51%
Target Differential	2.51%				709.6

COMMODITIES	STOCKS / EQUITY / RE	BONDS	CASH	TOTAL	ALLOC.
AllianceBernstein (Commodities, Public Equity)	0.1	-	0.0	0.1	
PA (Commodities, Private Equity)	173.6	-	-	173.6	
TOTAL COMMODITIES (1.0%)	173.7	-	0.0	173.8	0.62%
Target Differential	(0.38)%				(108.5)

CASH	STOCKS / EQUITY / RE	BONDS	CASH	TOTAL	ALLOC.
HOUSE ACCOUNTS					
Tier 1 (Article 17)	-	-	23.2	23.2	
Tier 2 (Article 18)	-	-	406.5	406.5	
Tier 3 (Article 35)	-	-	2.3	2.3	
Tier 4 (New)	-	-	17.7	17.7	
Tier 5 (New)	-	-	177.3	177.3	
Tier 6 (New)	-	-	28.6	28.6	
Transition Account	-	-	0.0	0.0	
115 Trust	-	-	1.9	1.9	
CASH SUMMARY					
Unallocated Cash Reserve (1%)	-	-	657.6	657.6	2.33%
Target Differential	1.33%				375.3

	TOTAL FUND						
	COMMODITIES	PRIVATE EQUITY	STOCKS	BONDS	REAL ESTATE	CASH	TOTAL
ACTUAL ASSET MIX							
Current Month	173.7	4,903.4	12,953.4	5,826.1	3,518.4	854.8	28,229.9
	0.62%	17.37%	45.89%	20.64%	12.46%	3.03%	100.00%
Last Month	171.6	4,853.1	13,465.2	5,768.2	3,727.8	899.7	28,885.6
% Change	1.25%	1.04%	-3.80%	1.00%	-5.62%	-4.99%	-2.27%

Note: City Pension Contribution received on 7/12/22

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