



## Memorandum

To	The Los Angeles Fire and Police Pension System ("LAFPP")
From	RVK, Inc. ("RVK")
Subject	Channing Small Cap Value Equity - Contract Renewal
Date	August 21, 2025

## Recommendation

RVK recommends that the Board renew the Channing Small Cap Value Equity ("Channing") contract for 3 years. This is in agreement with the Staff's recommendation to the Board.

Although Q1 2025 had been a struggle for them as their more pro-cyclical positioning was detrimental during the tariff-driven market volatility, they have rebounded somewhat in Q2 with 10.7% gross of fees return landing them in the 9<sup>th</sup> percentile of the eVestment Small Cap Value peer universe for the quarter. Given that this manager is operating within a multi-manager structure and this sort of short-term deviation should be expected from a concentrated manager in a volatile asset class such as US Small Cap, RVK does not view their performance as problematic. Asset flows have remained steady with \$2.9 billion in AUM as of 6/30/2025 compared to \$2.4 billion as of 6/30/2022. The team has remained stable over this time with no significant deviations in philosophy or process.

## Background

The Channing contract expires on September 30, 2025. As of June 30, 2025, LAFPP has approximately \$81.5 million invested in the separate account, which represents approximately 4.1% of the Domestic Small Cap Equity composite, 0.8% of the Domestic Equity composite, and 0.2% of the Total Plan. LAFPP has been invested in this account since October 2015.

## Firm

Channing was founded in August 2003 by Eric McKissack, Wendell Mackey, and Rodney Herenton. Mr. McKissack has since retired from the industry in 2019. The firm is headquartered in Chicago, Illinois and currently manages \$3.7 billion firm-wide, \$2.9 billion of which is invested in the Small Cap Value equity strategy. The firm offers other value equity strategies spanning the market capitalization spectrum, and recently acquired an international team based in Miami, Florida. Channing is 100% employee owned and qualifies as a minority owned firm.

## Team

The Small and SMID-Cap Value portfolios at Channing are managed by Wendell Mackey, who is supported by Timothy Kroll, Kevin Reynolds, Matthew Betourney, Derik Coffey, and Jason Boles. Each team member has significant experience, and the analyst group has an average of 23 years in the industry. Mr. Mackey is the lead portfolio manager and decision maker for the Small Cap Value strategy. Mr. Mackey is responsible for the Technology sector for both Small and SMID Cap Value, aided by the support of Mr. Betourney. Mr. Mackey's time is focused on managing the firm, team, and portfolio strategy.

## Product Strategy and Process

The Channing investment team seeks high quality companies that exhibit three primary tenets: (1) strong market positions, (2) strong balance sheets and free cash flow, and (3) capable management teams with strong track records. Through bottom-up, fundamental research, the team seeks to identify misunderstood companies that are undervalued (out of favor) but have potential for a positive surprise generated by higher earnings estimate revisions.

After narrowing the broad universe using a wide range of screening metrics, the team is able to generate, and specifically focus on, a smaller opportunity set of approximately 200 names. For this opportunity set, the team engages in three primary steps: (1) rank stocks by Price/Earnings ratio, (2) consider industry representation, and (3) conduct fundamental analysis. The result is a narrower list of 50 stocks, of which 5 are identified as best opportunities for portfolio inclusion. These five companies are determined based on the following criteria:

- Sustainable competitive advantage (length and durability of profitable operations)
- Out-of-favor companies that are trading at a discount to intrinsic value
- Attractive valuations as defined by below average P/E or P/CF multiples
- Strong management teams with proven track records

Each investment professional is assigned specific stocks within certain sectors/industries from the focus list, and is responsible for stock monitoring and maintenance, participating in quarterly management calls, and remaining current on all company events. Stocks are available for inclusion after careful consideration of the following criteria:

- Valuation opportunity: The team seeks companies trading below 30% of intrinsic value based on a 3-year time horizon. The stock must have an attractive valuation compared to other portfolio candidates, as well as stocks held in the current portfolio.
- Risk/reward assessment
- Portfolio-level industry and sector positioning
- Risk considerations (diversification)
- Portfolio themes and position sizing

The top ideas generated by the team are placed in a concentrated portfolio of approximately 30 - 50 stocks. The sector weightings in the portfolio are held to a maximum of 2 times the benchmark weight. Maximum position sizes are held at 4.5% (at market value). The portfolio's cash allocation will be kept below 5.0%, with a typical cash target of 2.0%-3.0%.

## Performance (as of June 30, 2025)

The Channing Small Cap Value separate account has outperformed its benchmark by 21 basis points per year since inception (October 2015), annualized and net of fees, ranking in the 71<sup>st</sup> percentile. Over the recent 3-year period the fund has outperformed its benchmark by 144 basis points and ranked in the 63<sup>rd</sup> percentile, and over the 5-year period the fund has outperformed by 3 basis points and ranked in the 69<sup>th</sup> percentile. The table below details Channing's performance (gross and net of fees) as of June 30, 2025.

	CYTD	1 Year	3 Years	5 Years	7 Years	Since Incep.	Inception Date	Expense Ratio
<b>Channing Small Cap Value (SA) - Gross</b>	<b>-2.38</b>	<b>5.35</b>	<b>9.56</b>	<b>13.24</b>	<b>6.76</b>	<b>9.05</b>	<b>10/1/2015</b>	<b>0.62%</b>
Russell 2000 Val Index	-3.16	5.54	7.45	12.47	4.85	8.15		
Difference	0.78	-0.19	2.11	0.77	1.92	0.91		
<b>Channing Small Cap Value (SA) - Net</b>	<b>-2.70</b>	<b>4.70</b>	<b>8.89</b>	<b>12.51</b>	<b>6.08</b>	<b>8.35</b>	<b>10/1/2015</b>	
Russell 2000 Val Index	-3.16	5.54	7.45	12.47	4.85	8.15		
Difference	0.46	-0.83	1.44	0.03	1.24	0.21		
IM U.S. Small Cap Value Equity (SA+CF) Median	-2.18	6.38	10.61	14.76	7.30	9.92		
Rank	54	59	63	69	65	71		

	2024	2023	2022	2021	2020	2019	2018	2017	2016
<b>Channing Small Cap Value (SA) - Gross</b>	<b>11.66</b>	<b>20.90</b>	<b>-16.60</b>	<b>20.44</b>	<b>17.48</b>	<b>25.96</b>	<b>-16.60</b>	<b>7.60</b>	<b>29.42</b>
Russell 2000 Val Index	8.05	14.65	-14.48	28.27	4.63	22.39	-12.86	7.84	31.74
Difference	3.60	6.26	-2.12	-7.83	12.85	3.56	-3.74	-0.24	-2.32
<b>Channing Small Cap Value (SA) - Net</b>	<b>11.01</b>	<b>19.99</b>	<b>-17.02</b>	<b>19.65</b>	<b>16.76</b>	<b>25.13</b>	<b>-17.22</b>	<b>6.83</b>	<b>28.50</b>
Russell 2000 Val Index	8.05	14.65	-14.48	28.27	4.63	22.39	-12.86	7.84	31.74
Difference	2.95	5.34	-2.54	-8.62	12.13	2.74	-4.35	-1.01	-3.24
IM U.S. Small Cap Value Equity (SA+CF) Median	11.44	17.23	-10.61	29.80	5.20	25.15	-14.06	11.58	27.21
Rank	48	27	87	93	12	51	79	84	39

## Fees

The annual fee for this product is 0.65% on the first \$25 million, 0.60% on the next \$75 million and 0.55% thereafter. Based on the June 30, 2025, market value of \$81.5 million, the effective annual expense ratio is approximately 0.62%. This fee ranks in the 11th percentile when compared to the eVestment US Small Cap Value Equity universe utilizing a separate account vehicle and comparable mandate size. The median fee for this universe is 80 basis points.

Please see the attached manager profile page for additional information.

**Manager: Channing Small Cap Value (SA)**

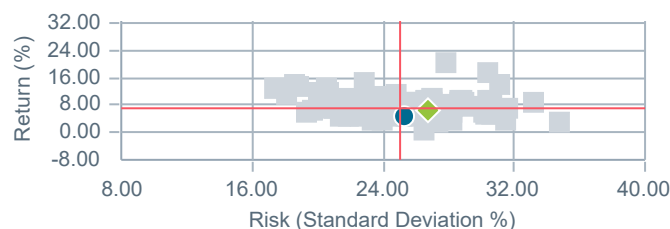
**As of June 30, 2025**

**Benchmark: Russell 2000 Val Index**

**Peer Group: IM U.S. Small Cap Value Equity (SA+CF)**

Performance											
	QTD	1 Year	3 Years	5 Years	7 Years	10 Years	2024	2023	2022	2021	2020
Manager	10.69	5.35	9.56	13.24	6.76	N/A	11.66	20.90	-16.60	20.44	17.48
Benchmark	4.97	5.54	7.45	12.47	4.85	6.72	8.05	14.65	-14.48	28.27	4.63
Difference	5.72	-0.19	2.11	0.77	1.92	N/A	3.60	6.26	-2.12	-7.83	12.85
Peer Group Median	5.13	6.38	10.61	14.76	7.30	8.44	11.44	17.23	-10.61	29.80	5.20
Rank	10	59	63	69	65	N/A	48	27	87	93	12
Population	147	147	147	144	142	134	151	168	175	179	193

### Peer Group Scattergram - 7 Years



	Return	Standard Deviation
◆ Manager	6.76	26.72
● Benchmark	4.85	25.33
— Median	7.30	25.01

### Up/Down Markets - 7 Years

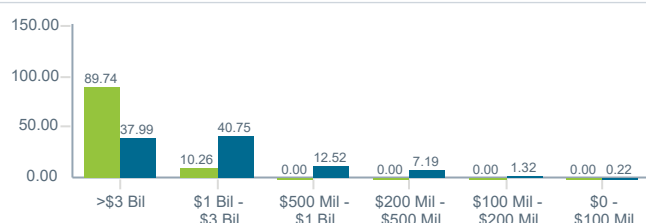


### Peer Group Analysis - Multi Statistics - 7 Years (Excess Return vs. Risk Free)

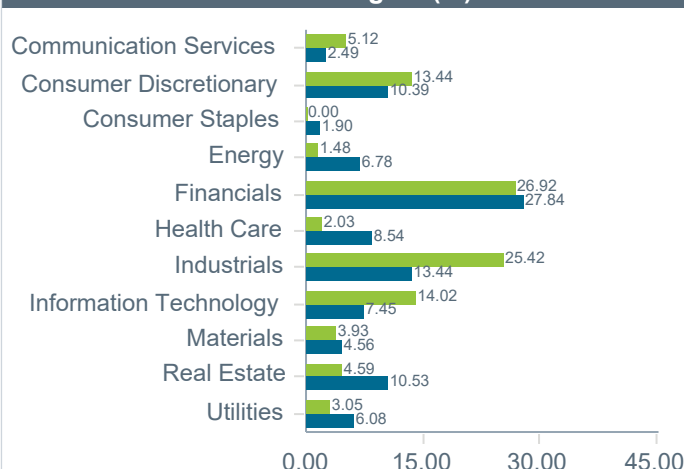


### Portfolio Characteristics and Dist. of Market Cap (%)

	Portfolio	Benchmark
Wtd. Avg. Mkt. Cap (\$M)	5,874	2,680
Median Mkt. Cap (\$M)	5,350	696
Price/Earnings Ratio	18.64	14.13
Price/Book Ratio	2.37	1.52
5 Yr. EPS Growth Rate (%)	18.96	9.99
Current Yield (%)	1.73	2.32
Beta (5 Years, Monthly)	0.96	1.00
Number of Securities	41	1,443
Active Share	97.04	N/A



### Sector Weights (%)



Performance shown is gross of fees. Calculation is based on quarterly periodicity. Parentheses contain percentile ranks.