

DEPARTMENT OF FIRE AND POLICE PENSIONS

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REPORT TO THE BOARD OF FIRE AND POLICE PENSION COMMISSIONERS

DATE: NOVEMBER 19, 2020 **ITEM:** B.4
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:

October 31, 2020

Asset Class	Target Allocation	Upper Range	Lower Range	Actual Allocation*
Dom. Large Cap Equity	23.00%	25.80%	20.20%	25.85%
Dom. Small Cap Equity	6.00%	7.30%	4.70%	6.96%
Int'l Equity	16.00%	18.40%	13.60%	13.69%
Int'l Emerging Markets	5.00%	6.40%	3.60%	4.17%
Core Bonds	12.00%	12.70%	11.30%	12.12%

(cont'd from previous page)

Asset Class	Target Allocation	Upper Range	Lower Range	Actual Allocation
TIPS	5.00%	5.30%	4.70%	4.72%
High Yield Bonds	3.00%	3.40%	2.60%	2.58%
Unconstrained Fixed Income	2.00%	2.20%	1.80%	2.02%
Real Estate	7.00%	8.00%	6.00%	5.28%
REITS	3.00%	3.50%	2.50%	2.60%
Commodities	5.00%	6.20%	3.80%	3.75%
Private Equity	12.00%	15.00%	9.00%	11.05%
Cash Equivalent	1.00%	4.00%	1.00%	5.19%

***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 High Yield Bonds, Total Real Estate and Commodities which were under-allocated and Core Equity and Cash which were over-allocated. Cash continues to be maintained at a level to ensure liabilities are met without any forced liquidation of assets and to allocate to cheaper under-allocated asset classes as opportunities present themselves.

Attachment I and II illustrate the allocation status of each asset class and the plan portfolio as of October 31, 2020.

DUE DILIGENCE

During the 3-month period ended October 31, 2020, Staff conducted 41 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 estimated cash flows (in millions) for 4Q2020 and 1Q2021 are summarized on the following page.

	Oct 1 – Dec 31, 2020 Actual/Projected	Jan 1 - Mar 31, 2020 Projected
City Contributions (Net) ¹	0	0
Member Contributions	39.4	38.8
Securities Lending	1.4	1.6
Investment Income	87.1	88.2
Earnings on Cash/Misc.	2.3	2.3
Real Estate	-17.1	-16.2
Private Equity	-4.6	-19.6
DROP	-13.6	-58.4
Benefits & Administrative Expense	-333.4	-342.1
<u>Net Cash Flow (est.)</u>	<u>-238.5</u>	<u>-305.4</u>

*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.

CURRENT EVENTS

The Board approved changes to the plan's asset allocation is underway. At the August 20, 2020 Board meeting, in addition to increasing the private equity target allocation to 14%, the Board approved a private credit mandate (2% target allocation). A report on the various strategies, separate account and fund structures, performance, and fees of investing in private credit was presented to the Board at the October 15, 2020 meeting. Further discussions on the implementation of the new asset class will be scheduled at future board meetings. The Board also approved a reduction to the commodities target allocation from 5% to 1%. Account closures of the commodity derivatives mandate was 1% of the reduction and have been completed. The reduction to the public equity commodity index accounts (Global Natural Resources, Global Timber and Forestry, Global Infrastructure and Commodity Producers Agribusiness) is pending.

This report was prepared by:

Tom Lopez, Chief Investment Officer
Investments Division

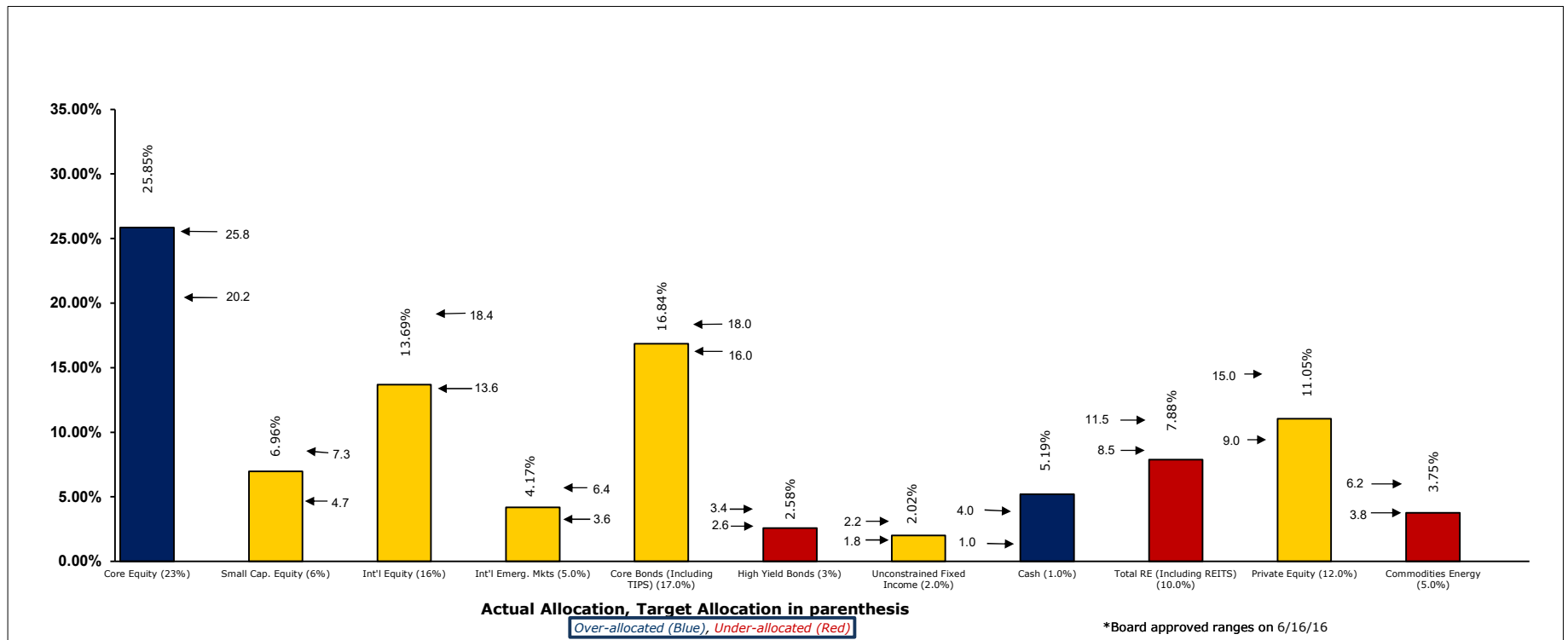
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Attachments: I – Portfolio Allocation Chart as of October 31, 2020
II – Total Plan Portfolio as of October 31, 2020



Los Angeles Fire and Police Pensions

Total Fund Portfolio Allocation





Los Angeles Fire and Police Pensions

Portfolio as of October 31, 2020

EQUITIES						PRIVATE EQUITY							
	STOCKS	BONDS	CASH	TOTAL	ALLOC.	STOCKS / EQUITY / RE	BONDS	CASH	TOTAL	ALLOC.			
AllianceBernstein (S&P 500 Index)	2,000.0	-	3.4	2,003.4		Abbott Capital	12.9	-	12.9				
AllianceBernstein (Systematic Value)	537.9	-	0.8	538.7		Hamilton Lane	2.9	-	2.9				
AllianceBernstein (Russell 1000 Growth Index)	2,271.5	-	5.1	2,276.6		PCA	6.8	-	6.8				
NTI S&P 500 Equal Weight	817.8	-	10.6	828.3		Fairview Capital	51.5	-	51.5				
NTI Stoxx USA 900	457.9	-	1.5	459.4		Portfolio Advisors	2,459.6	-	2,459.6				
Boston Partners (Value)	342.9	-	2.7	345.6		Aldus Equity	119.2	-	119.2				
Terminated Domestic Equity Managers	-	-	-	-		TCP	26.6	-	26.6				
Core Equity Managers (23%)	6,428.0	-	24.1	6,452.1	25.85%	Stepstone Group	77.5	-	77.5				
Target Differential	2.85%				712.1	TOTAL PRIVATE EQUITY MGRS (12%)	2,756.9	-	2,756.9	11.05%			
						Target Differential	(0.95)%			(237.9)			
AllianceBernstein (S&P 600 Index)	127.0	-	0.2	127.2		REAL ESTATE							
Frontier Capital Mgt. (Growth)	611.8	-	2.3	614.1		AllianceBernstein Global REIT	121.9	-	0.5	122.4			
Channing Capital Mgt. (Value)	61.6	-	2.4	64.0		Principal Global REIT	175.4	-	1.3	176.7			
Denali Advisors (Value)	62.8	-	0.7	63.6		Principal U.S. REIT	169.2	-	0.4	169.6			
Eastern Shore Capital (Core)	60.6	-	0.8	61.4		Cohen & Steers U.S. REIT	177.0	-	2.8	179.8			
Lisanti Capital (Growth)	72.0	-	1.7	73.7		REIT Managers (3.0%)	643.6	-	4.9	648.5	2.60%		
Palisade Capital Management (Core)	76.2	-	2.6	78.8		Target Differential	(0.40)%			(100.2)			
PIMCO Stocks Plus	206.7	-	-	206.7		REAL ESTATE COMMINGLED FUNDS SUMMARY							
Phocas Financial (Value)	56.1	-	1.2	57.3		Total Pooled Funds	801.7	-	-	801.7	3.21%		
Westwood Management (Value)	196.0	-	4.9	201.0		REAL ESTATE SEPARATE ACCT. SUMMARY BY MANAGER							
AllianceBernstein (Value)	187.3	-	2.9	190.2		AEW (Heitman, Sentinel)	483.9	-	-	483.9			
Terminated Small Cap Equity Managers	-	-	0.0	0.0		Neptune Building	33.3	-	-	33.3			
Small Cap. Equity Mgrs (6%)	1,718.2	-	19.8	1,737.9	6.96%	Real Estate Equity Mgrs	517.2	-	-	517.2	2.07%		
Target Differential	0.96%				240.5	TOTAL REAL ESTATE (10%)	1,962.4	-	4.9	1,967.3	7.88%		
						Target Differential	(2.12)%			(528.3)			
Brandes Investment Partners (Value)	791.2	-	4.8	796.0		COMMODITIES							
Blackrock (Core Passive)	1,037.1	-	3.2	1,040.3		Alliance (Commodities, Public Equity)	726.6	-	9.5	736.1			
Baillie Gifford (Growth)	1,131.4	-	17.1	1,148.5		Gresham Invest. Mgmt. (Commodities, Active)	-	-	91.7	91.7			
Boston Common (ESG)	34.1	-	0.5	34.6		Goldman Sachs (Terminated)	(0.0)	-	-	(0.0)			
Principal Global Int'l Small Cap	185.8	-	0.8	186.7		PA (Commodities, Private Equity)	108.7	-	-	108.7			
Victory Capital Mgt. Small Cap	207.4	-	2.2	209.6		TOTAL COMMODITIES (5.0%)	835.3	-	101.3	936.5	3.75%		
Terminated Int'l Equity Managers	0.0	-	0.0	0.0		Target Differential	(1.25)%			(311.3)			
Int'l Equity Mgrs (16%)	3,387.2	-	28.6	3,415.7	13.69%	CASH							
Target Differential	(2.31)%				(577.4)	HOUSE ACCOUNTS							
Harding Loevner	476.1	-	9.9	486.0		Tier 1 (Article 17)	-	-	40.4	40.4			
Dimensional Fund Advisors	552.0	-	3.4	555.4		Tier 2 (Article 18)	-	-	25.2	25.2			
Terminated Int'l Emerg. Mkts. Mgrs.	-	-	-	-		Tier 3 (Article 35)	-	-	75.5	75.5			
Int'l Emerg. Mkts Mgrs (5.0%)	1,028.1	-	13.3	1,041.4	4.17%	Tier 4 (New)	-	-	39.8	39.8			
Target Differential	(0.83)%				(206.4)	Tier 5 (New)	-	-	907.2	907.2			
TOTAL EQUITIES MGRS (50.0%)	12,561.4	-	85.8	12,647.2	50.68%	Tier 6 (New)	-	-	208.0	208.0			
Int'l Tax Reclaims	0.2	0.1	2.2	2.5		CASH SUMMARY							
FIXED INCOME						Unallocated Cash Reserve (1%)	-	-	1,296.1	1,296.1	5.19%		
Northern Trust (Fixed Income Index)	-	813.3	2.7	816.0		Target Differential	4.19%				1,046.6		
Reams Asset Mgmt. (Opportunistic)	-	853.9	-	853.9		Transition	-	-	-	-			
LM Capital (Opportunistic)	-	341.3	10.6	351.8		TOTAL FUND							
GIA Partners (Opportunistic)	-	54.9	1.0	55.9		COMMODITIES	PRIVATE EQUITY	STOCKS	BONDS	REAL ESTATE	CASH	TOTAL	
Semper Capital Mgt.	-	53.3	0.2	53.5		ACTUAL ASSET MIX							
Loomis Sayles (Long Duration)	-	798.6	10.2	808.9		Current Month	835.3	2,756.9	12,568.1	5,310.2	1,962.4	1,523.8	24,956.7
Bridgewater (TIPS)	-	422.0	-	422.0		Last Month	933.0	2,780.7	12,775.3	5,357.2	1,959.9	1,512.4	25,318.6
Reams Asset Mgmt. (Passive TIPS)	-	771.5	0.4	771.9		% Change	-10.47%	-0.85%	-1.62%	-0.88%	0.13%	0.75%	-1.43%
Bridgewater Pure Alpha	-	68.1	-	68.1									
Core Bond Mgrs (17.0%)	-	4,177.1	25.0	4,202.1	16.84%								
Target Differential	(0.16)%				(40.5)								
MacKay Shields	6.4	630.0	8.5	644.8									
High Yield Bond Mgrs (3.0%)	6.4	630.0	8.5	644.8	2.58%								
Target Differential	(0.42)%				(103.9)								
Reams Asset Mgmt. (Unconstrained)	-	265.4	-	265.4									
Payden & Rygel (Unconstrained)	-	237.7	-	237.7									
Unconstrained Fixed Income (2.0%)	-	503.1	-	503.1	2.02%								
Target Differential	0.02%				4.0								
TOTAL FIXED INCOME MGRS (22.0%)	6.4	5,310.1	33.5	5,350.0	21.44%								

Note: City Pension Contribution received on 7/15/20

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