



PUBLIC PENSION INVESTMENT OVERVIEW

FPPTA - CEU

September 2024

Presented by:

Burgess Chambers, President

Mitchel Brennan, Senior Consultant

Burgess Chambers & Associates, Inc.

315 E. Robinson Street, Suite 690. Orlando, FL 32801

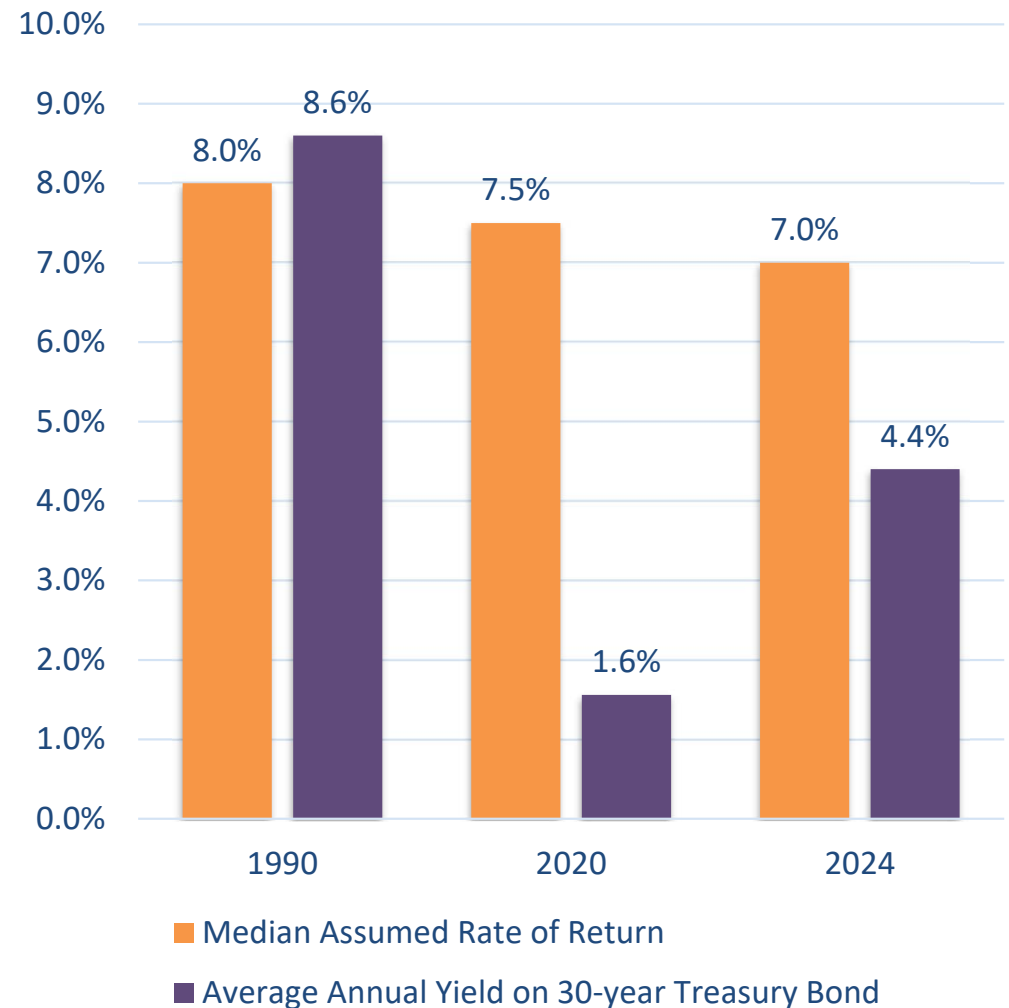


BACKGROUND

Pension plans were designed to achieve an expected rate of return with a high degree of probability.

When fixed income securities produced a yield above the assumed rate of return, pension plans invested mostly in fixed income assets.

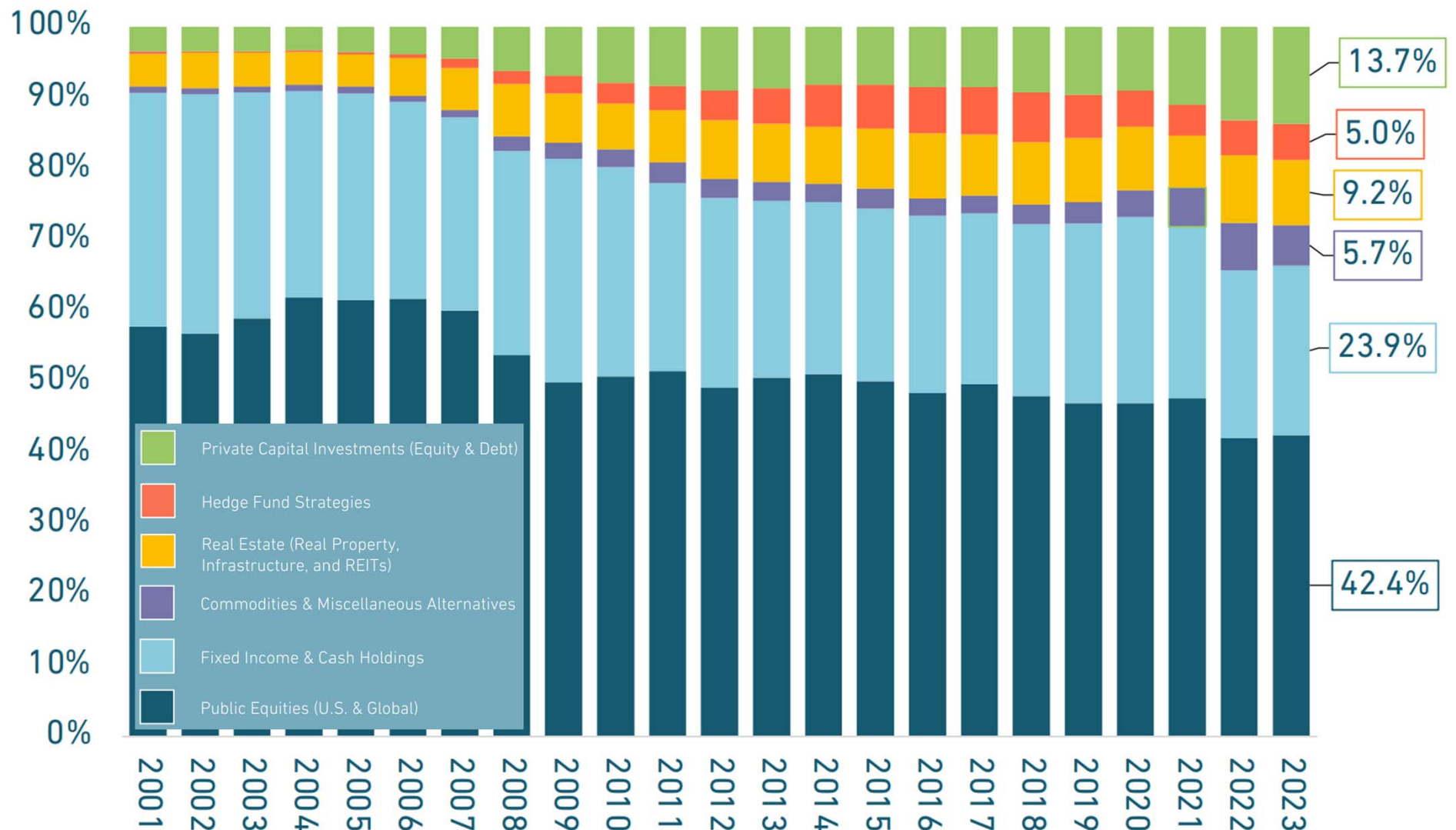
In contrast, the low interest environment from the 2010s through 2022 forced pension plans into risk-on assets, to achieve the expected rate of return. Lower assumption rates and higher yields reduced the gap with assumption rates, allowing pensions to actively derisk portfolios back to bonds.



ASSET ALLOCATION

Lower interest rates forced investors to diversify further into alternatives.

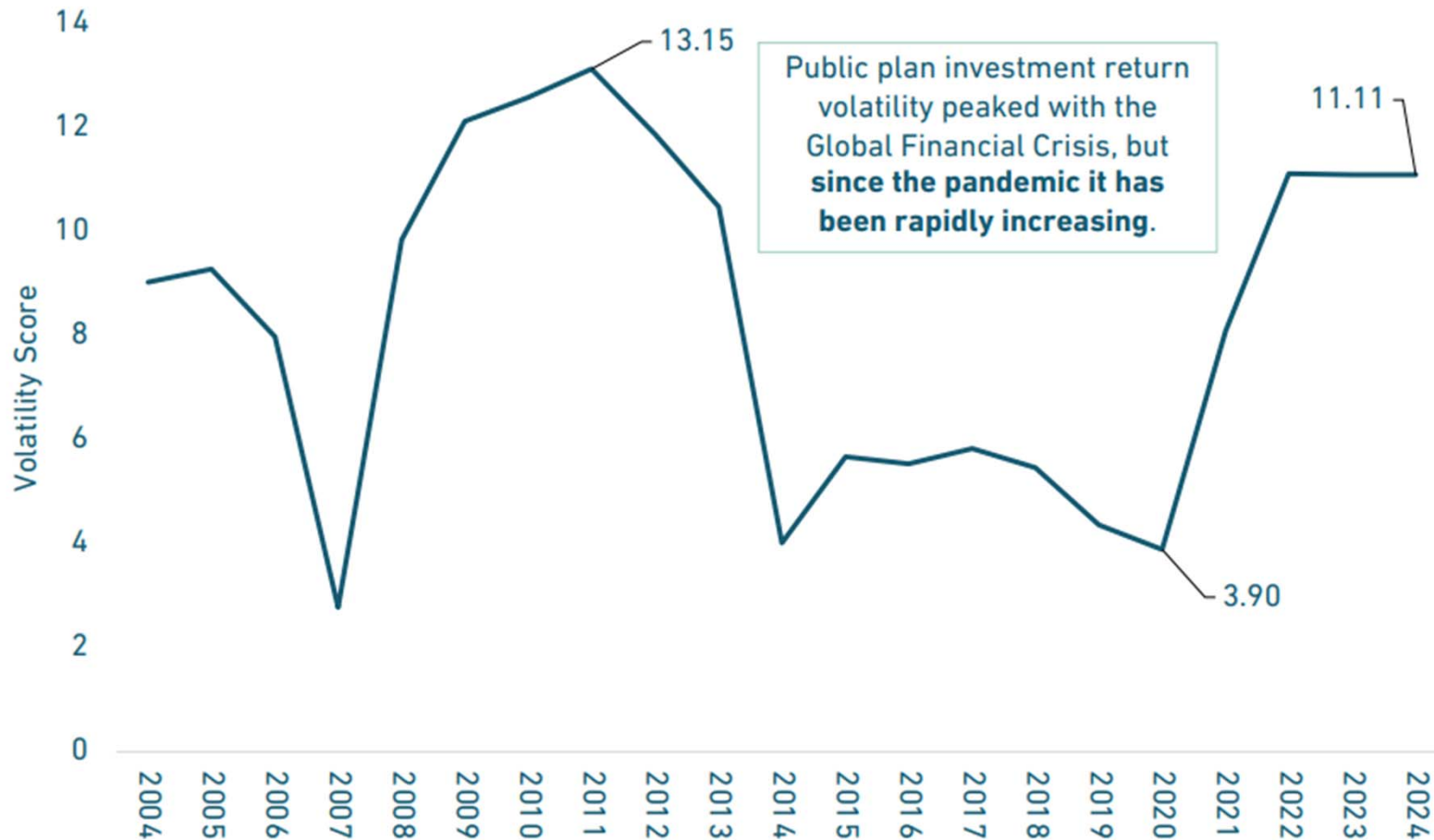
Most portfolios today are made up of 70% risk on (equity and alternatives) and 30% risk off (bonds and alternatives) assets.



VOLATILITY

Higher allocation toward “risk-on” and “alternative” assets translates into higher volatility.

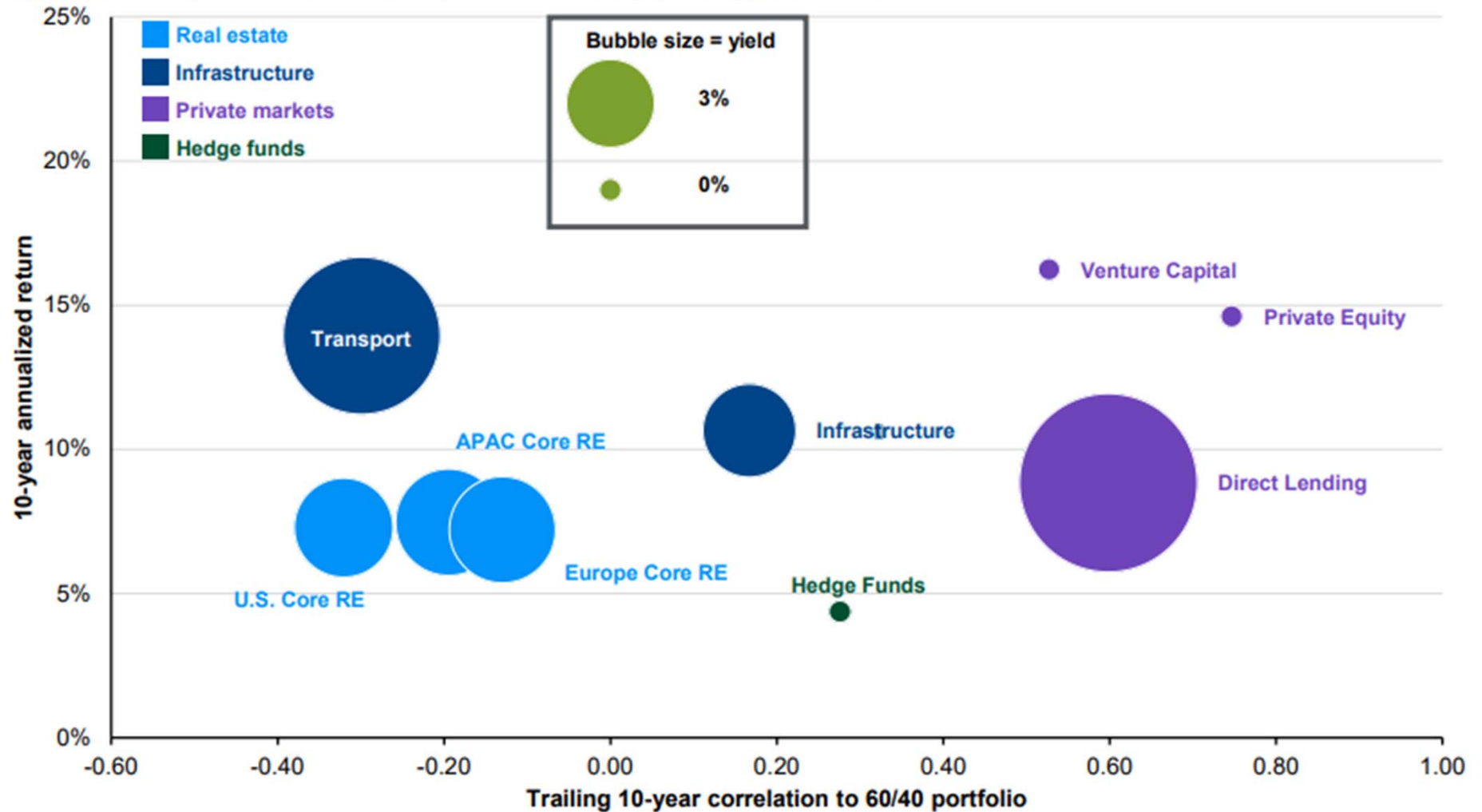
INCREASING ANNUAL INVESTMENT RETURN VOLATILITY VOLATILITY IS TRENDING BACK TO GLOBAL FINANCIAL CRISIS ERA LEVELS



ASSET ALLOCATION

Correlations, returns and yields

10-year correlations and 10-year annualized total returns, quarterly, 2014 - 2023

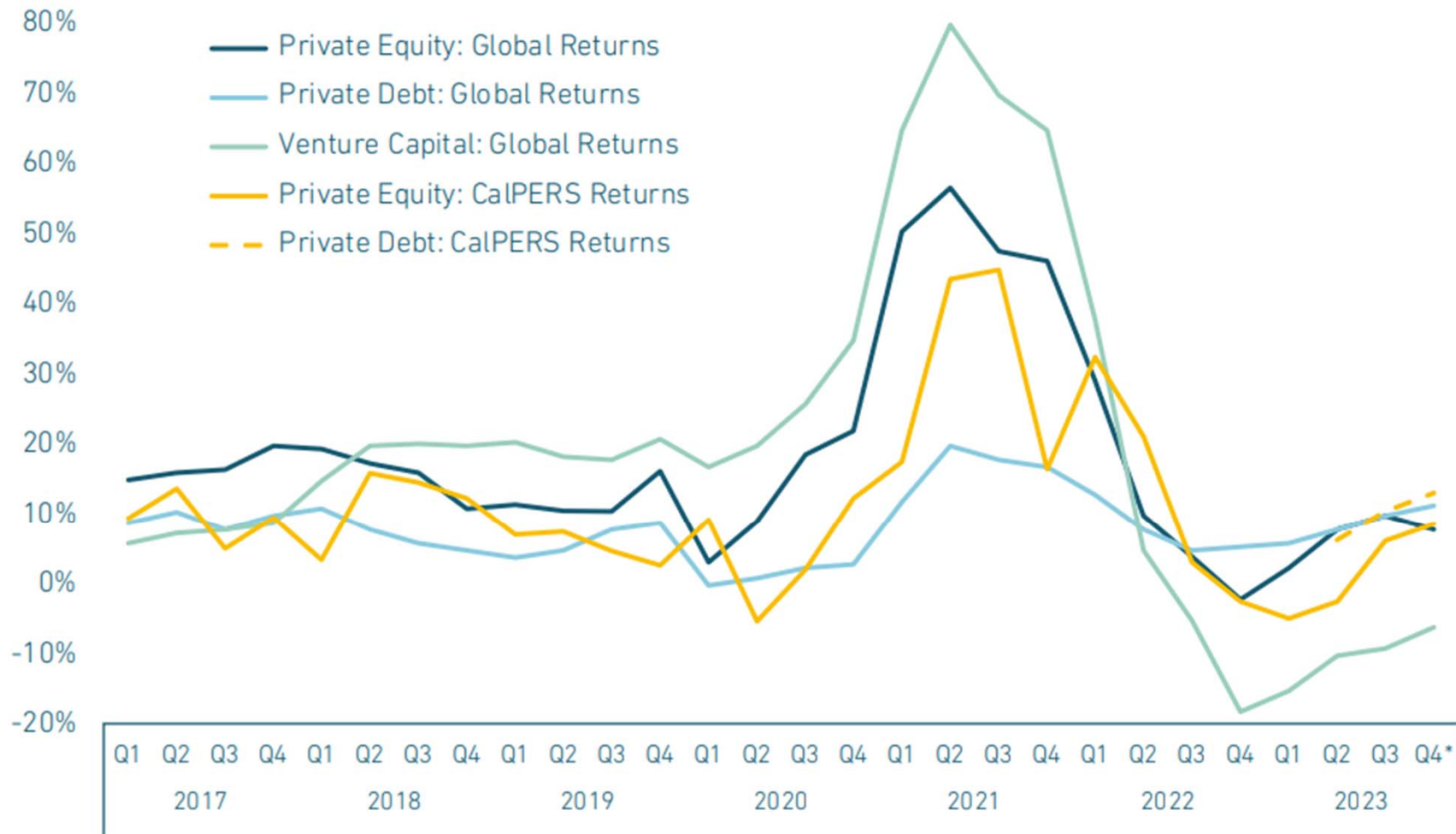


- Diversification doesn't always lower plan risks. Private equity programs have a high correlation to traditional allocations like the 60/40.

ALTERNATIVE INVESTMENTS

Lower interest rates inflated valuations. Higher interest rates collapsed them.

VOLATILITY IN PRIVATE CAPITAL RETURNS ONE-YEAR ROLLING INTERNAL RATES OF RETURN | 2017–2023



VALUATION RISK

The share of pension fund investments reported based on valuation methods instead of market prices has increased sharply over the past decade, meaning an increasing share of pension portfolios are exposed to the risk of being overpriced.

- Lack of transparency in valuation-priced asset classes like private equity and private real estate exacerbates concerns about valuation risk.
- Increased volatility in investment returns also adds to concerns about the extent pension fund assets are exposed to valuation risk.


Overstated portfolio values for asset classes like private capital and real estate can lead to significant unfunded liability problems in the future.

- Example: Consider that general partners managing a private equity fund often value their portfolio companies using the valuation of a recent funding round, which may or may not reflect an overstated price agreed to by a small set of exuberant investors. This potentially pricing approach can lead to an overstated valuation of a pension fund's limited partner share in that private equity fund, which in turn can lead to reporting overvalued assets. This may translate to lower contribution rates than otherwise would be appropriate.

The New York Times

This 23-Floor Manhattan Office Building Just Sold at a 97.5% Discount

The sale price of 135 West 50th Street in Midtown, which is only 35 percent full, was a sign of how much the pandemic upended the market for office buildings in New York City.

 Share full article



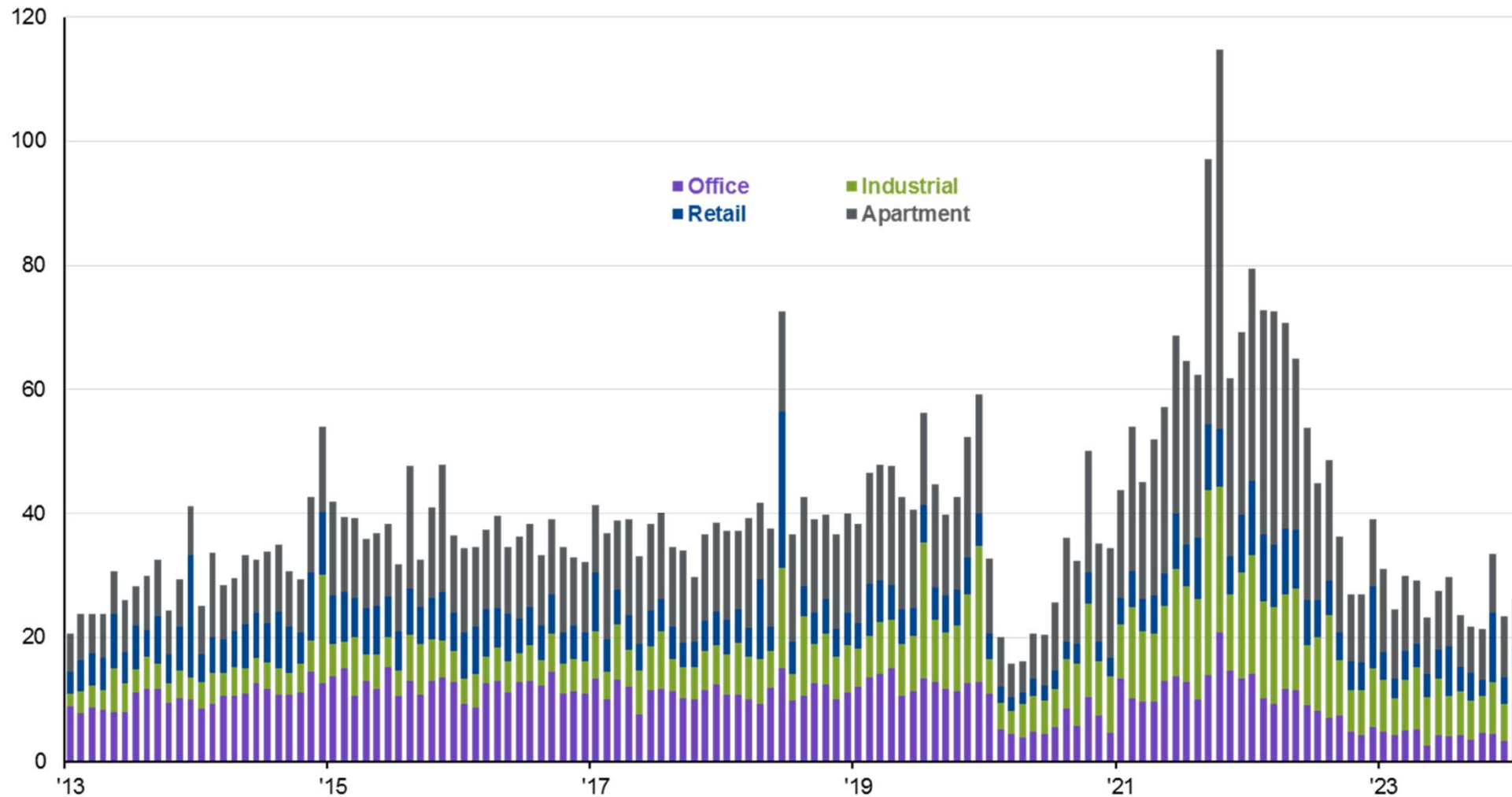
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In August UBS auctioned off a Manhattan office building to a single bidder for \$8.5 million. The building previously sold in 2006 for \$332 million.

REAL ESTATE [PRIVATE]

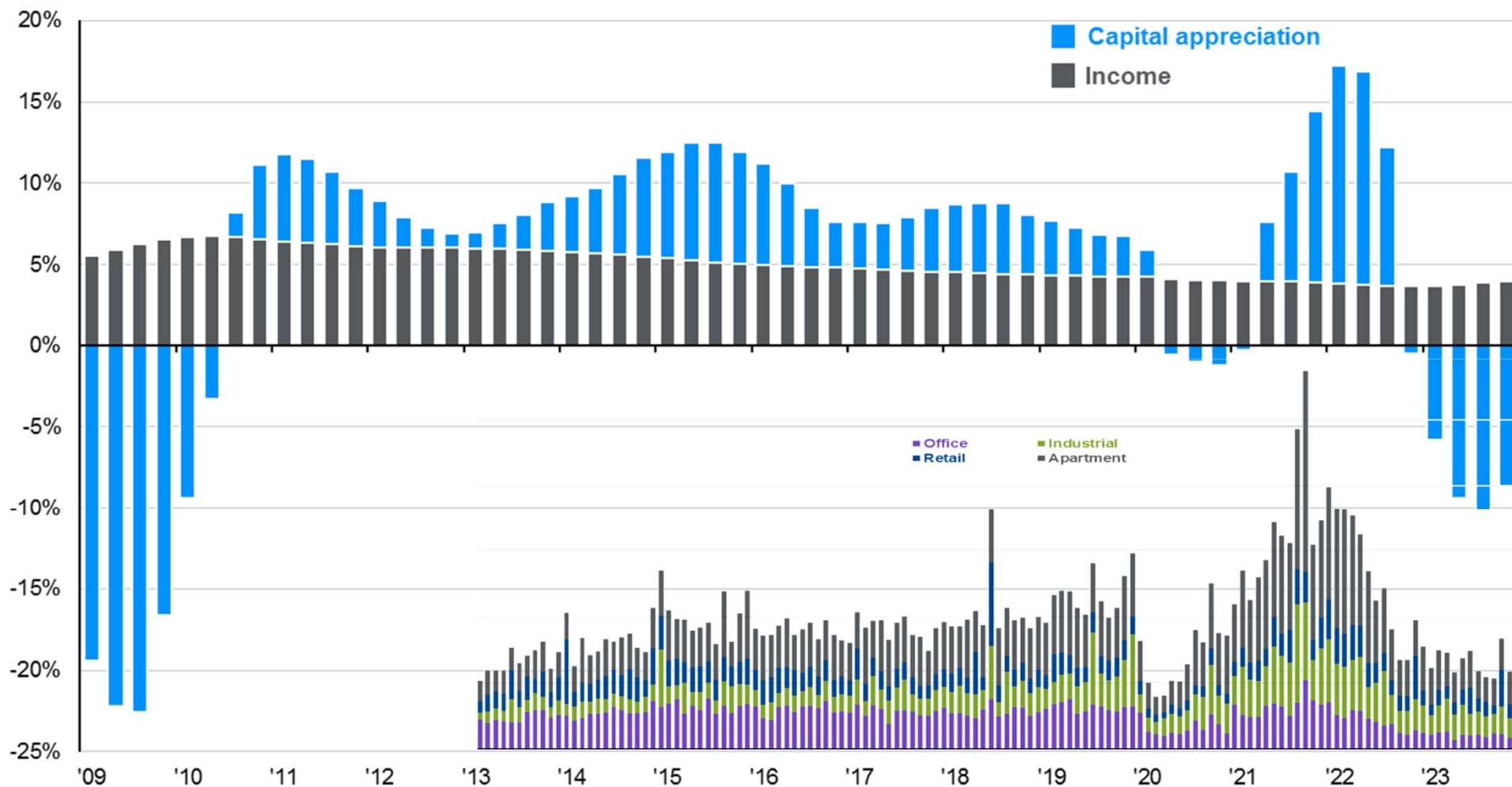
U.S. real estate transaction volumes
USD billions, seasonally adjusted, 1Q13 – 1Q24



REAL ESTATE [PRIVATE]

Global private real estate returns

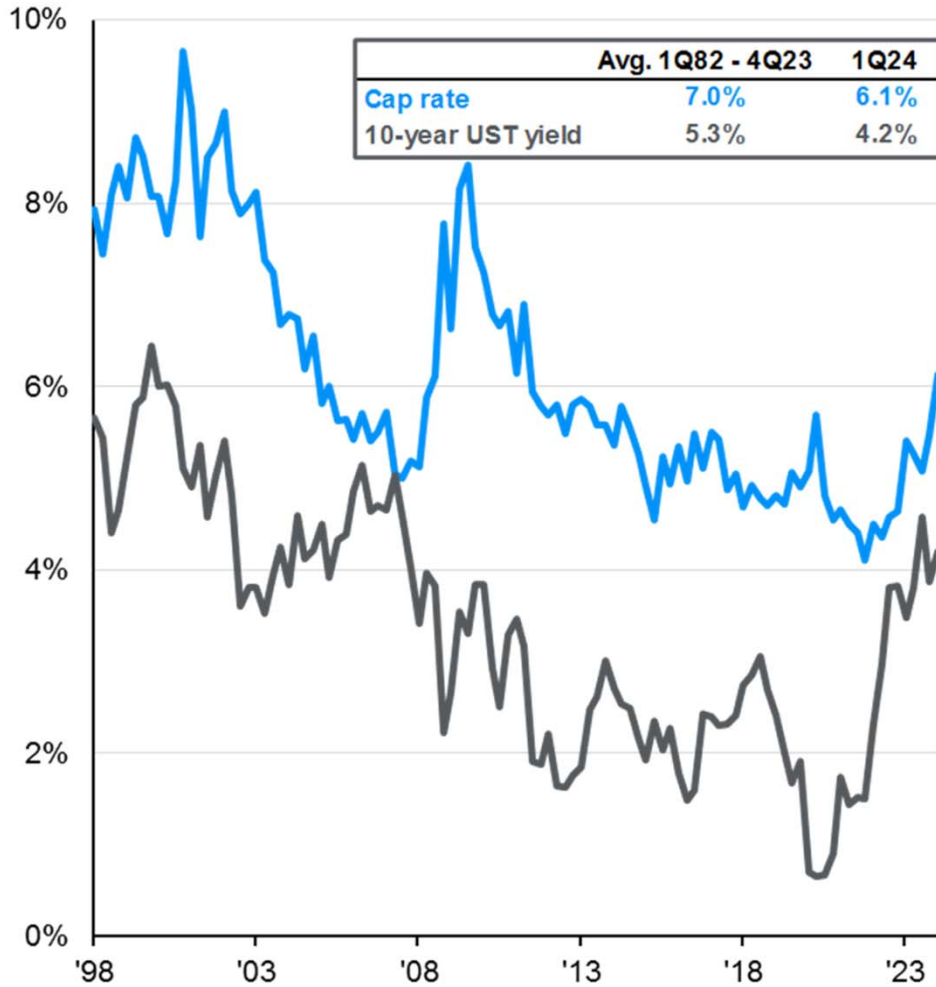
Rolling 4-quarter returns from income and capital appreciation



REAL ESTATE [PRIVATE]

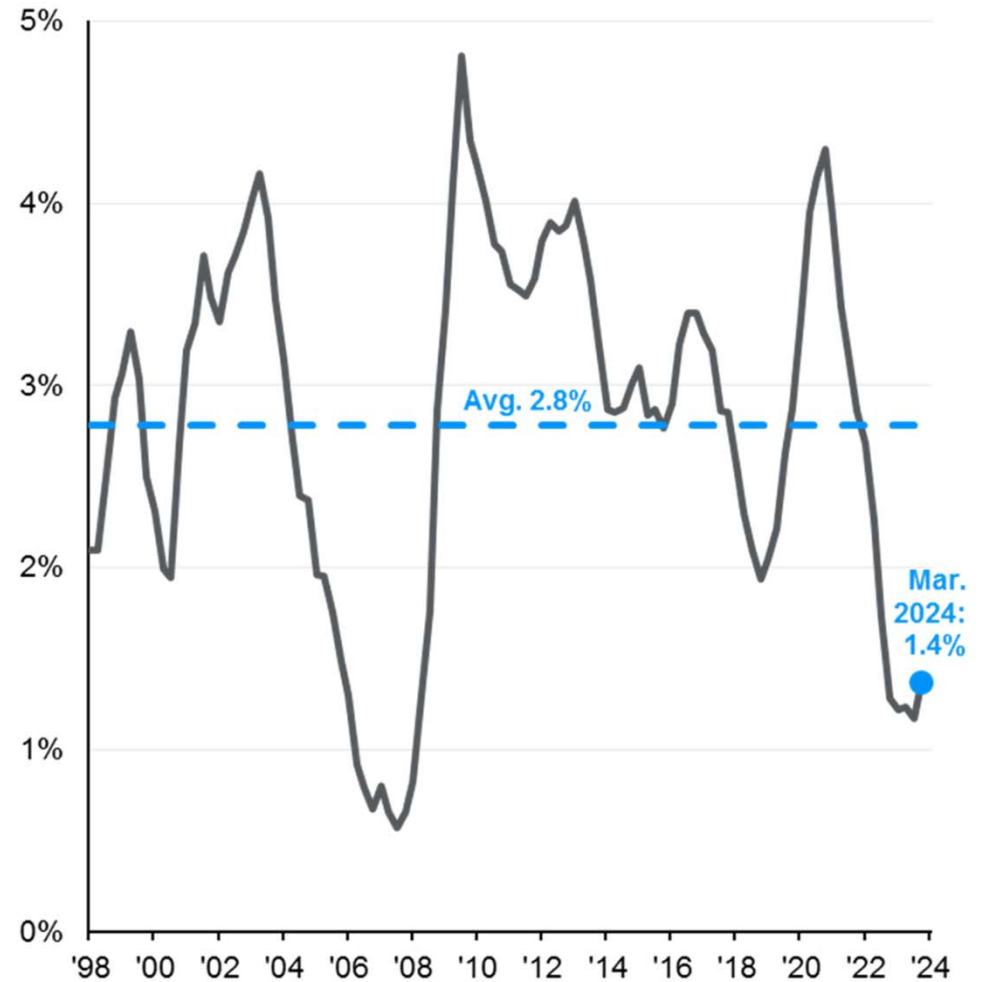
U.S. real estate cap rates and interest rates

Transaction based, 10-year U.S. Treasury yield



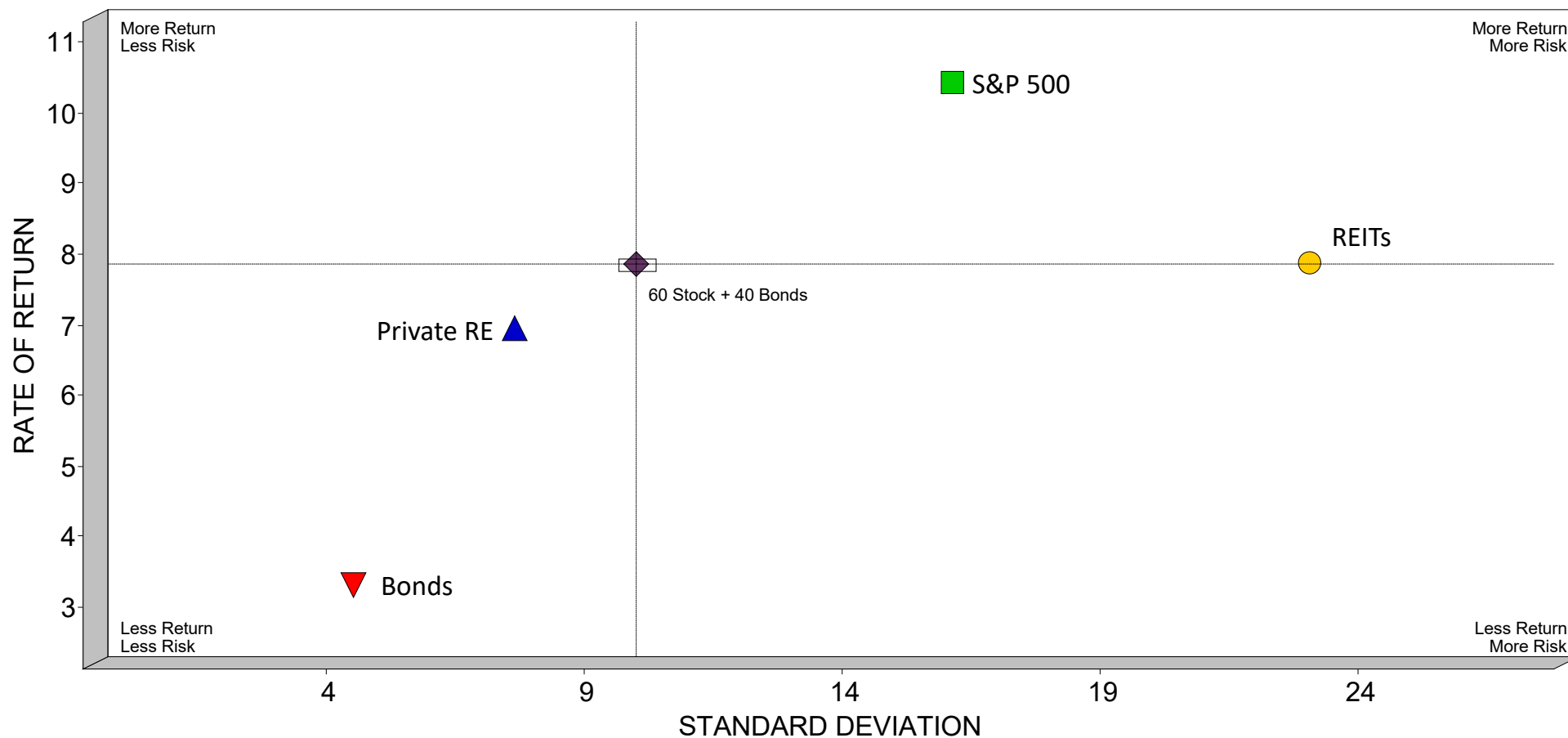
U.S. real estate cap rate spreads

Transaction based, spread to 10y UST, 4-quarter rolling average



REAL ESTATE [PRIVATE VS. PUBLIC]

JUNE 30, 2004 TO JUNE 30, 2024

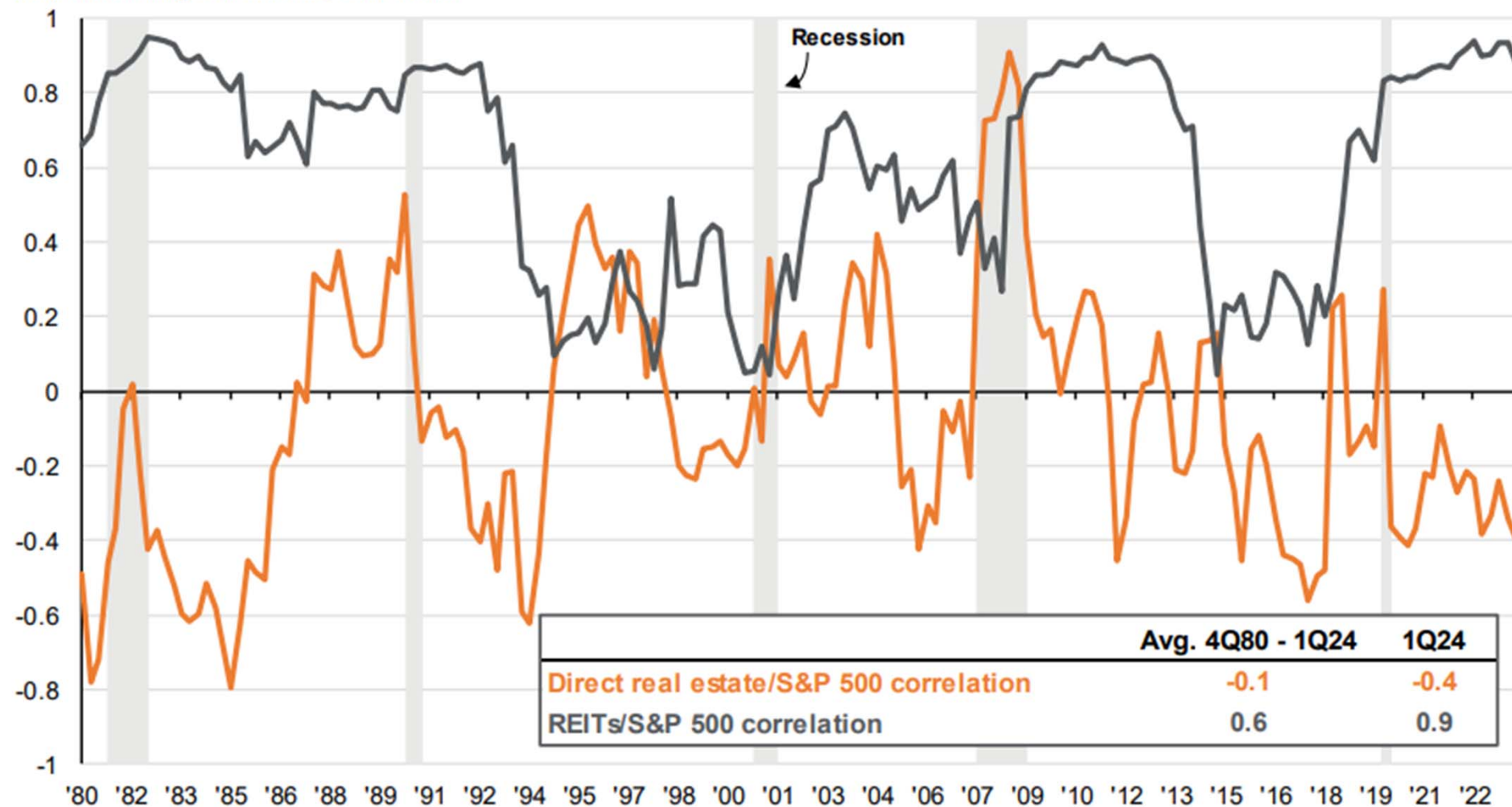


	ROR	Std Dev	Alpha	Beta	Dnside Cap Ratio	Upside Cap Ratio
▲ NCREIF ODCE NCREIF ODCE	6.77	7.40	5.51	-0.01	-23.20	43.00
● Wilshire REIT	7.72	22.82	-2.75	1.80	202.98	157.73
■ Standard & Poor's 500	10.29	15.89	-0.57	1.60	161.92	154.85
▼ Bloomberg Aggregate	3.12	4.27	0.96	0.11	-0.84	23.20
◆ 60 Stock + 40 Bonds	7.68	9.76	0.00	1.00	100.00	100.00

REAL ESTATE [PRIVATE VS. PUBLIC]

U.S. REITs, direct real estate and equities

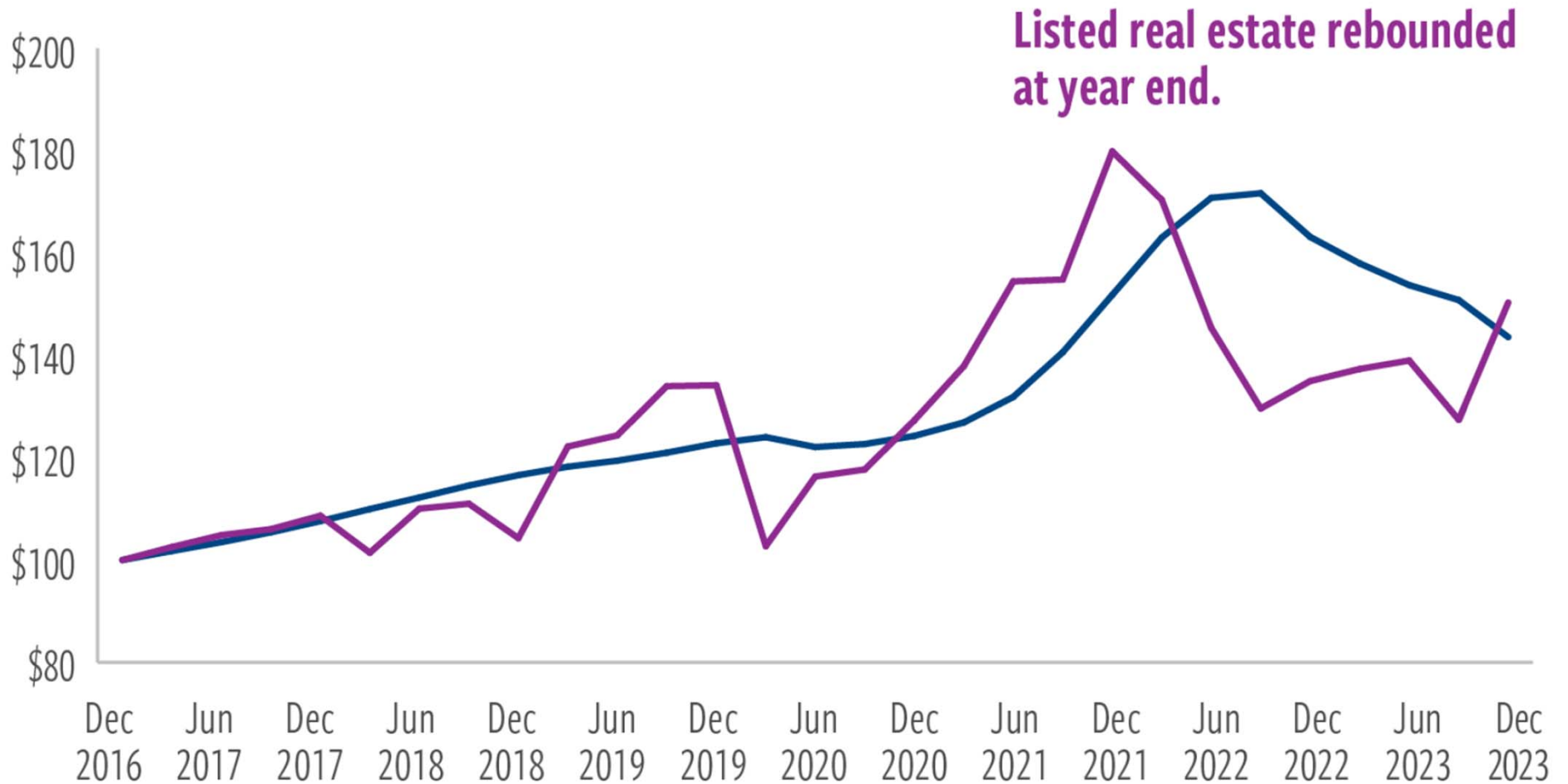
12-quarter rolling correlations, total return



REAL ESTATE [PRIVATE VS. PUBLIC]

REITs rebounded to end 2023, potentially indicating that a bottoming in Private Real Estate valuations may come by the end of 2024 or early 2025.

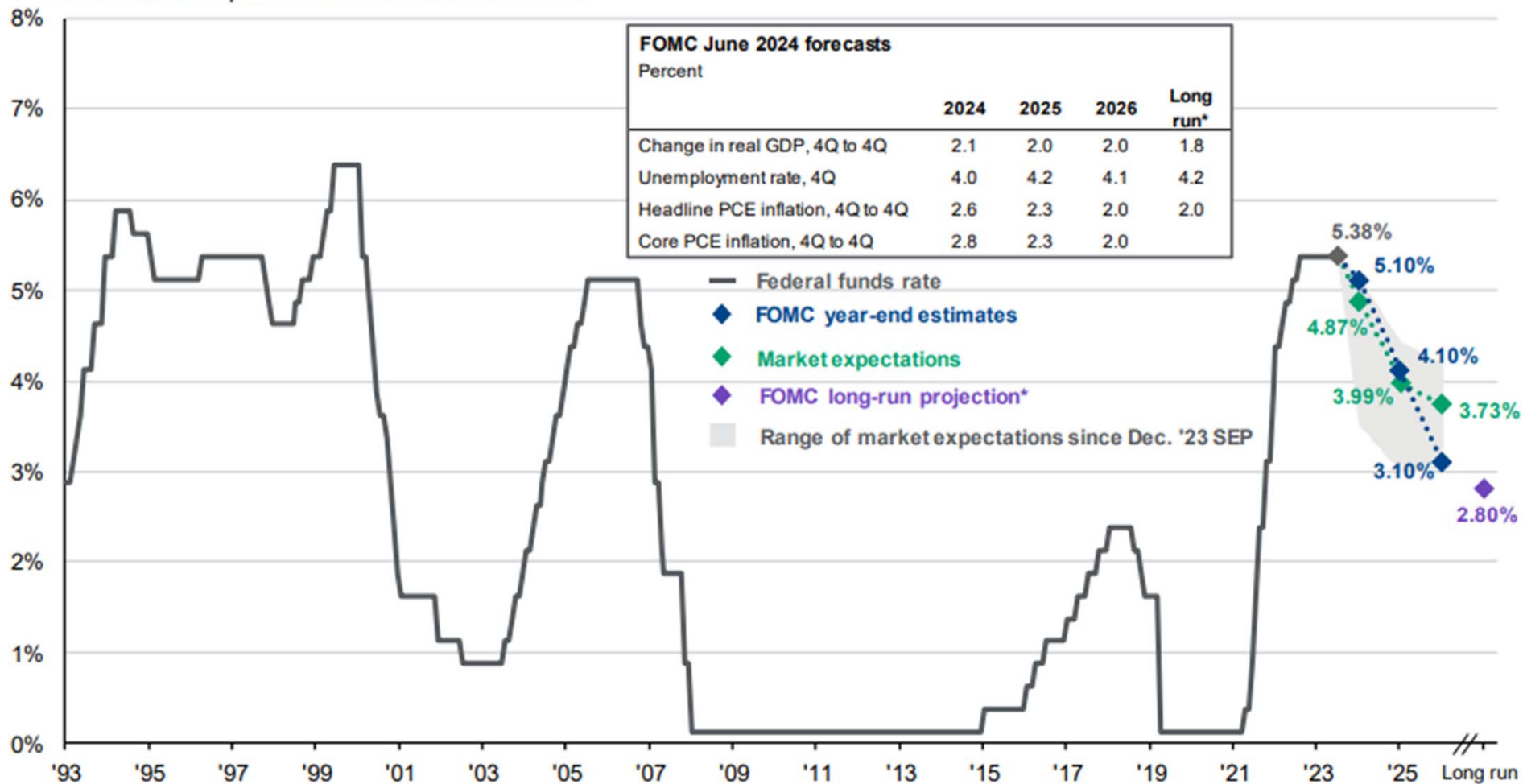
— NCREIF ODCE Index (Private) — FTSE Nareit All Equity REITs Index (Listed)



INTEREST RATES

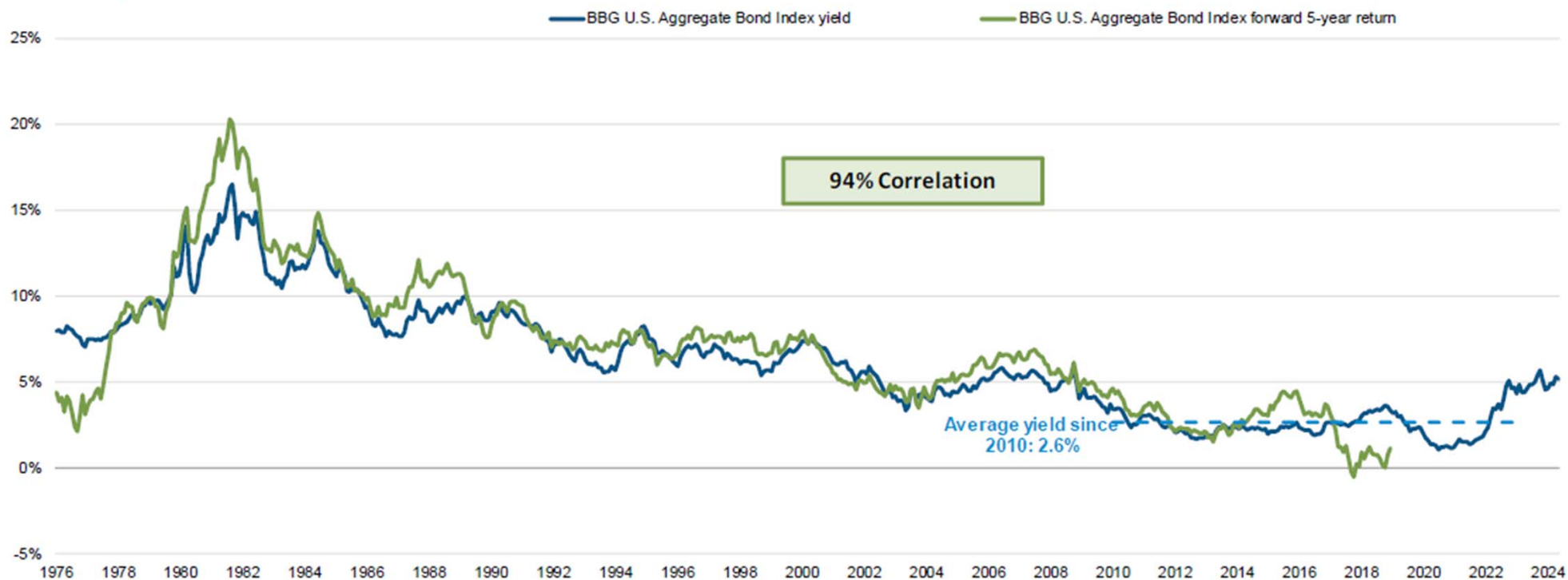
Federal funds rate expectations

FOMC and market expectations for the federal funds rate



FIXED INCOME YIELD

Yield vs. 5 year forward return

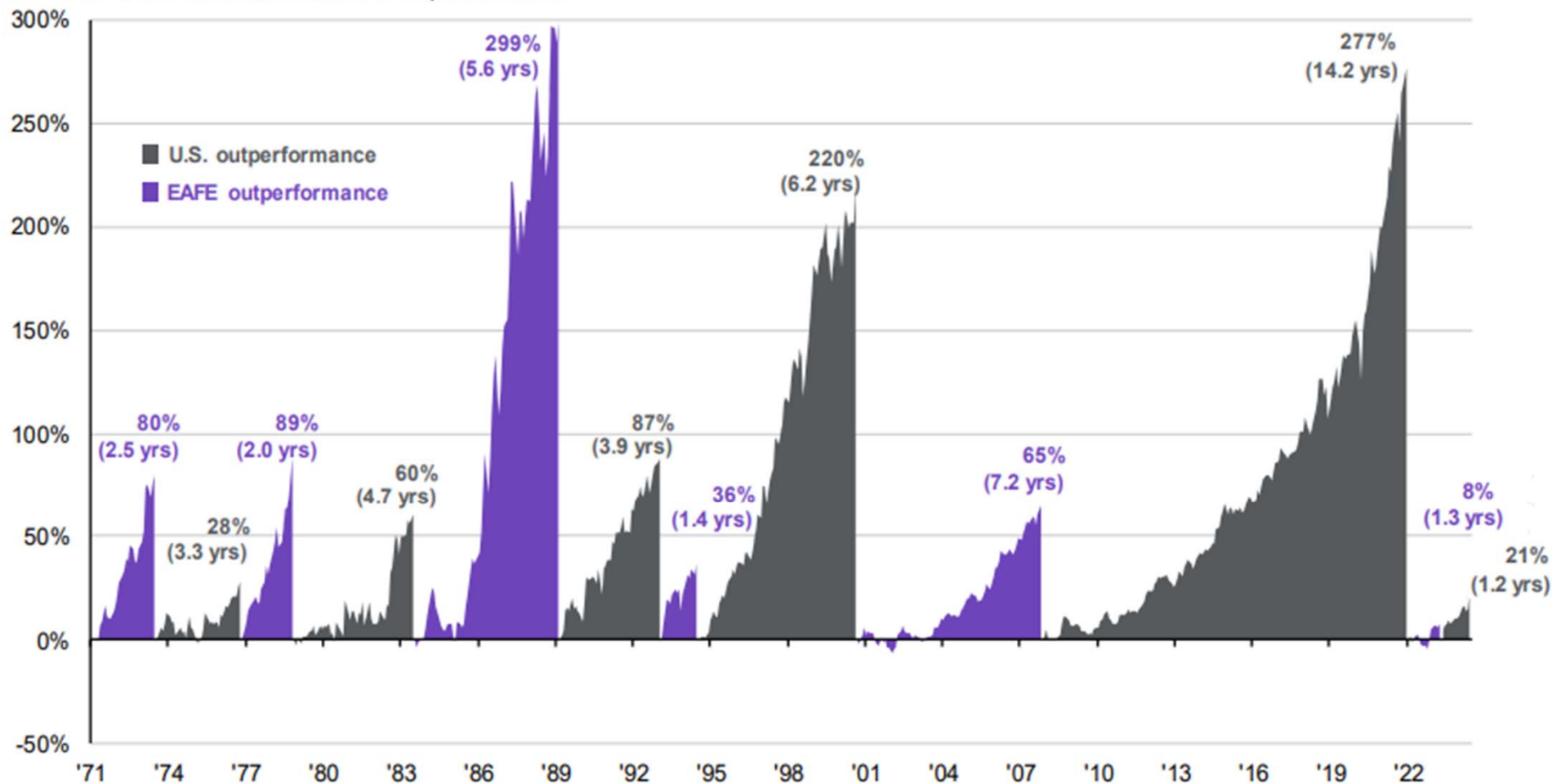


- There is a high correlation between current yield and future returns.
- Bloomberg Aggregate Index yield was 5.0% as of June 30, 2024.

GLOBAL EQUITIES

MSCI EAFE and MSCI USA relative performance

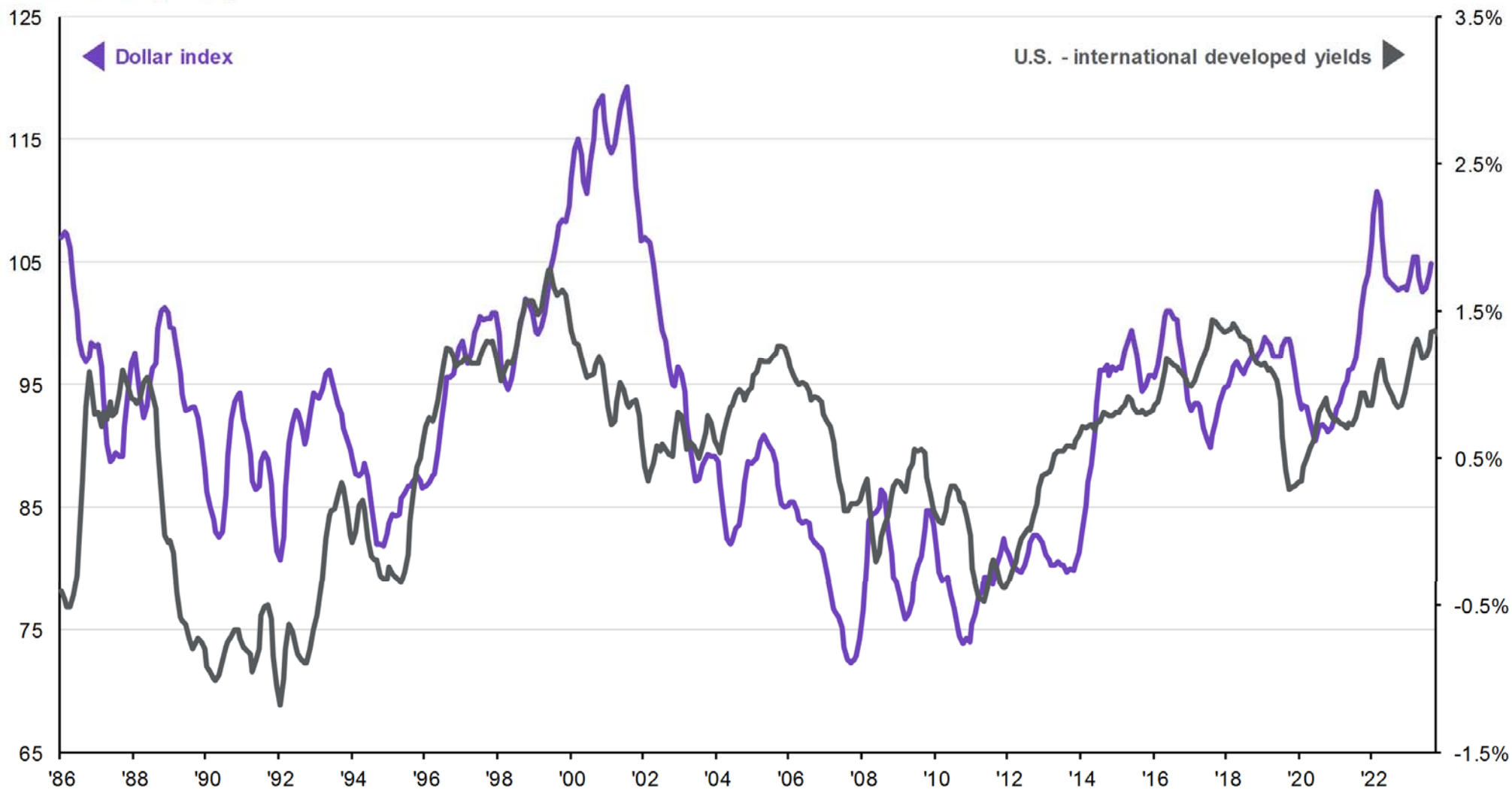
U.S. dollar, total return, cumulative outperformance



CURRENCY VOLATILITY

U.S. dollar and interest rate differentials

3-month moving average



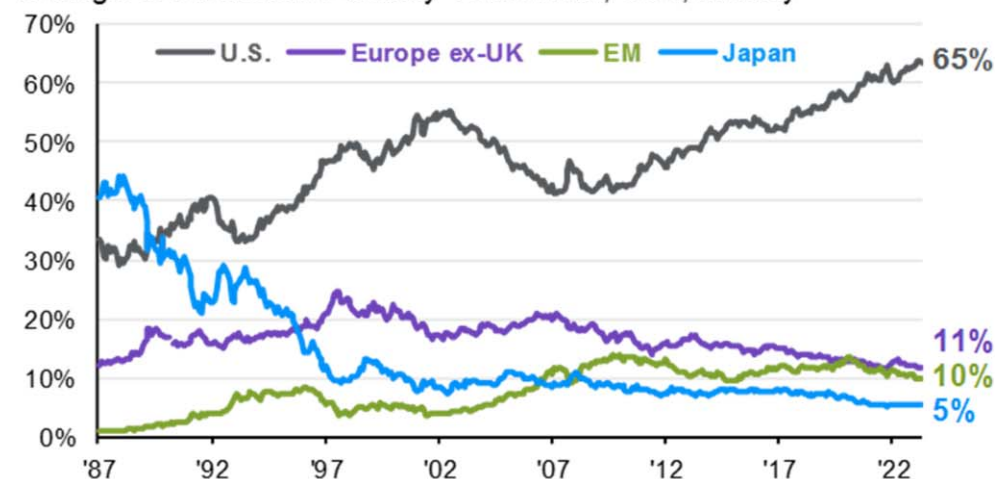
Disclosure: for illustrative purposes only. Source: PIMCO.

CURRENCY VOLATILITY

Returns	YTD 2024		2023		15-years	
	Local	USD	Local	USD	Ann.	Beta
Regions						
U.S. (S&P 500)	-	16.7	-	26.3	14.4	1.0
AC World ex-U.S.	12.3	8.5	14.7	16.2	6.2	1.0
EAFE	12.4	8.9	16.8	18.9	6.8	1.0
Europe ex-UK	11.0	7.9	17.3	22.7	7.4	1.2
Emerging markets	11.9	8.1	10.3	10.3	4.5	1.0
Selected Countries						
Japan	20.2	12.6	29.0	20.8	6.5	0.7
United Kingdom	10.6	11.4	7.7	14.1	6.2	1.0
France	3.0	0.9	18.1	22.3	7.3	1.2
Canada	12.3	7.2	13.3	16.4	6.3	1.1
Germany	10.6	8.4	19.8	24.0	6.3	1.3
China	3.8	3.5	-10.6	-11.0	2.0	0.9
Taiwan	33.1	24.3	31.1	31.3	12.6	1.0
India	22.6	21.8	22.0	21.3	8.6	0.9
Brazil	-4.0	-17.5	22.7	33.4	0.4	1.3

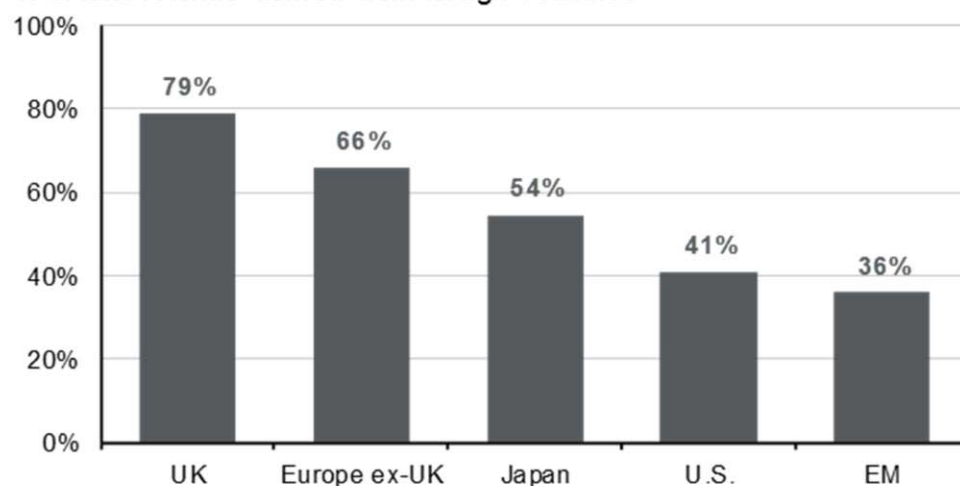
Share of global market capitalization

% weight in the MSCI All Country World Index, USD, monthly



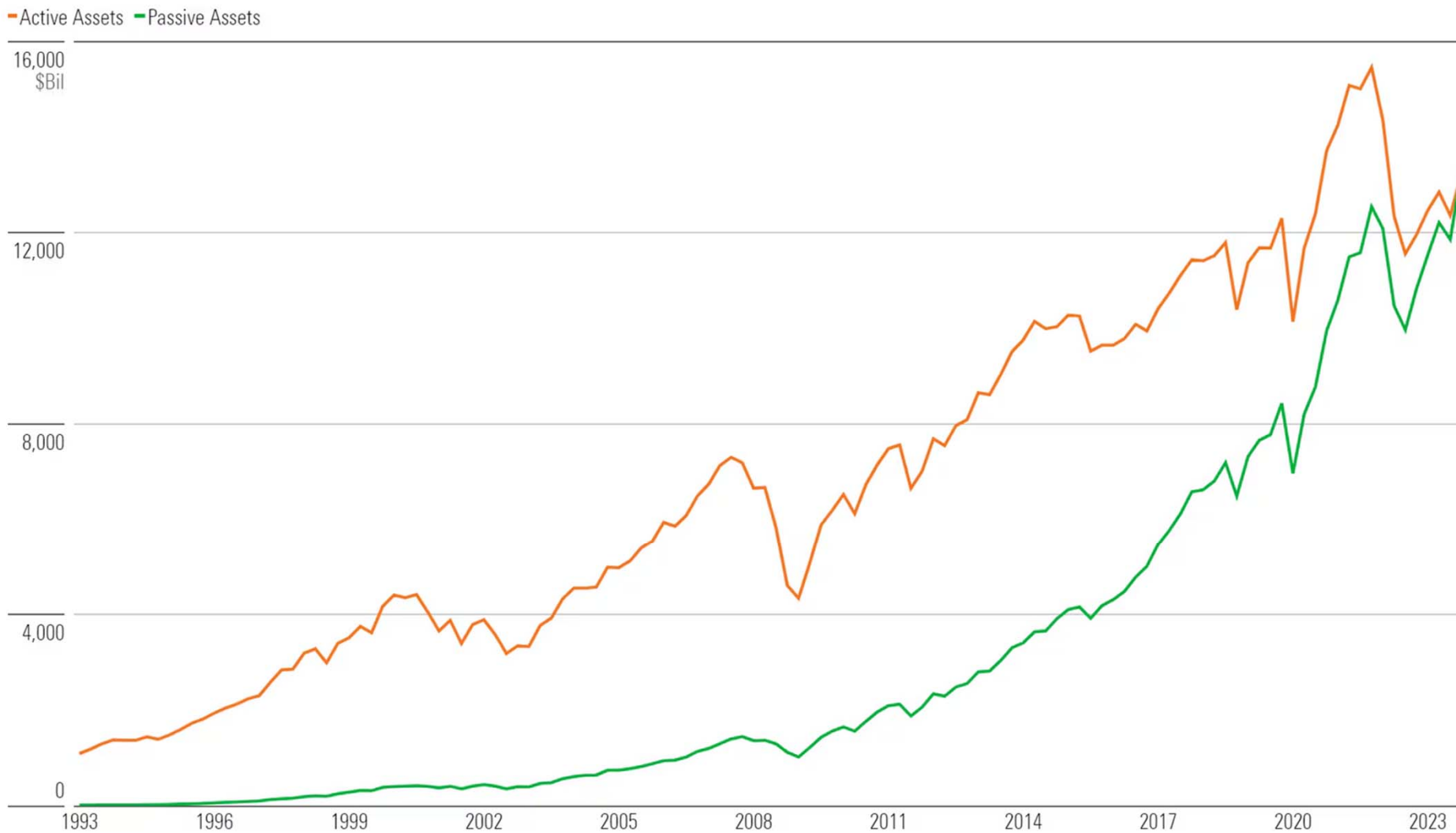
Revenue exposure vs. country of listing

% of total revenue derived from foreign countries



ACTIVE VS. PASSIVE

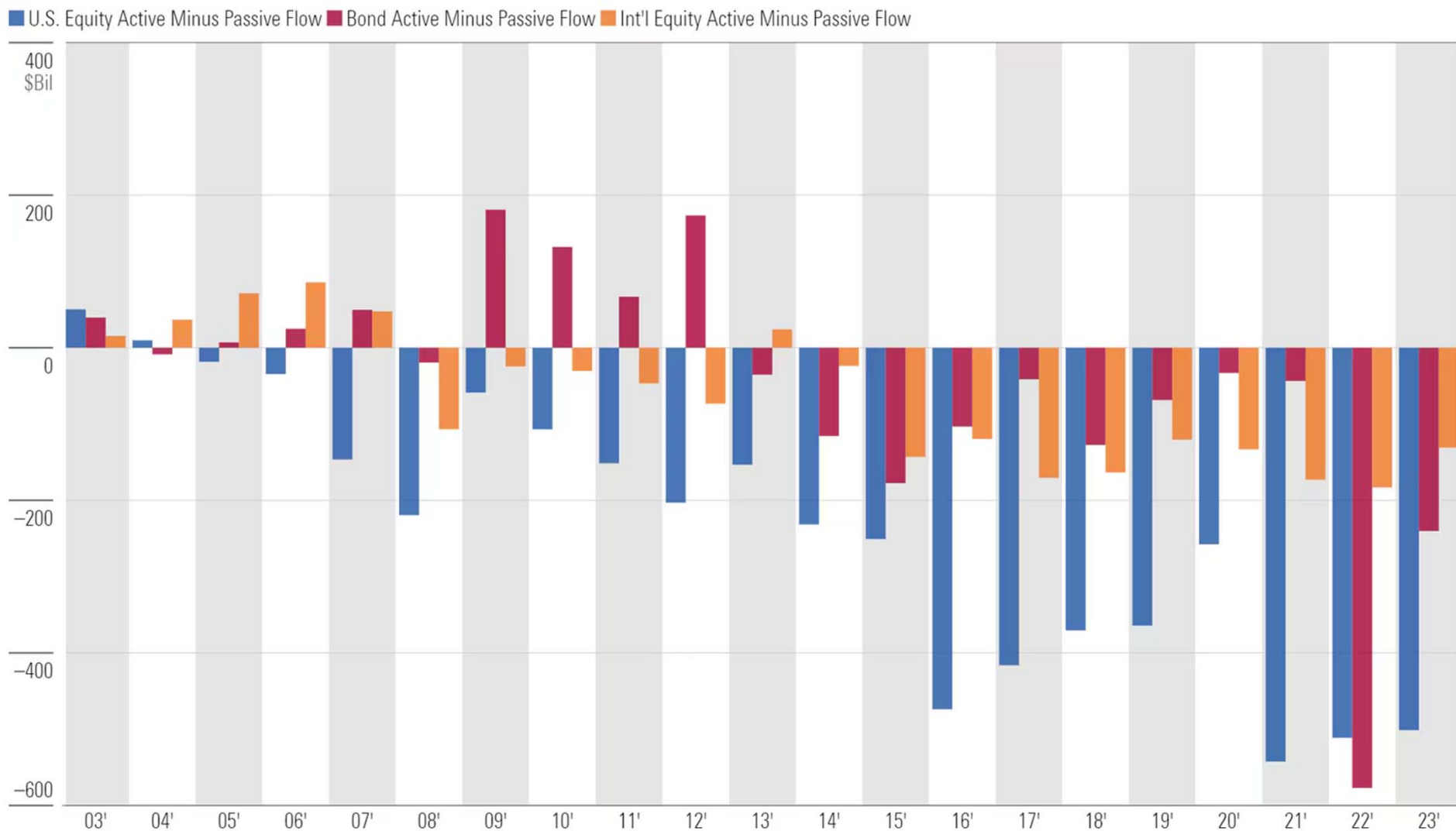
Historical Fund Assets: Active vs. Passive



Disclosure: for illustrative purposes only. Source: Morningstar. Data as of December 31, 2023.

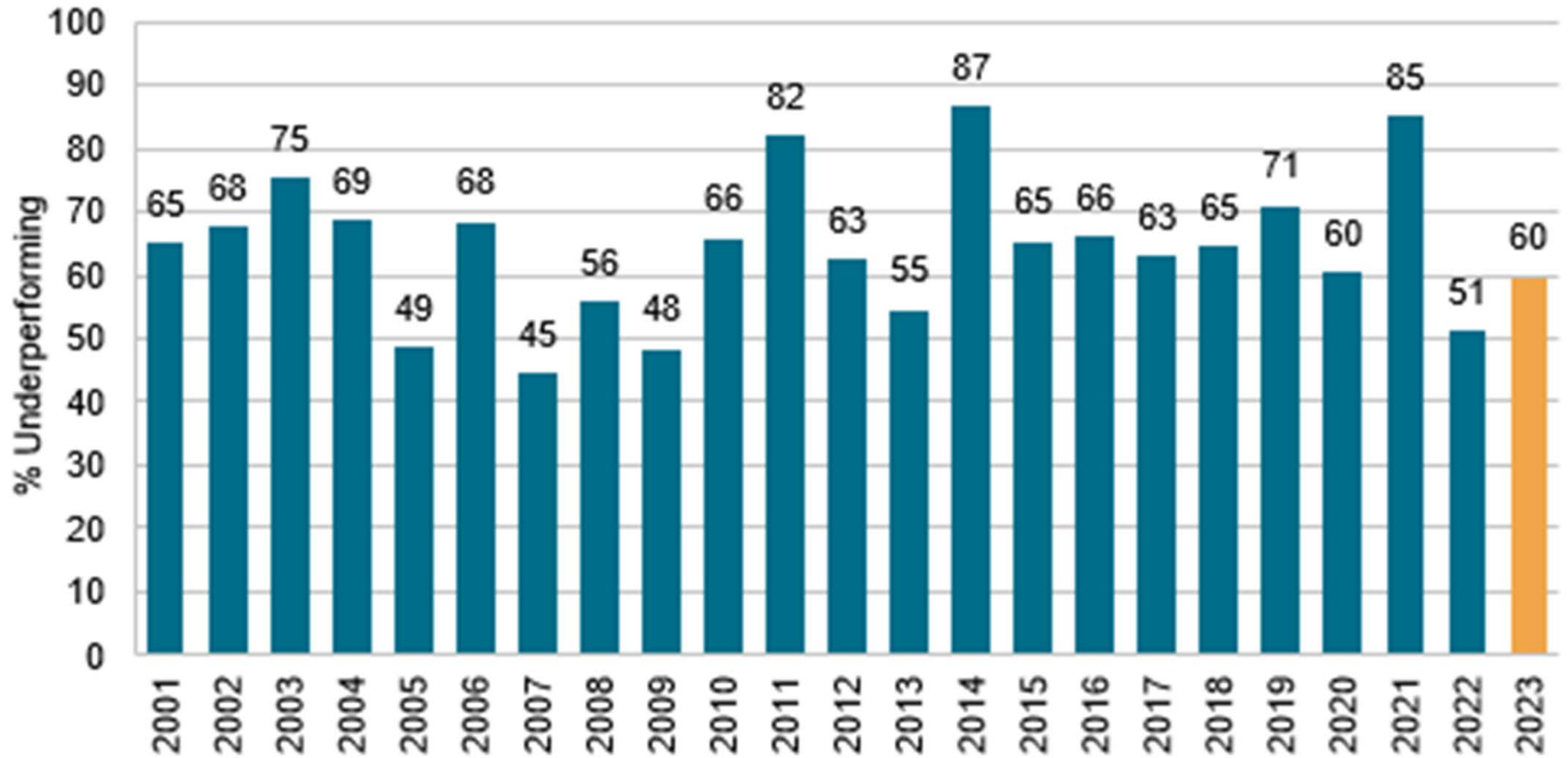
ACTIVE VS. PASSIVE

Historical Active vs. Passive Flows by Category Group



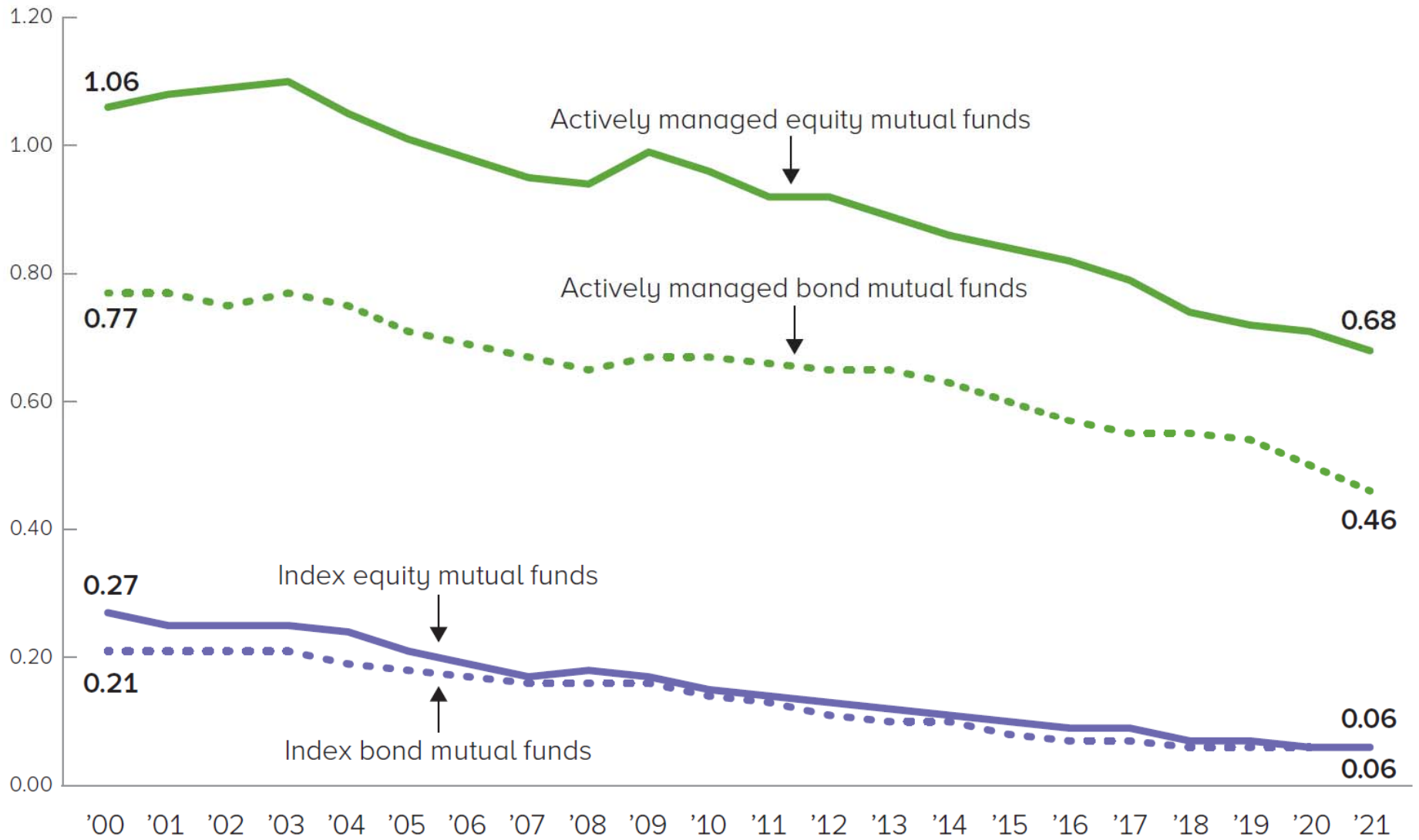
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ACTIVE VS. PASSIVE [OUTPERFORMANCE]



Disclosure: for illustrative purposes only. Source: S&P; data as of December 31, 2023.

ASSET MANAGEMENT FEES



ACTIVE VS. PASSIVE [FRS ILLUSTRATION]

Asset Class	Active As % of Asset Class	Passive As % of Asset Class	Internal As % of Asset Class	External As % of Asset Class	As % of Total Fund
Cash ¹	85.4%	14.6%	100.0%	0.0%	1.3%
Fixed Income ²	55.6%	44.4%	64.3%	35.7%	16.1%
Global Equity ³	50.1%	49.9%	52.2%	47.8%	50.6%
Private Equity	100.0%	0.0%	0.0%	100.0%	9.4%
Real Estate	100.0%	0.0%	66.4%	33.6%	11.2%
Strategic Investments	100.0%	0.0%	0.3%	99.7%	11.4%
Total Fund	67.4%	32.6%	45.5%	54.5%	100.0%

Asset Class	Active Market Value (in Millions)	Passive Market Value (in Millions)	Internal Market Value (in Millions)	External Market Value (in Millions)	Total Fund Market Value (in Millions)
Cash ¹	\$ 2,053	\$ 350	\$ 2,402	\$ -	\$ 2,402
Fixed Income ²	16,668	13,319	19,273	10,714	29,987
Global Equity ³	47,056	46,891	49,016	44,931	93,947
Private Equity	17,489	-	-	17,489	17,489
Real Estate	20,751	-	13,769	6,982	20,751
Strategic Investments	21,133	-	57	21,076	21,133
Total Fund	\$ 125,150	\$ 60,560	\$ 84,518	\$ 101,191	\$ 185,709

Disclosure: for illustrative purposes only. Source: FRS; data as of June 30, 2023.

PASSIVE INVESTMENTS [CONCENTRATION]

P/E ratio of the top 10 and remaining stocks in the S&P 500

Next 12 months, 1996 - present



Weight of the top 10 stocks in the S&P 500

% of market capitalization of the S&P 500

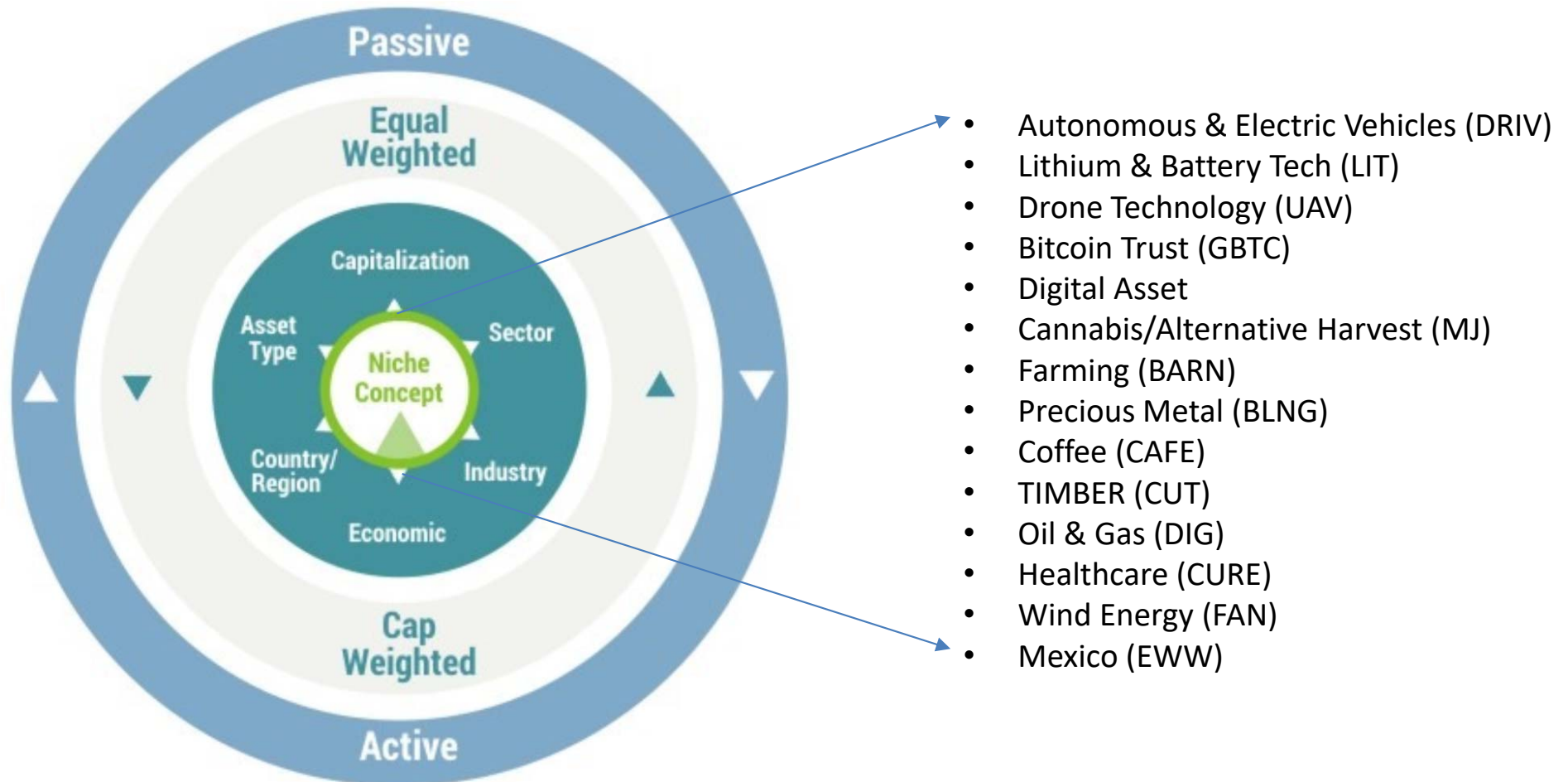


Earnings contribution of the top 10 in the S&P 500

Based on last 12 months' earnings



NICHE INVESTMENTS



- Index funds are becoming more niche, but not all funds have experienced similar success.
- Cathie Wood, CEO of ARK Invest, closed her Transparency ETF (CTRU) after 7 months.

ALTERNATIVE VEHICLES

- Private fund managers are exploring different ways to unitize their fund, offering partial “liquidity” to investors.
- Different share classes may be available to meet the need of smaller institutions / private wealth investors.

Manager	Fund Name	Investment Type	Minimum Investment	Accreditation
Veritas Capital	iCapital Technology & Government PE International Fund II, L.P.	Private Equity Buyout	USD 100,000	Qualified Purchaser
Apollo	Apollo Realty Income Solutions, Inc.	Real Assets Real Estate	USD 2,500	Sub-Accredited
Carlyle	iCapital-Carlyle AlInvest Secondaries Fund VIII Access Fund (International), L.P.	Private Equity Secondaries	USD 100,000	Qualified Purchaser
Veritas Capital	iCapital Technology & Government PE Fund II, L.P.	Private Equity Buyout	USD 100,000	Qualified Purchaser
Vista	Vista Credit Strategic Lending Corp	Private Credit Direct Lending	USD 25,000	Accredited Investor
Summit Partners	Summit Partners Growth Equity XII Access (U.S.), L.P.	Private Equity Growth Equity	USD 100,000	Qualified Purchaser
Summit Partners	Summit Partners Growth Equity XII Access (International), L.P.	Private Equity Growth Equity	USD 100,000	Qualified Purchaser
TPG Angelo Gordon	AG Twin Brook Capital Income Fund ("TCAP")	Private Credit Direct Lending	USD 2,500	Sub-Accredited
Monarch Alternative Capital	iCapital-Monarch Capital Partners VI Access Fund, L.P.	Private Credit Distressed Debt	USD 100,000	Qualified Purchaser
Monarch Alternative Capital	iCapital-Monarch Capital Partners VI International Access Fund, L.P.	Private Credit Distressed Debt	USD 100,000	Qualified Purchaser
J.P.Morgan Asset Management	iCapital Infrastructure Investments Access Fund, Ltd.	Real Assets Infrastructure	USD 100,000	Qualified Purchaser

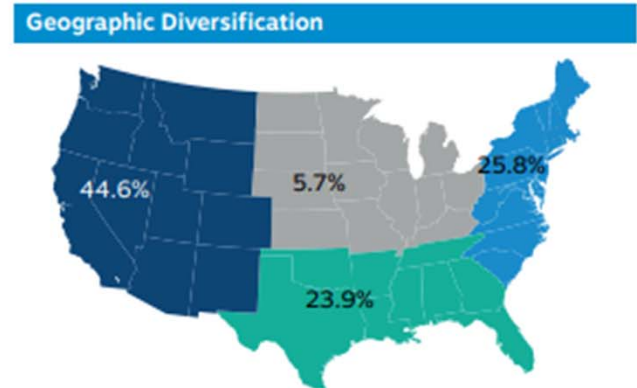
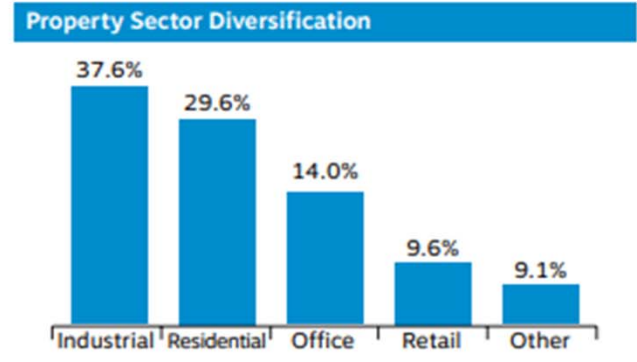
ALTERNATIVE VEHICLES [NCREIF-ODCE]

- USQ created an interval fund to construct an index-like strategy that replicates the NCREIF-ODCE index.

USQ Core Real Estate Fund

Fund Facts						
	Ticker	CUSIP	Inception date	Investment Minimum*	12b-1 Fee	Net Expense Ratio
Class I Shares	USQIX	90351Y101	9/27/2017	\$25,000	None	1.42%

Portfolio Holdings	
CBRE U.S. Core Partners	12.1%
Madison Core Property Fund	10.0%
Clarion Lion Properties Fund	8.9%
TA Realty Core Property Fund	5.6%
Strategic Property Fund	5.4%
Smart Markets Fund	5.3%
Ballard Real Estate Investment Trust	5.2%
CIM Urban Income Investments	5.1%
GWL US Property Fund	5.0%
PRISA	4.8%
BlackRock US Core Property Fund	4.0%
ASB Allegiance Real Estate Fund	3.9%
AEW Core Property (U.S.)	3.9%
Barings Core Property Fund	3.4%
Prime Property Fund	3.0%
U.S. Real Estate Investment Fund	2.7%
BGO Daily Value Fund	2.6%
ARA Core Property Fund	2.4%
RREEF America II	2.0%
BGO Diversified US Property Fund	1.3%
MetLife Core Property Fund	1.2%
PGIM Retirement Real Estate Fund II	0.9%
Trumbull Property Fund	0.9%
U.S. Real Property Income Fund	0.6%
Total Portfolio	100%



Portfolio Characteristics	
Number of Properties	2,883
Gross Asset Value	\$244.9B
Underlying Leverage (Weighted Average)	28.5%
Occupancy Rate	91.7%

SUMMARY POINTS

- Time to de-risk?
- Alternatives: Volatility and Valuation Risk.
- Real Estate: Private, REIT, Bottoming Valuations?
- Interest Rates and Bond Returns.
- Global Equities: Currency Impacts.
- Active vs. Passive.
- Passive Risks: Concentration and Niche.
- Alternative Vehicles.

THANK YOU