



# Chief Investment Officer Monthly Report

**Jonathan Grabel – Chief Investment Officer**

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Board of Investments Meeting  
February 14, 2024

# Table of Contents



1. Market Environment
2. Portfolio Performance & Risk Updates
3. Portfolio Structural Updates
4. Key Initiatives & Operational Updates
5. Commentary



# 01 Market Environment

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# Global Market Performance as of January 31, 2024

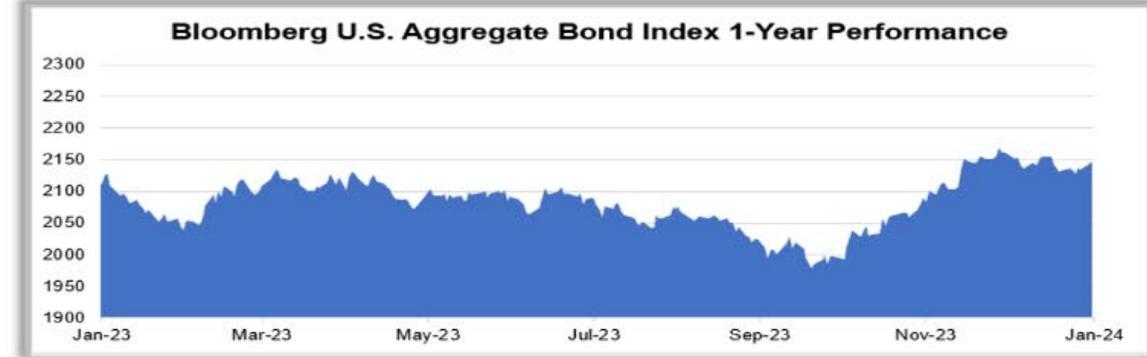


MSCI ACWI IMI Index (Global Equity Market)*							
Trailing Returns (%)				Annualized Returns (%)			
1-Month	3-Month	FYTD	YTD	1Y	3Y	5Y	10Y
0.2	15.2	7.6	0.2	13.5	5.6	9.8	8.2



\*Global Equity Policy Benchmark - MSCI ACWI IMI Index

Bloomberg U.S. Aggregate Bond Index**							
Trailing Returns (%)				Annualized Returns (%)			
1-Month	3-Month	FYTD	YTD	1Y	3Y	5Y	10Y
-0.3	8.2	3.1	-0.3	2.1	-3.2	0.8	1.6



\*\*Investment Grade Bonds Policy Benchmark - Barclays U.S. Aggregate Bond Index

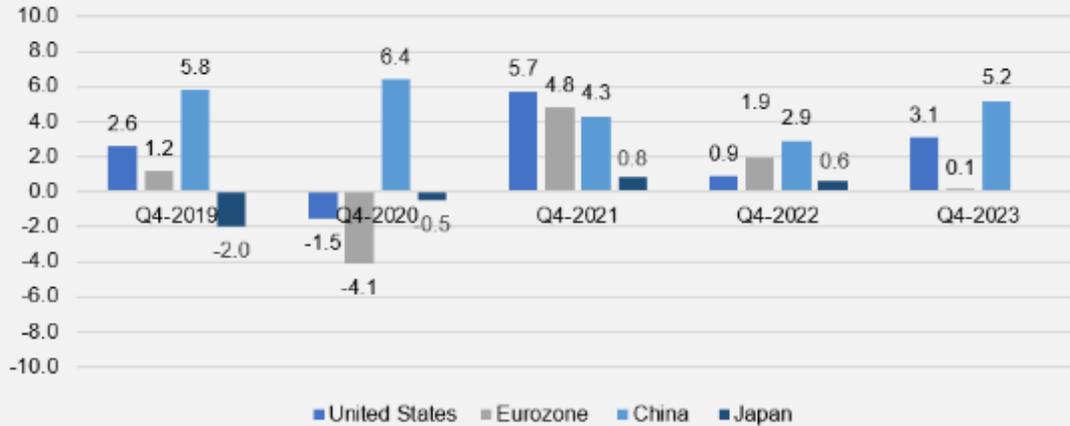
Market	Sub-Category	Index Name	1-Month	3-Month	FYTD	YTD	1 Y	3 Y	5 Y	10 Y
Reference Portfolio	60:40 Equity:Bond Portfolio	60% MSCI ACWI IMI/ 40% Bloomberg U.S. Aggregate Index	0.0	12.4	5.8	0.0	8.9	2.1	6.2	5.6
Equity	Global All Cap	MSCI ACWI IMI Total Return	0.2	15.2	7.6	0.2	13.5	5.6	9.8	8.2
	U.S. All Cap	Russell 3000 Total Return	1.1	16.4	9.6	1.1	19.1	9.1	13.5	12.0
	U.S. Large Cap	S&P 500 Total Return	1.7	16.0	9.9	1.7	20.8	11.0	14.3	12.6
	U.S. Small Cap	Russell 2000 Total Return	-3.9	17.6	4.0	-3.9	2.4	-0.8	6.8	7.0
	Non-U.S. All Cap	MSCI ACWI-ex U.S. IMI Total Return	-1.1	13.5	4.8	-1.1	5.9	1.1	5.4	4.3
	Emerging Markets	MSCI Emerging Markets Total Return	-4.6	7.0	-0.2	-4.6	-2.9	-7.5	1.0	2.9
Private Equity	Private Equity Buyout	Thomson Reuters PE Buyout Index	3.5	29.4	14.5	3.5	6.2	-0.6	8.4	11.0
Fixed Income	U.S. Investment Grade Bonds	Bloomberg U.S. Aggregate Index	-0.3	8.2	3.1	-0.3	2.1	-3.2	0.8	1.6
	U.S. Corporate High Yield Bonds	Bloomberg U.S. Corporate High Yield Total Return	0.0	8.4	7.7	0.0	9.3	1.9	4.4	4.5
	U.S. Long Term Treasury Bonds	Bloomberg Long Term U.S. Treasury Total Return Index	-2.2	15.9	-2.8	-2.2	-5.3	-11.0	-1.8	1.5
	Developed Markets Leveraged Loans	Credit Suisse Leveraged Loan Total Return	0.8	3.6	7.1	0.8	11.1	5.5	5.2	4.4
	U.S. Treasury Inflation Protected Securities	Bloomberg U.S. Treasury TIPS Total Return Index	0.2	5.7	2.2	0.2	2.2	-1.0	2.9	2.2
	U.S. 3 Month Treasury Bill	FTSE 3 Month Treasury Bill	0.5	1.4	3.3	0.5	5.4	2.4	2.0	1.3
Commodity	Commodity Prices Index	Bloomberg Commodity Index Total Return	0.4	-4.5	0.3	0.4	-7.1	10.0	6.2	-1.1
	Natural Resources	S&P Global LargeMidCap Commodity & Resources Index	-6.3	-0.2	-2.5	-6.3	-12.5	10.3	8.2	4.8
Infrastructure	Global Infrastructure	Dow Jones Brookfield Global Infrastructure Composite Index	-2.4	9.7	1.0	-2.4	-2.0	6.1	4.3	4.5
Real Estate	U.S. REITs	MSCI U.S. REIT Index	-4.1	16.3	3.4	-4.1	-1.4	5.5	4.2	6.7

Source: Bloomberg

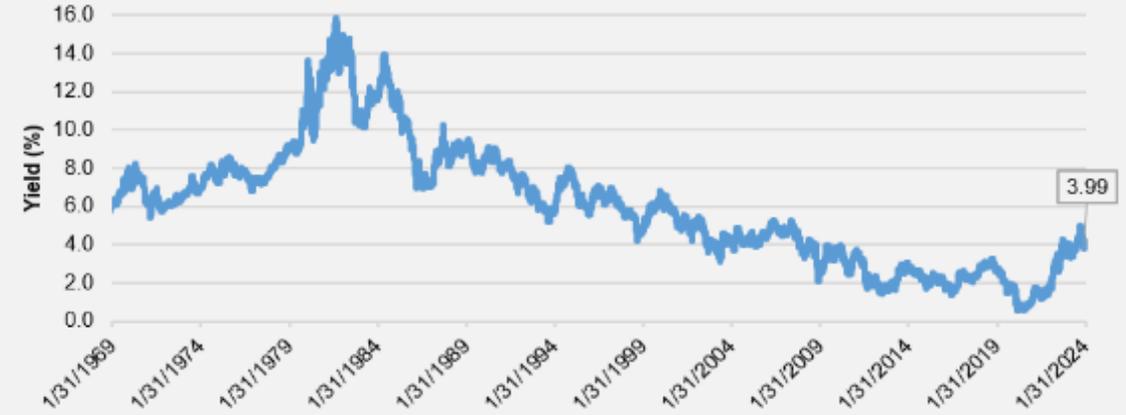
# Key Macro Indicators\*



### Real GDP Growth YoY (%) - Last Five Years<sup>1</sup>



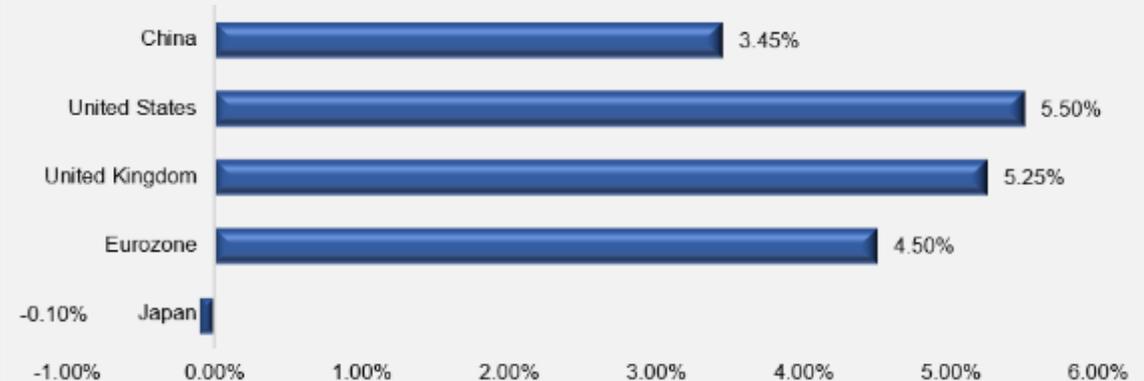
### Historical 10-Year Treasury Yield<sup>2</sup>



### Price-to-Earnings - Last Five Years<sup>3</sup>



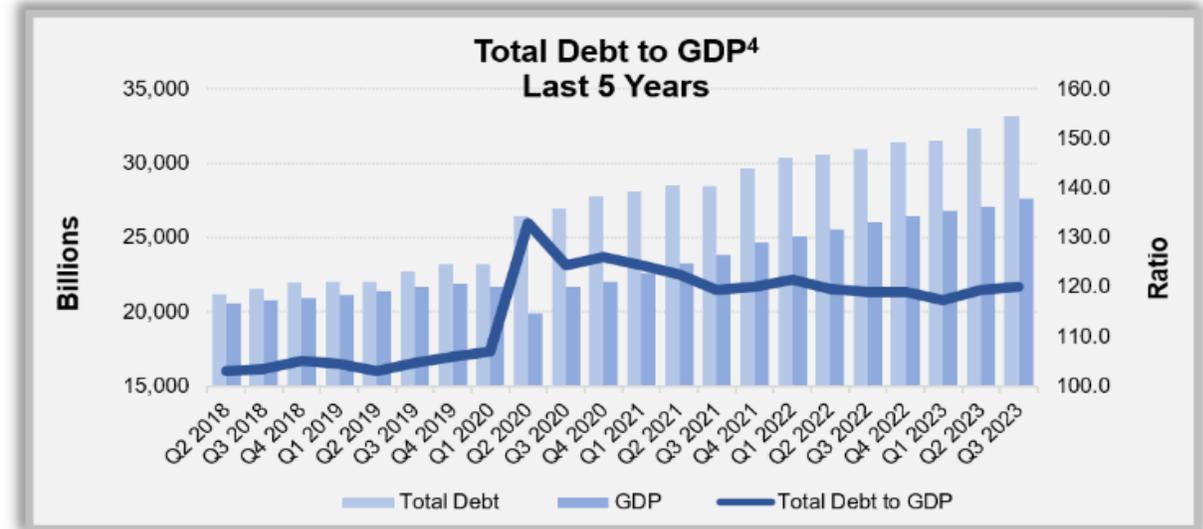
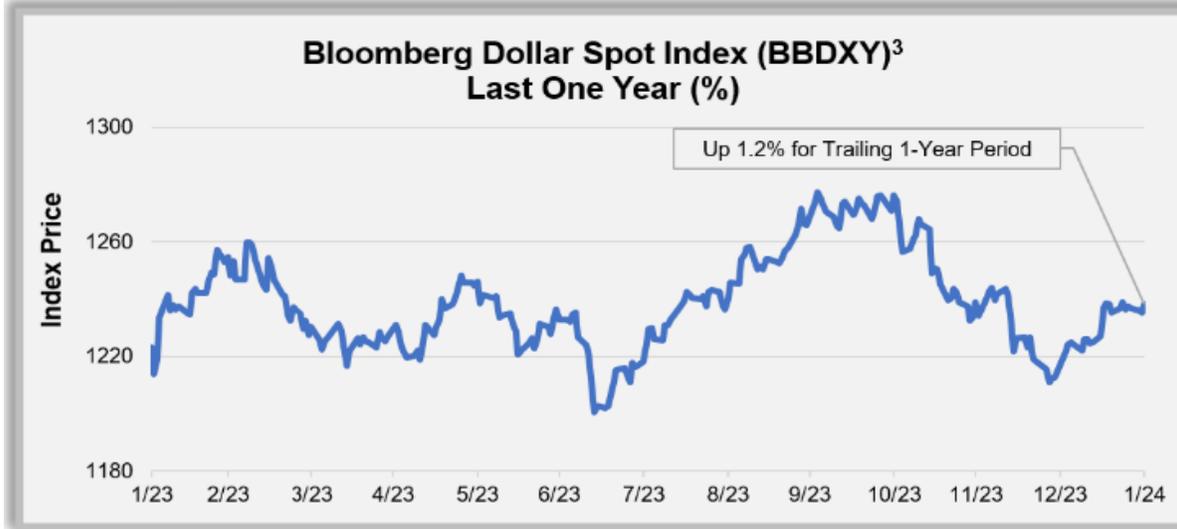
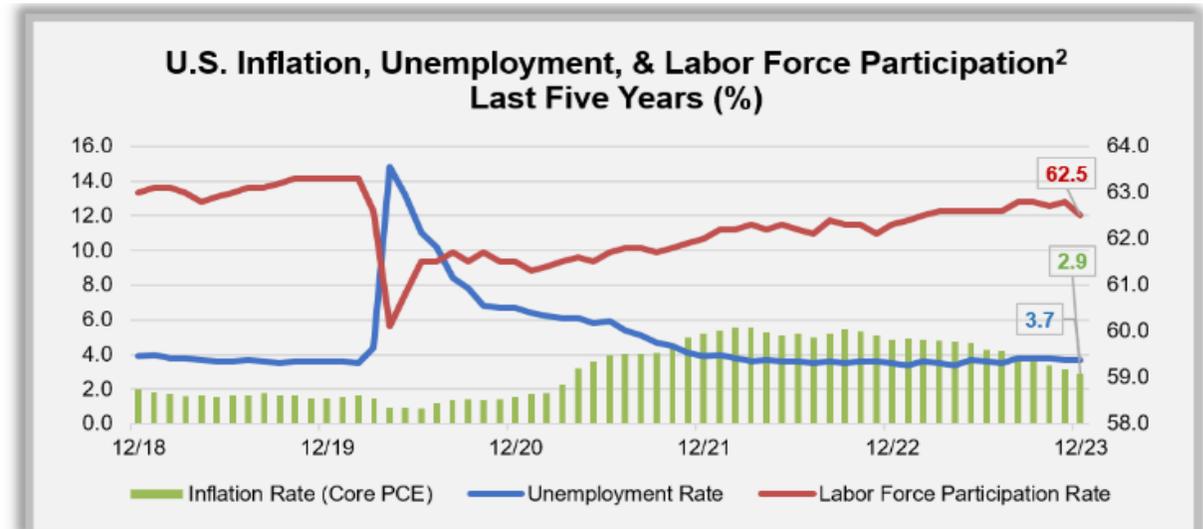
### Central Bank Rates<sup>4</sup> As of 1/31/2024



\*The information on the "Key Macro Indicators" charts is the best available data as of 1/31/24 and may not reflect the current market and economic environment

Sources: 1. Bloomberg 3. FactSet  
2. St. Louis Federal Reserve 4. FactSet

# Key Macro Indicators\*



Sources: 1. Bloomberg 3. Bloomberg  
2. Bloomberg 4. Office of Management and Budget; St. Louis Federal Reserve

\*The information on the "Key Macro Indicators" charts is the best available data as of 1/31/24 and may not reflect the current market and economic environment



# 02 Portfolio Performance & Risk Updates

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## Recent Themes

- At the January Federal Open Market Committee (“FOMC”) meeting, policymakers unanimously voted to hold interest rates steady at a 22-year high of 5.25% to 5.5%
  - Federal Reserve Chair Jerome Powell stated that “inflation is still too high”
  - “I don’t think it’s likely that the committee will reach a level of confidence by the time of the March meeting” to cut rates, Powell additionally said
- The U.S. 10-year Treasury yield ended January at 3.99% after being 3.88% at the end of both 2022 and 2023, 1.52% at the end of 2021 and 0.93% at the end of 2020
- Global equities (MSCI All Country World Investable Market Index) returned 0.2% in January after rising 21.6% in the calendar year of 2023

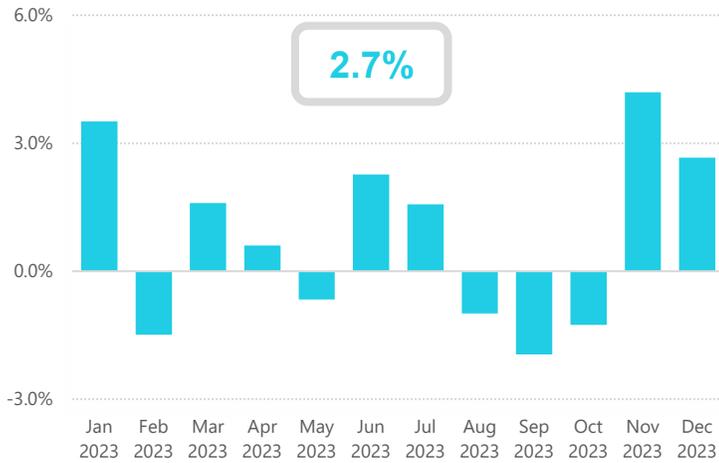
## What to Watch

- Interest rates and central bank actions
- Economic data and trends
  - Inflation, supply chains, and labor developments
- Macro conditions and geopolitical risks
- Stewardship and ESG-related developments
  - Nations convening at 28<sup>th</sup> Conference of the Parties (COP28) global climate summit in Dubai, United Arab Emirates, issue statement outlining commitment to phase out unabated coal power, inefficient fossil fuel subsidies, and support orderly, just transition

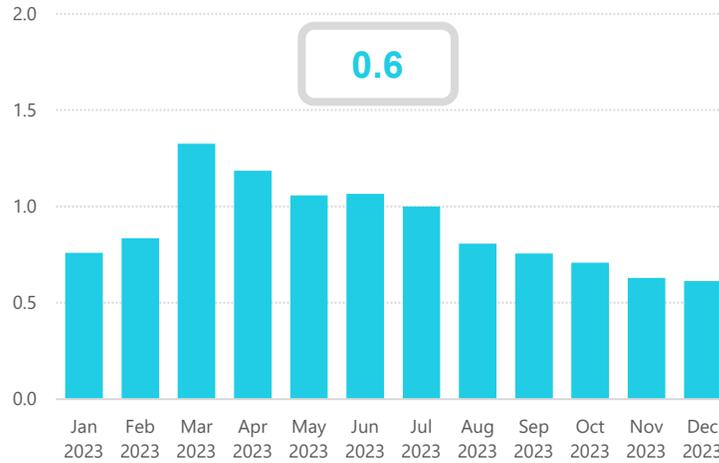
# Total Fund Summary as of December 2023



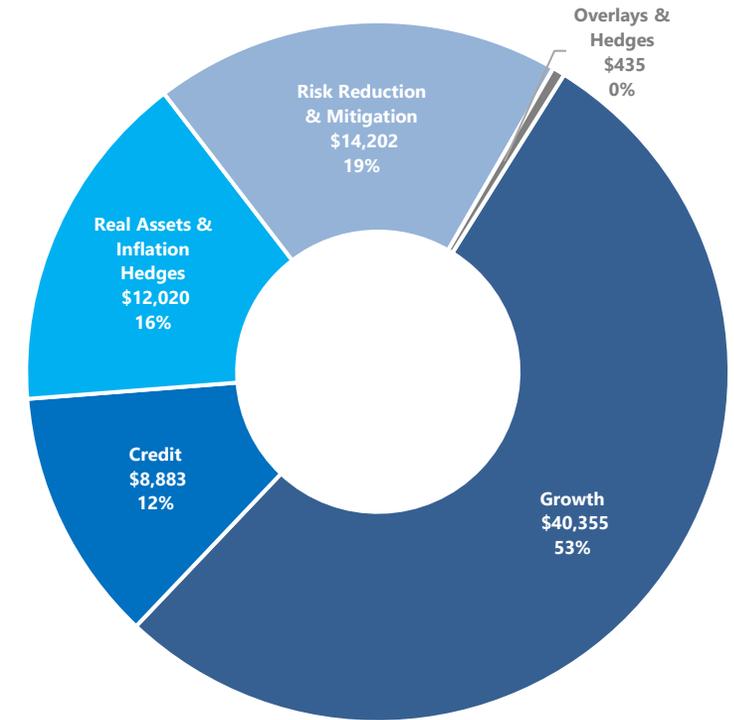
Monthly Return (net)



Sharpe Ratio (3-year annualized)



Asset Allocation (\$ millions)



Total Market Value (\$ billions)



Cash (\$ millions)



# Historical Net Performance as of December 2023



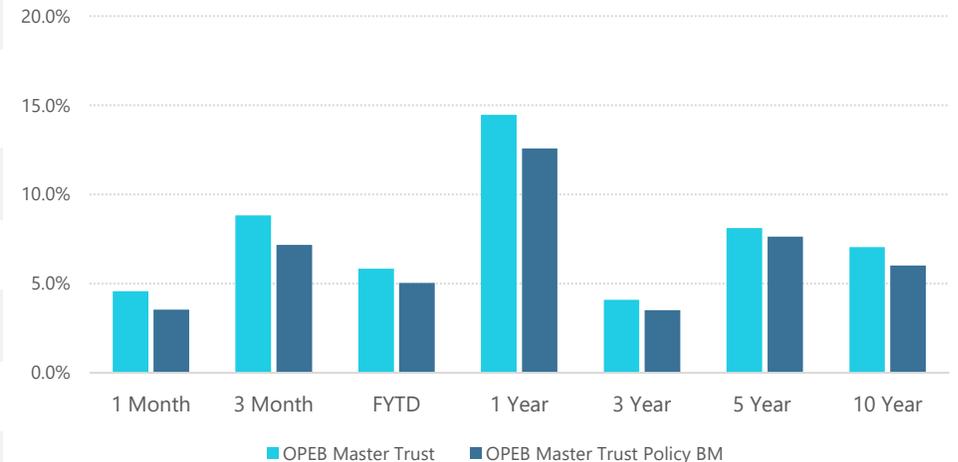
## LACERA Pension Fund

	Market Value (\$ millions)	% of Total Fund	Final Target	1 Month	3 Month	FYTD	1 Year	3 Year	5 Year	10 Year
<b>Total Fund</b>	<b>75,895</b>	<b>100.0%</b>	<b>100.0%</b>	<b>2.7%</b>	<b>5.6%</b>	<b>4.1%</b>	<b>10.3%</b>	<b>6.9%</b>	<b>9.2%</b>	<b>7.5%</b>
Total Fund Policy BM				2.3%	5.3%	4.3%	12.4%	4.1%	7.8%	6.8%
7% Annual Hurdle Rate				0.6%	1.7%	3.4%	7.0%	7.0%	7.0%	7.0%
<b>Growth</b>	<b>40,355</b>	<b>53.2%</b>	<b>53.0%</b>	<b>3.2%</b>	<b>7.0%</b>	<b>5.4%</b>	<b>15.0%</b>	<b>9.9%</b>		
Growth Policy BM				1.8%	5.8%	5.6%	19.9%	6.3%		
<b>Credit</b>	<b>8,883</b>	<b>11.7%</b>	<b>11.0%</b>	<b>1.7%</b>	<b>4.1%</b>	<b>7.2%</b>	<b>13.7%</b>	<b>5.6%</b>		
Credit Policy BM				3.2%	3.5%	6.7%	12.0%	2.1%		
<b>Real Assets &amp; Inflation Hedges</b>	<b>12,020</b>	<b>15.8%</b>	<b>17.0%</b>	<b>0.9%</b>	<b>2.1%</b>	<b>-0.2%</b>	<b>-1.9%</b>	<b>7.2%</b>		
Real Assets & Inflation Hedges Policy BM				1.3%	3.5%	0.6%	-2.1%	6.8%		
<b>Risk Reduction &amp; Mitigation</b>	<b>14,202</b>	<b>18.7%</b>	<b>19.0%</b>	<b>3.4%</b>	<b>5.8%</b>	<b>2.4%</b>	<b>5.0%</b>	<b>-1.9%</b>		
Risk Reduction & Mitigation Policy BM				3.9%	6.6%	2.7%	5.8%	-2.1%		
<b>Overlays &amp; Hedges</b>	<b>435</b>	<b>0.6%</b>								



## OPEB Master Trust<sup>1</sup>

	Market Value (\$ millions)	% of Master Trust	Final Target	1 Month	3 Month	FYTD	1 Year	3 Year	5 Year	10 Year
<b>OPEB Master Trust</b>	<b>3,534</b>			<b>4.6%</b>	<b>8.8%</b>	<b>5.8%</b>	<b>14.5%</b>	<b>4.1%</b>	<b>8.1%</b>	<b>7.0%</b>
OPEB Master Trust Policy BM				3.5%	7.2%	5.0%	12.6%	3.5%	7.6%	6.0%
6% Annual Hurdle Rate				0.5%	1.5%	3.0%	6.0%	6.0%	6.0%	6.0%
<b>OPEB Growth</b>	<b>1,598</b>	<b>45.2%</b>	<b>45.0%</b>	<b>5.2%</b>	<b>11.2%</b>	<b>7.5%</b>	<b>21.8%</b>	<b>5.7%</b>	<b>11.7%</b>	
OPEB Growth Policy BM				4.2%	9.6%	7.1%	21.6%	5.0%	11.2%	
<b>OPEB Credit</b>	<b>639</b>	<b>18.1%</b>	<b>18.0%</b>	<b>2.7%</b>	<b>5.3%</b>	<b>6.1%</b>	<b>12.6%</b>	<b>2.5%</b>	<b>4.4%</b>	
OPEB Credit Policy BM				2.9%	4.5%	6.8%	12.8%	2.3%	4.4%	
<b>OPEB Real Assets &amp; Inflation Hedges</b>	<b>702</b>	<b>19.9%</b>	<b>20.0%</b>	<b>5.0%</b>	<b>8.0%</b>	<b>4.2%</b>	<b>6.4%</b>	<b>5.8%</b>	<b>6.0%</b>	
OPEB RA & IH Policy BM				1.5%	3.4%	1.1%	-1.7%	4.7%	5.3%	
<b>OPEB Risk Reduction &amp; Mitigation</b>	<b>593</b>	<b>16.8%</b>	<b>17.0%</b>	<b>4.6%</b>	<b>7.8%</b>	<b>2.4%</b>	<b>5.1%</b>	<b>-2.4%</b>	<b>1.2%</b>	
OPEB RR & M Policy BM				4.8%	7.9%	2.2%	4.8%	-2.9%	0.8%	
OPEB HL PM Cash	0	0.0%								

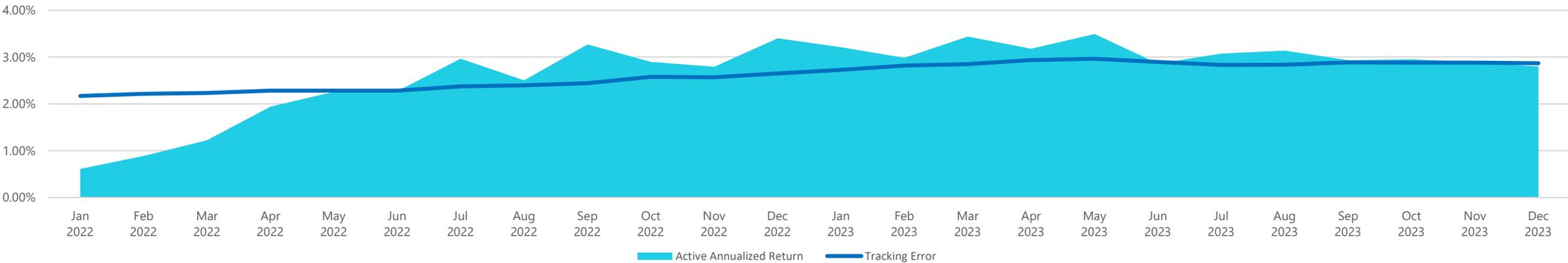


<sup>1</sup> OPEB Master Trust total market value includes participant level cash.

# Active and Excess Return as of December 2023



Active Return vs. Tracking Error<sup>1,2,3</sup>



Period Ending	Annualized Return	Annualized Benchmark Return	Annualized Active Return	Tracking Error
Dec 2023	6.9%	4.1%	2.8%	2.9%

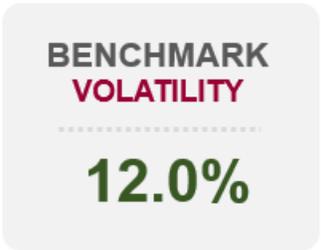
<sup>1</sup> Rolling 36 months.  
<sup>2</sup> Active return equals the difference in return between a portfolio and its benchmark.  
<sup>3</sup> Tracking error (or active risk) measures the volatility of active returns.

Excess Return<sup>1</sup>

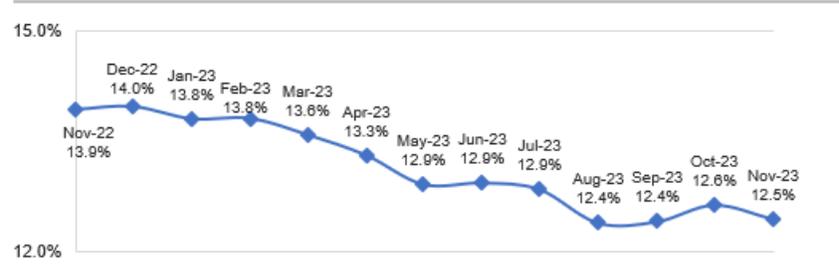


<sup>1</sup> Not an actuarial analysis.

# Total Fund Forecast Volatility as of December 2023\*

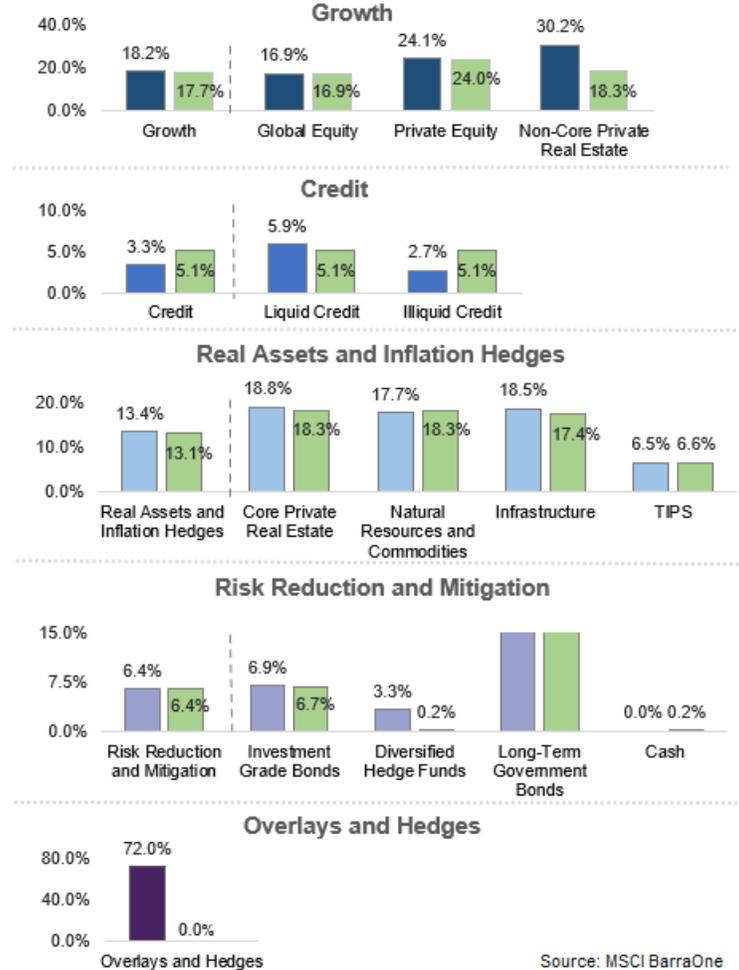


Forecasted Total Fund Volatility Trend

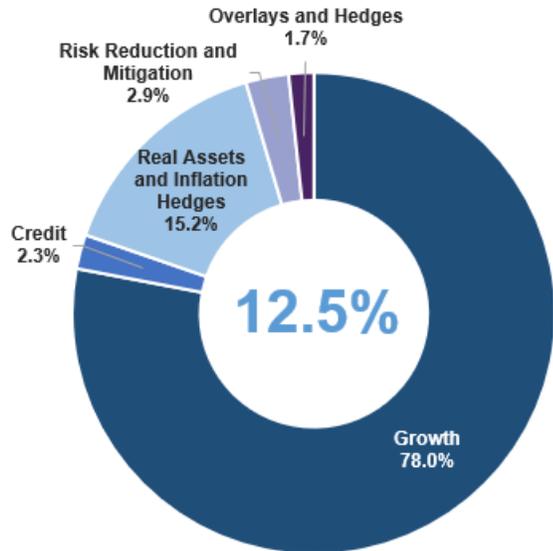


Subcategory Volatility

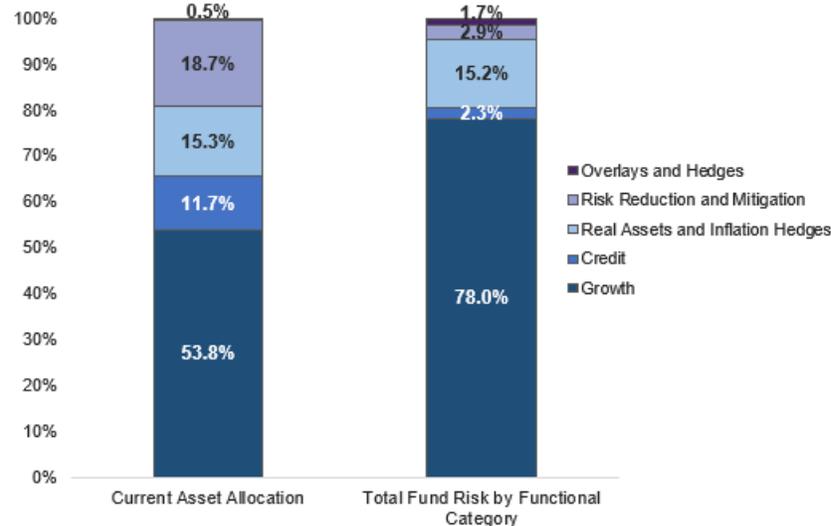
1 Subcategory volatility is on the left bar and benchmark risk is on the right bar.



Functional Category Contributions to Total Fund Volatility



Total Fund Asset Allocation  
Capital-based versus Risk-based



\* Real estate and private equity data is based on best available cash flow adjusted market values. Exposure data is based on security level holdings and/or proxies.

# Total Fund Forecast Tracking Error as of December 2023\*

**TOTAL FUND TRACKING ERROR**

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**1.28%**

**ALLOCATION RISK**

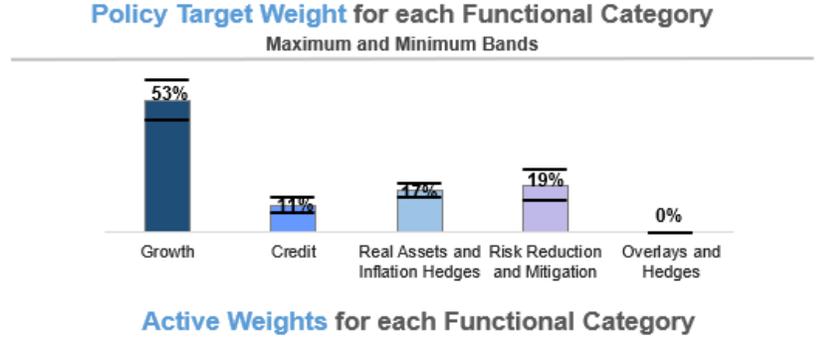
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**0.19%**

**SELECTION RISK**

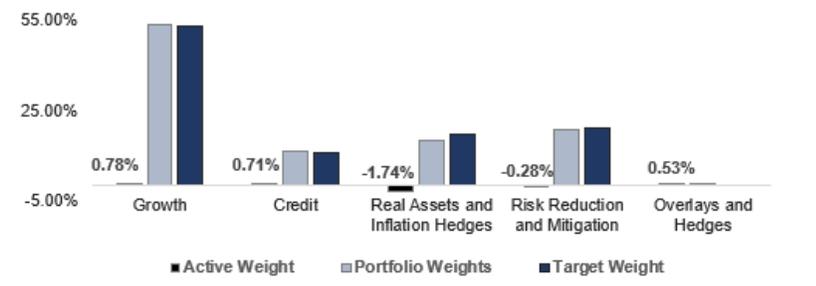
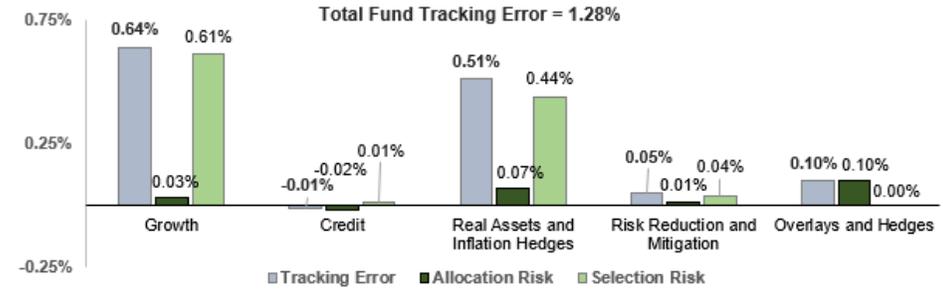
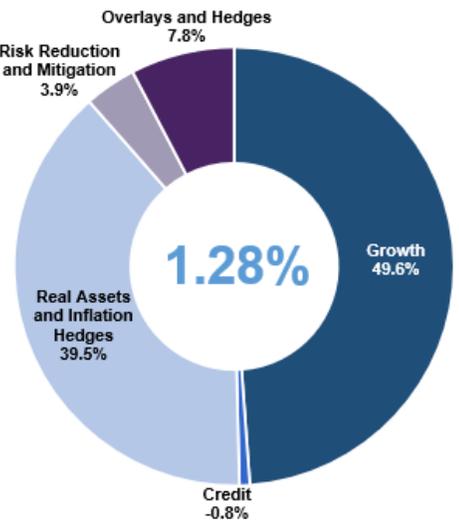
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**1.09%**



Functional Category Contributions to Tracking Error

Tracking Error Attribution



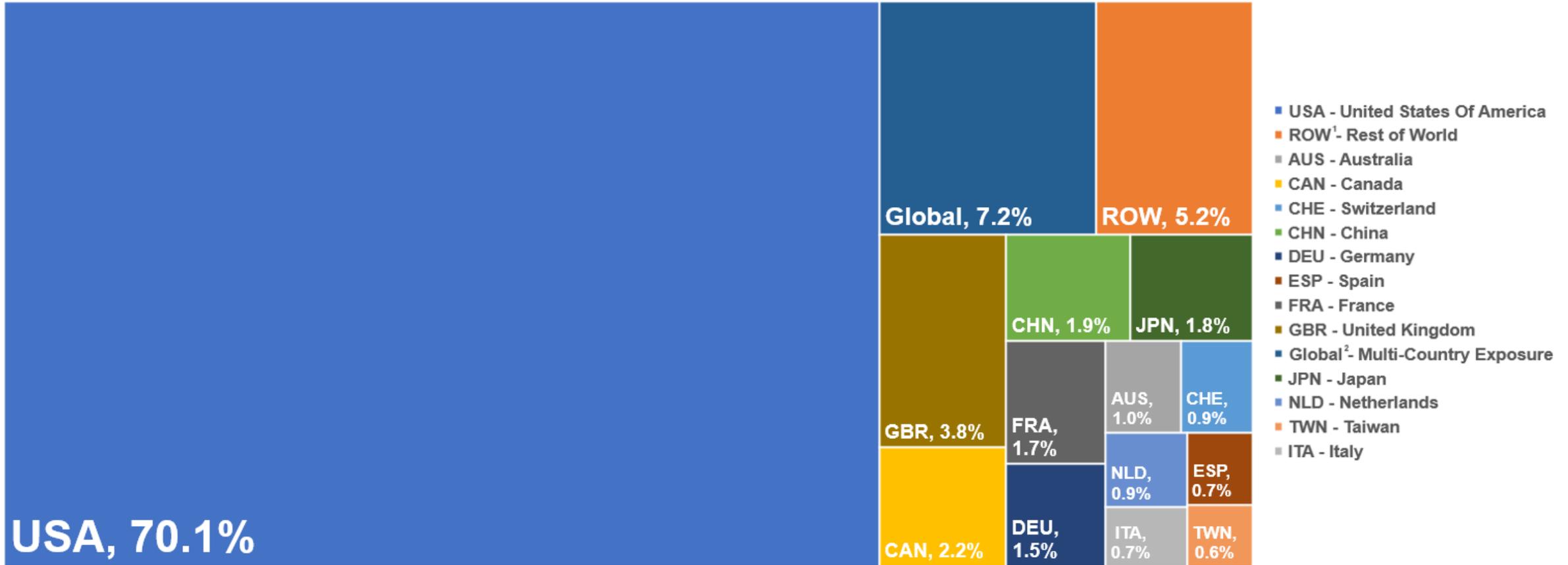
Subcategory Tracking Error

Total Fund	Global				Credit		Real Assets and Inflation Hedges					Risk Reduction and Mitigation					Overlays and Hedges	
1.28%	1.35%	0.40%	3.12%	13.97%	0.03	1.00%	4.17%	3.68%	4.19%	4.44%	8.34%	0.12%	1.02%	0.20%	3.23%	0.03%	0.24%	71.99%
Total Fund	Growth	Global Equity	Private Equity	Non-Core Private Real Estate	Credit	Liquid Credit Illiquid Credit	Real Assets and Inflation Hedges	Core Private Real Estate	Natural Resources and Commodities	Infrastructure	TIPS	Risk Reduction and Mitigation	Investment Grade Bonds	Diversified Hedge Funds	Long-Term Government Bonds	Cash	Overlays and Hedges	

Source: MSCI BarraOne  
 \* Real estate and private equity data is based on best available cash flow adjusted market values. Exposure data is based on security level holdings and/or proxies.

# Geographic Exposures by AUM

Total Fund as of December 2023\* Ex-Overlays and Hedges



AUM = Assets under management.

Geographic exposure is based on the domicile country of a given security/asset.

\* Implementation of the MSCI Risk Platform is ongoing; reconciliation and refinement of the data is progressing and subject to change.

Real Estate and Private Equity data is based on best available cash flow adjusted market values. Exposure data is based on security level holdings and/or proxies.

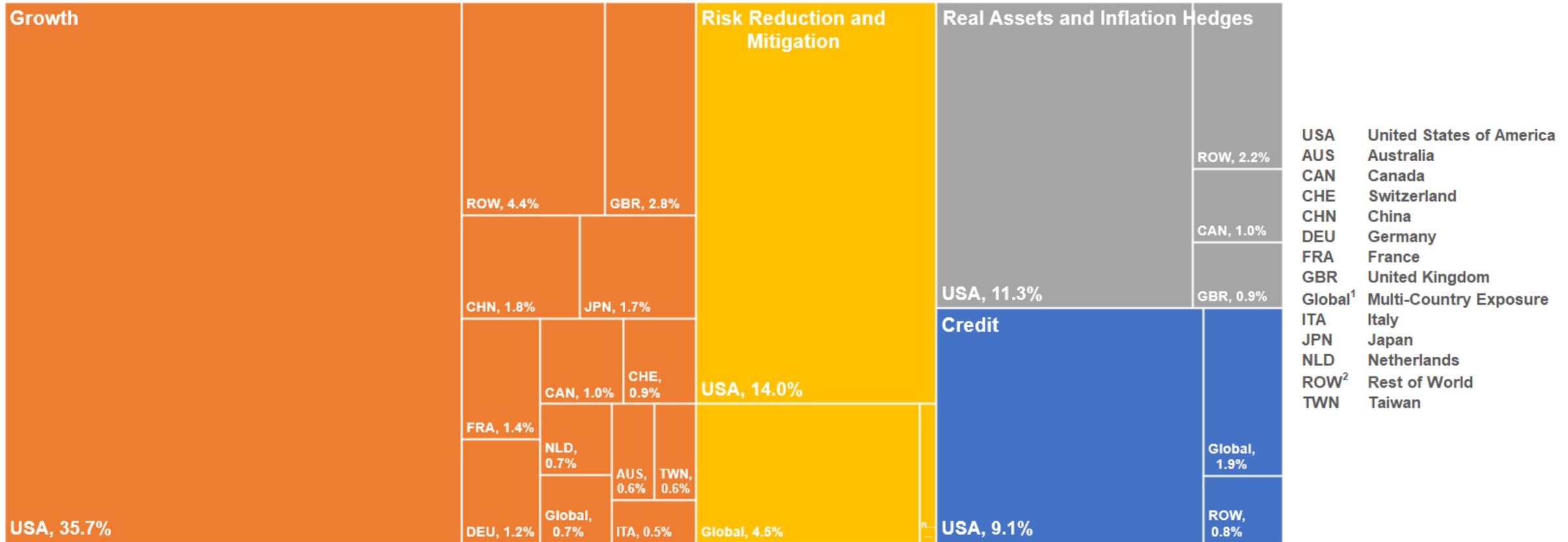
<sup>1</sup> "ROW - Rest of World" is sum of countries with weights below 0.5%.

<sup>2</sup> Global represents investments made in regions where specific country allocations are not available.

SOURCE: MSCI BarraOne

# Geographic Exposures by AUM

## Functional Categories as of December 2023\* Ex-Overlays and Hedges



- USA United States of America
- AUS Australia
- CAN Canada
- CHE Switzerland
- CHN China
- DEU Germany
- FRA France
- GBR United Kingdom
- Global<sup>1</sup> Multi-Country Exposure
- ITA Italy
- JPN Japan
- NLD Netherlands
- ROW<sup>2</sup> Rest of World
- TWN Taiwan

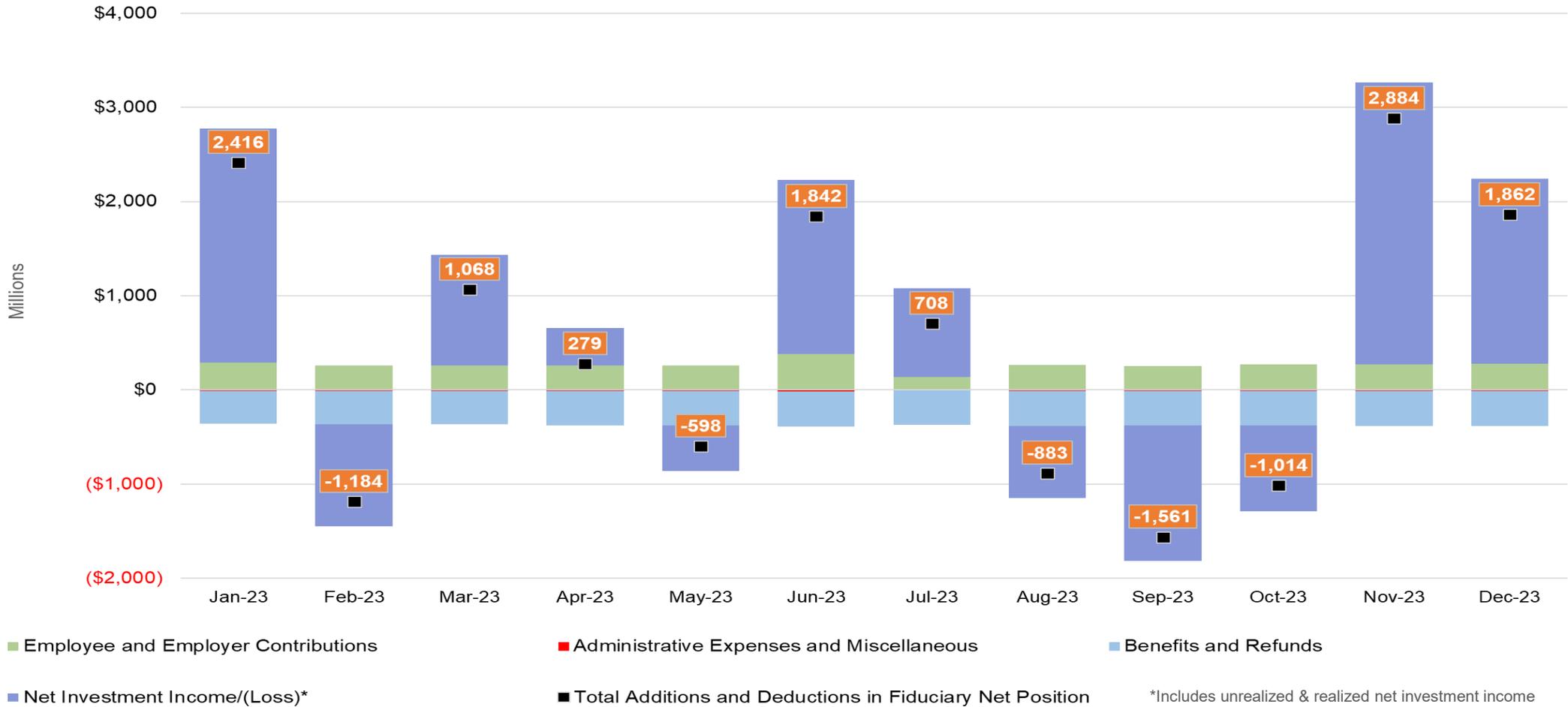
AUM = Assets under management.  
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<sup>1</sup> Global represents investments made in regions where specific country allocations are not available.  
<sup>2</sup> "ROW - Rest of World" is sum of countries with weights below 0.5%.

SOURCE: MSCI BarraOne

# Change In Fiduciary Net Position



**Additions and Deductions in Fiduciary Net Position (Unaudited)**



Fiscal Year	Negative Months	Positive Months	Total Net Position Change \$
FY-22	7	5	(\$2.5 billion)
FY-23	5	7	\$3.3 billion
FY-24	3	3	\$2.0 billion



# 03 Portfolio Structural Updates

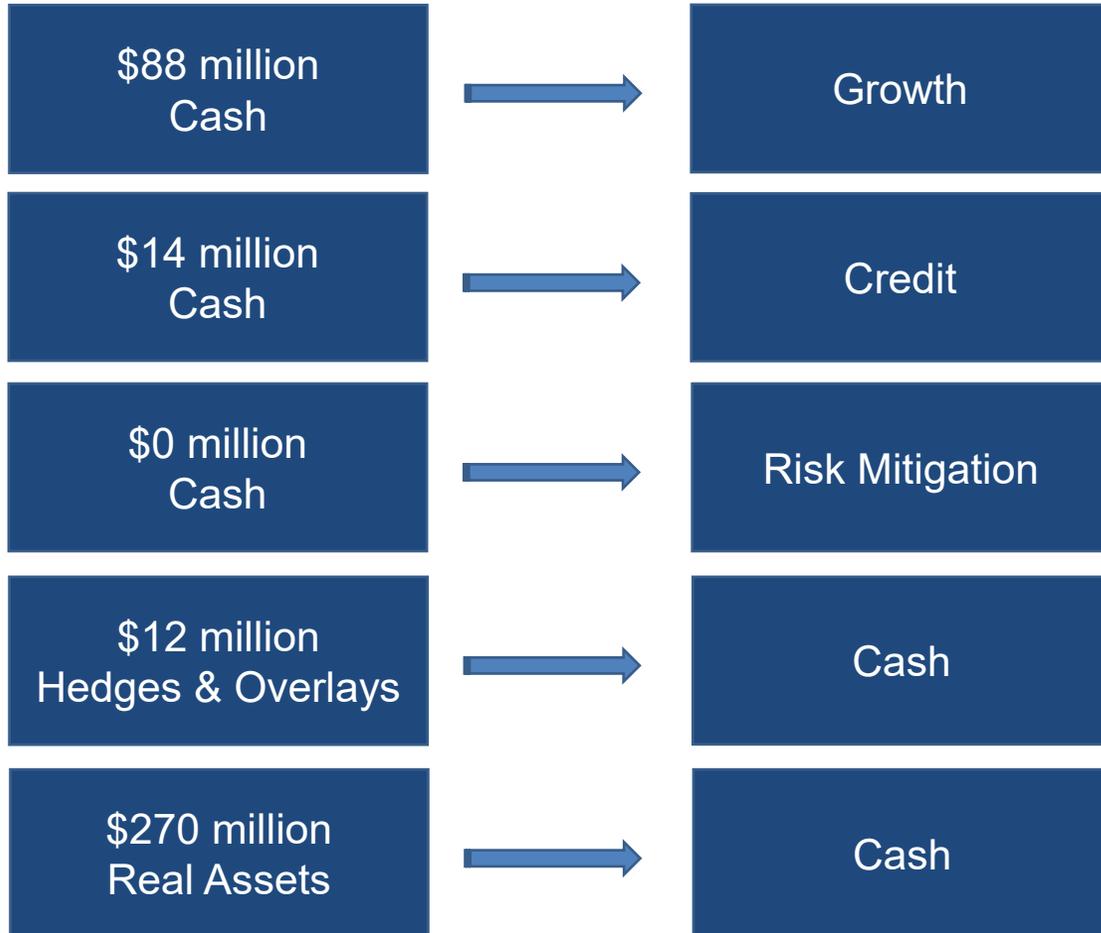
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# Portfolio Structural Updates



## Portfolio Movements

### Rebalancing Activity



## Hedges & Overlays

### Monthly Activity

Program	December Return	December Gain/(Loss)	Inception <sup>1</sup> Gain/(Loss)
Currency Hedge <sup>2</sup>	-1.2%	\$12.3 Million	\$1.5 Billion
Cash/Rebalance Overlay <sup>3</sup>	2.4%	\$68.9 Million	\$435.3 Million

<sup>1</sup> Currency and overlay program inception dates are 8/2010 & 7/2019, respectively.

<sup>2</sup> LACERA's currency hedge program's 1-month return is calculated monthly whereas the monthly gain/loss amount for the same period is the net realized dollar amount at contract settlement over three monthly tranches.

<sup>3</sup> LACERA's overlay program's 1-month return includes interest earned on the cash that supports the futures contracts.

## Current Search Activity

### Status of Active Searches – Subject to Change

Name	RFP Issued	Due Diligence	Selection/Review
Hedge Funds, Credit, & Real Assets Consultant Search	✓		TBD



# 04 Key Initiatives & Operational Updates

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# Notable Initiatives and Operational Updates



## Key Initiative Updates

- The 2024 Strategic Asset Allocation study is underway
- Adhering to the BOI-approved 2024 Work Plan and Strategic Initiatives
- Board education library under development

## Operational Updates

- Annual contract compliance is in progress
- Budget review is in process

## Manager/Consultant Updates

State Street Corporation – Bob Dollard, Senior Vice President and Head of North America Asset Owner Relationship Management, will be departing from State Street in March. Michael Knowling, Executive Vice President, Head of Insurance and Asset Owners, North America will assume his role.

Parametric – Brian Langstraat, Parametric's CEO, retired and transitioned to become Senior Advisor at Parametric, effective December 31, 2023. Parametric's Co-Presidents, Tom Lee and Ranjit Kaplia continue in their current roles and have assumed day-to-day leadership responsibility for the firm upon Mr. Langstraat's departure.

## Team Searches and Vacancies

- Principal Investment Officer
- 4 – Senior Investment Officer
  - 2 in progress
- 2 – Financial Analyst-III
  - 2 in progress
- Financial Analyst-II
  - 1 in progress

# Manager/Consultant Updates Continued



## Manager/Consultant Updates

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CornerCap – Global Equities – CornerCap’s Director of Trading, Charles Bettinger, resigned to pursue a new opportunity in December 2023. His responsibilities have been transitioned to Jeff Davenport on an interim basis. Jeff has served as the backup trader since 2012. A search is underway for the vacated role.

BlackRock – Global Equities – BlackRock informed LACERA that Jim Chan, Director, Senior Portfolio Manager within BlackRock’s FX & Synthetics Team is no longer with the firm. Orlando Montalvo, Managing Director, and head of the Team will assume Jim’s responsibilities.

Global Alpha – Global Equities – Announced that Sabrian Lacroix was promoted to Chief Compliance Officer. Sabrian took over the role from David Savignac, Portfolio Manager, who was serving in that role on an interim basis until a replacement was found.

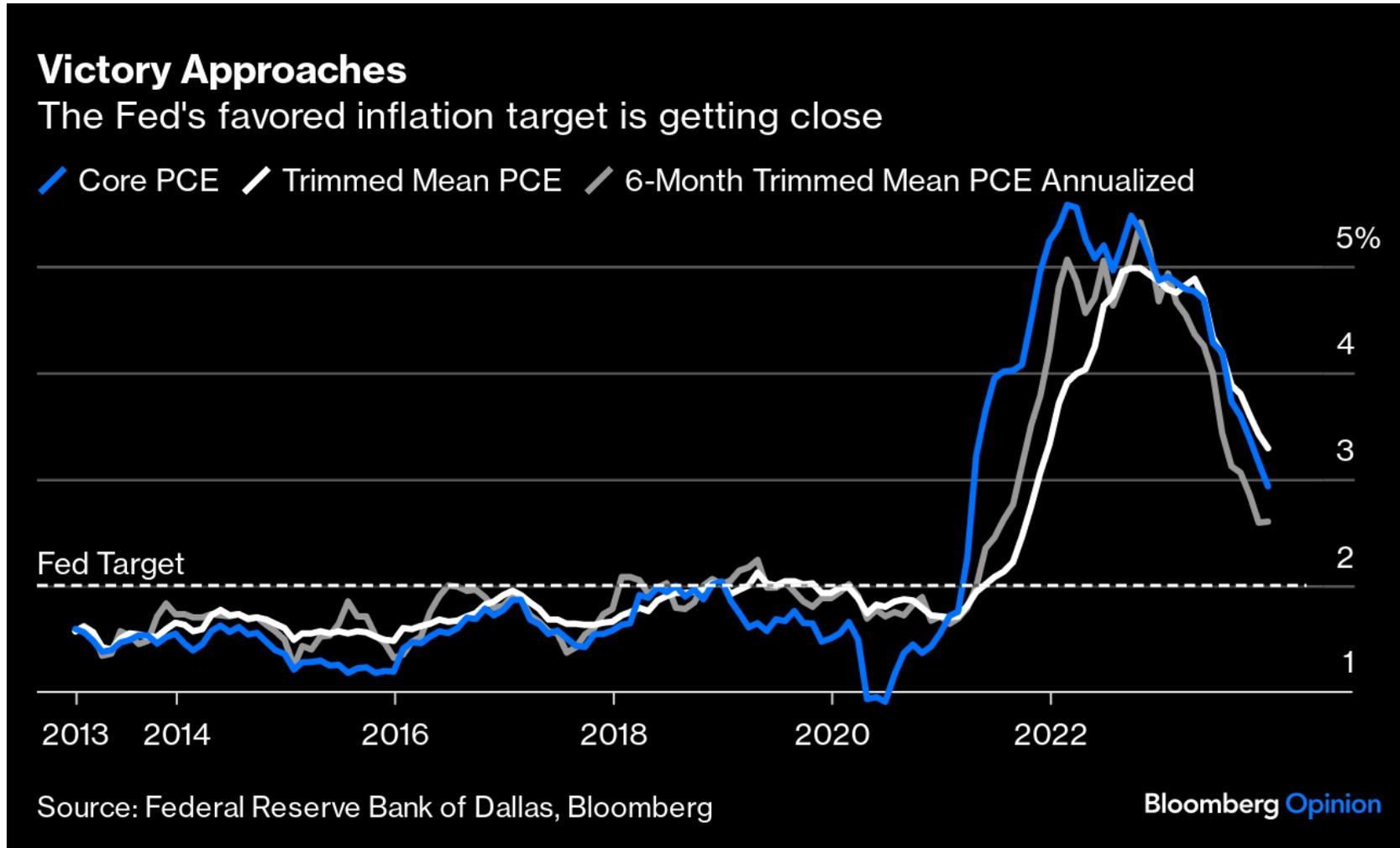


# 05 **Commentary**

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# Staff Chart of the Month

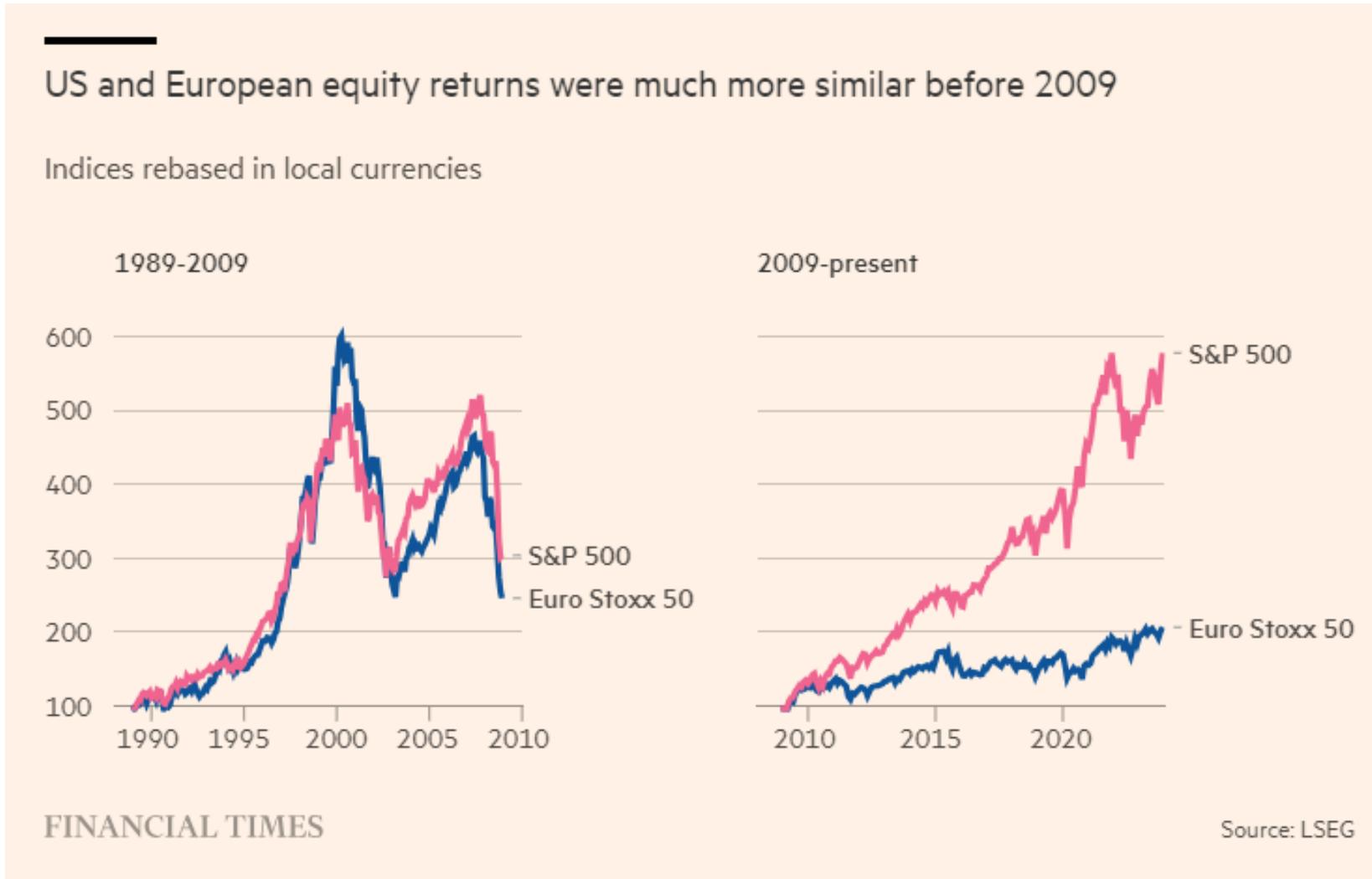
## Fed's Favored Inflation Measure inches Towards Target



\* Personal Consumption Expenditures (PCE) is a measure of consumer spending on goods and services among households in the U.S. It is used to gauge how much earned income of households is being spent on current consumption for various goods and services.

# Staff Chart of the Month

## Divergence between US and European Equity Markets after 2009



Source: Financial Times and London Stock Exchange Group (LSEG)