



Historic & Current Market Volatility – What Are Implications to Investors?

Steve Hagenbuckle
Founder & Managing Partner
TerraCap Management

August 22, 2022



PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.

PRIVATE & CONFIDENTIAL

Investors Struggle to Identify the Best Asset Allocation

Where to invest to provide risk-adjusted returns for pensioners?



Source: MoneyLens

PUBLIC PENSION BACKGROUND

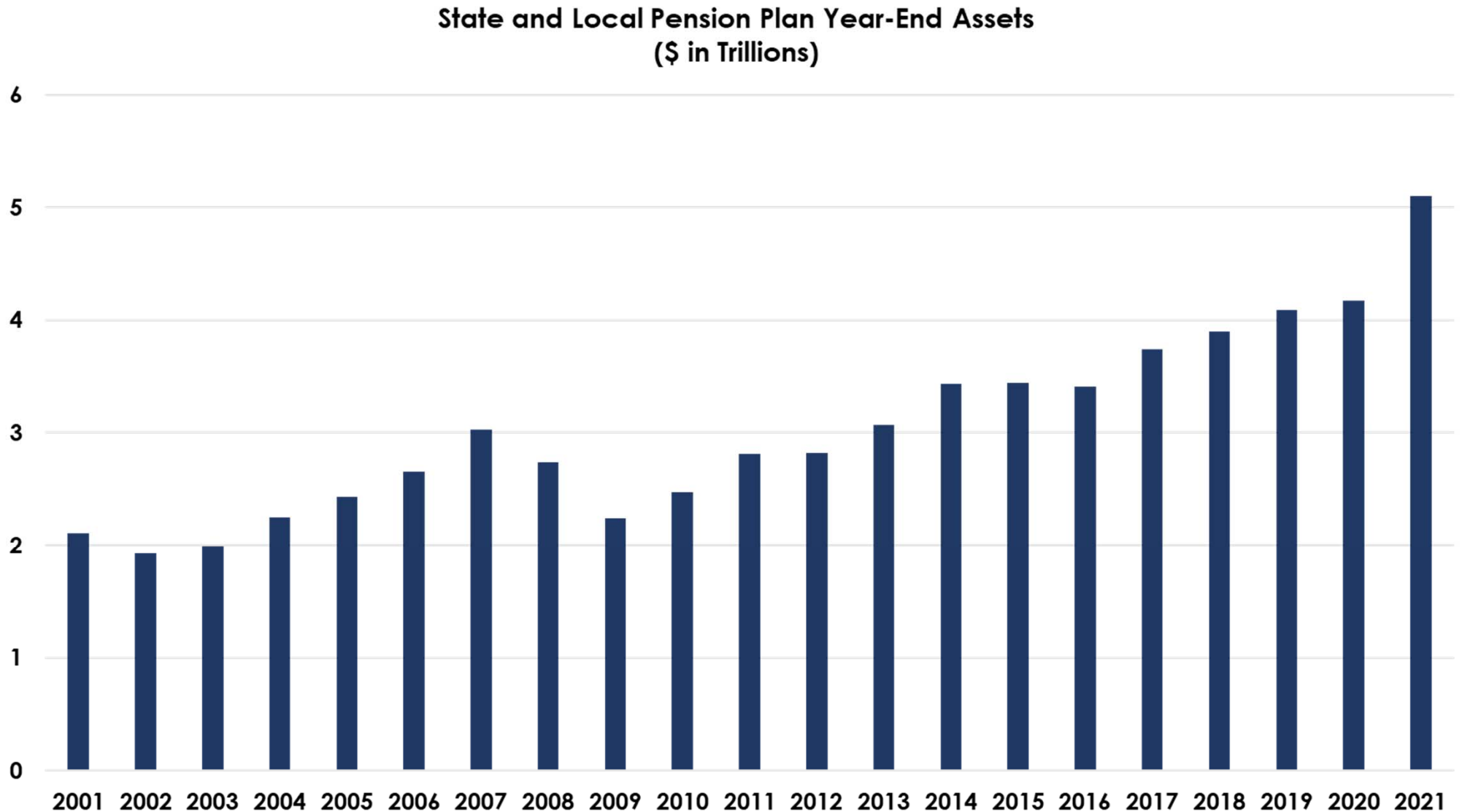
Public Pension Plan Importance

- 13.8% of US workforce consists of state and local employees
- 25% of these employees are not covered by Social Security
 - 66% of firefighters and police officers do not receive Social Security
 - 50% of teachers do not receive Social Security
- Life expectancy has increased from 70 years in 1960 to 79 years in 2019
- By 2060, Bureau of Labor & Statistics expects life expectancy will rise to 85 years

Public pension plans provide critical financial security to many hard-working Americans, and they face the challenge of increasing unfunded obligations due to rising life expectancy.

Source: US Census, World Bank, & Public Plans Data

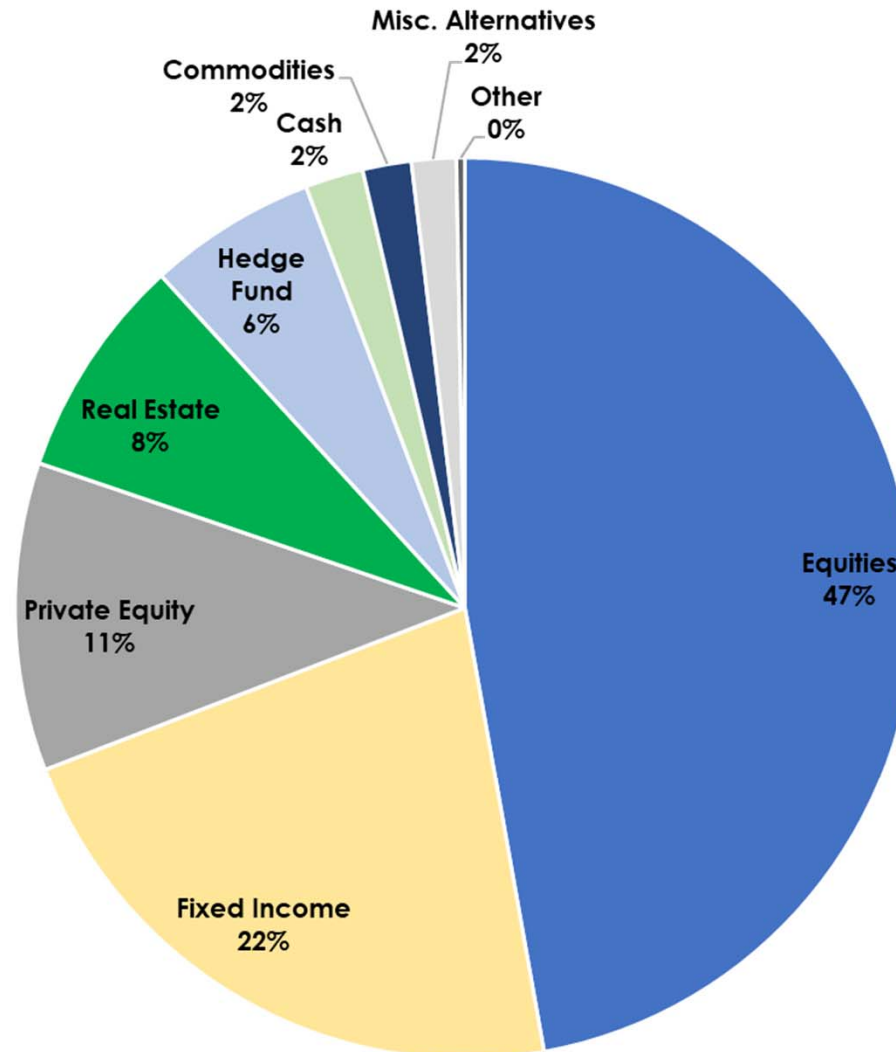
Public Pension Investment Scale



Source: Public Plans Data

Public Pension Investments Asset Mix

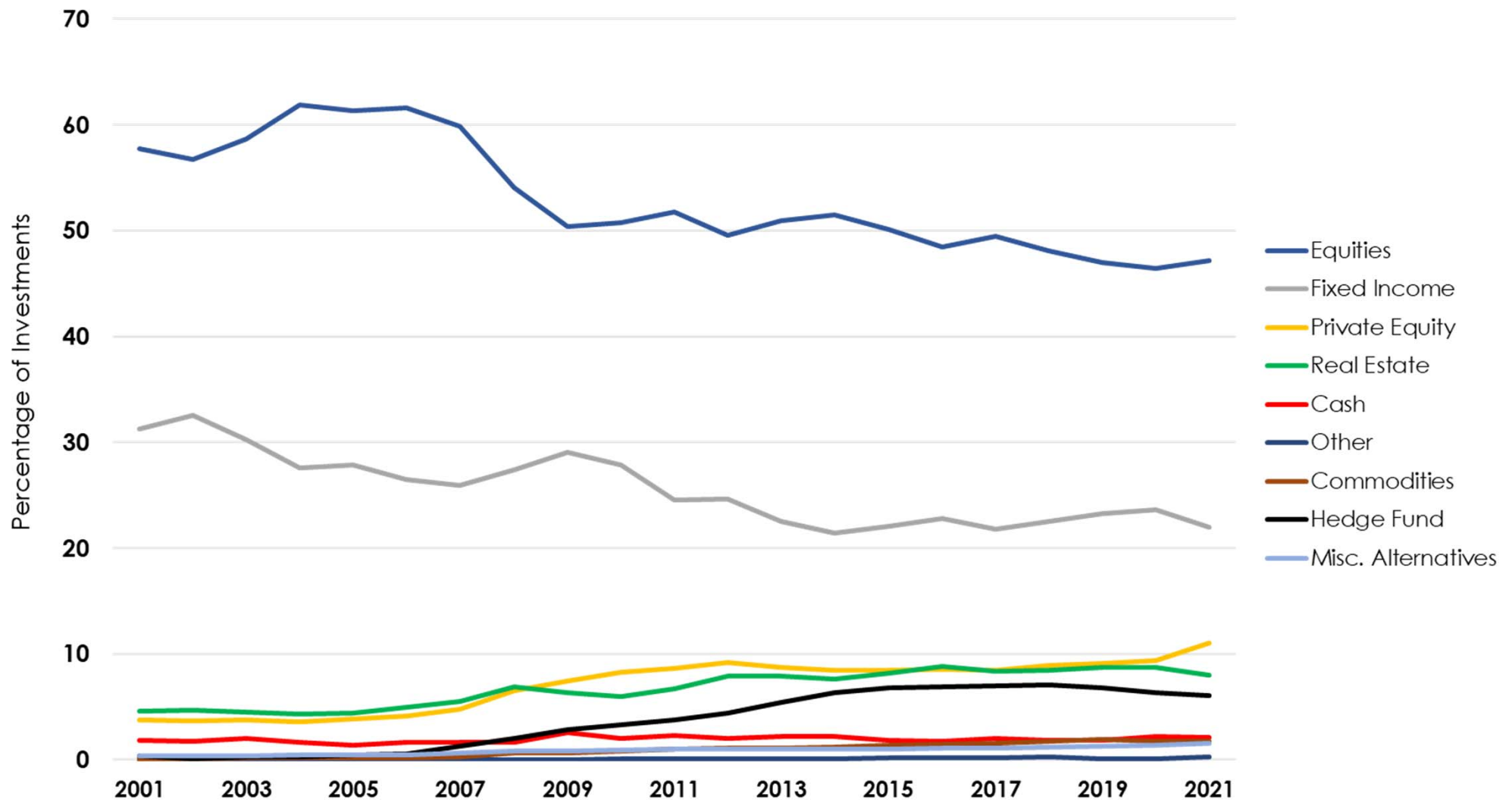
**Asset Allocation of State and Local Pensions
as of 2021**



Source: Public Plans Data

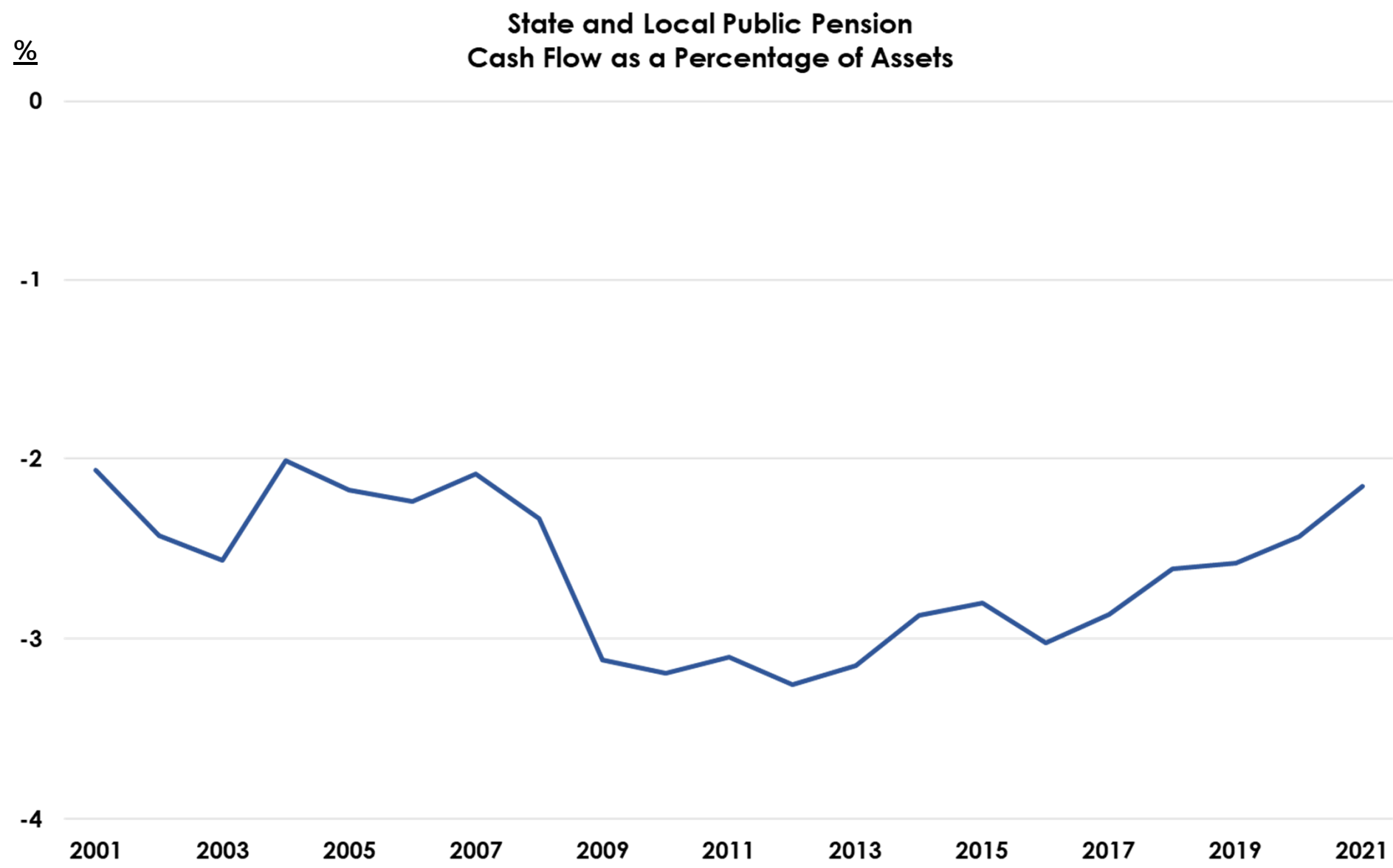
Public Pension Investments Search for More Stability

State and Local Pension Asset Allocation Over Time



Source: Public Plans Data

Public Pension Investment Cash Flow



Source: Public Plans Data

CalSTRS Pension Return Example

- Return for year ended 6/30/22 -1.3%

- Return from public equities -16.6%

- Return from fixed-income -10.3%

- Return from real estate +26.2%

- Return from private equity +23.7%

CalSTRS pension plan is real-world case study that illustrates the need for pension plans to reevaluate their asset allocations to include a heavier weighting in alternatives.

Source: Findaily

VOLATILITY

External Influences Driving Market Volatility

- Government Regulation
- Inflation
- Interest Rate Increases by Federal Reserve & Other Central Banks
- Foreign Affairs – Relationship with China & Others
- War in Ukraine
- Supply Chain Challenges
- COVID-19
- Single-Company Performance Affects Entire Sector in Public Markets
- Social Media
- High Frequency Trading
- Consumer Trends

Bond Yields are Low

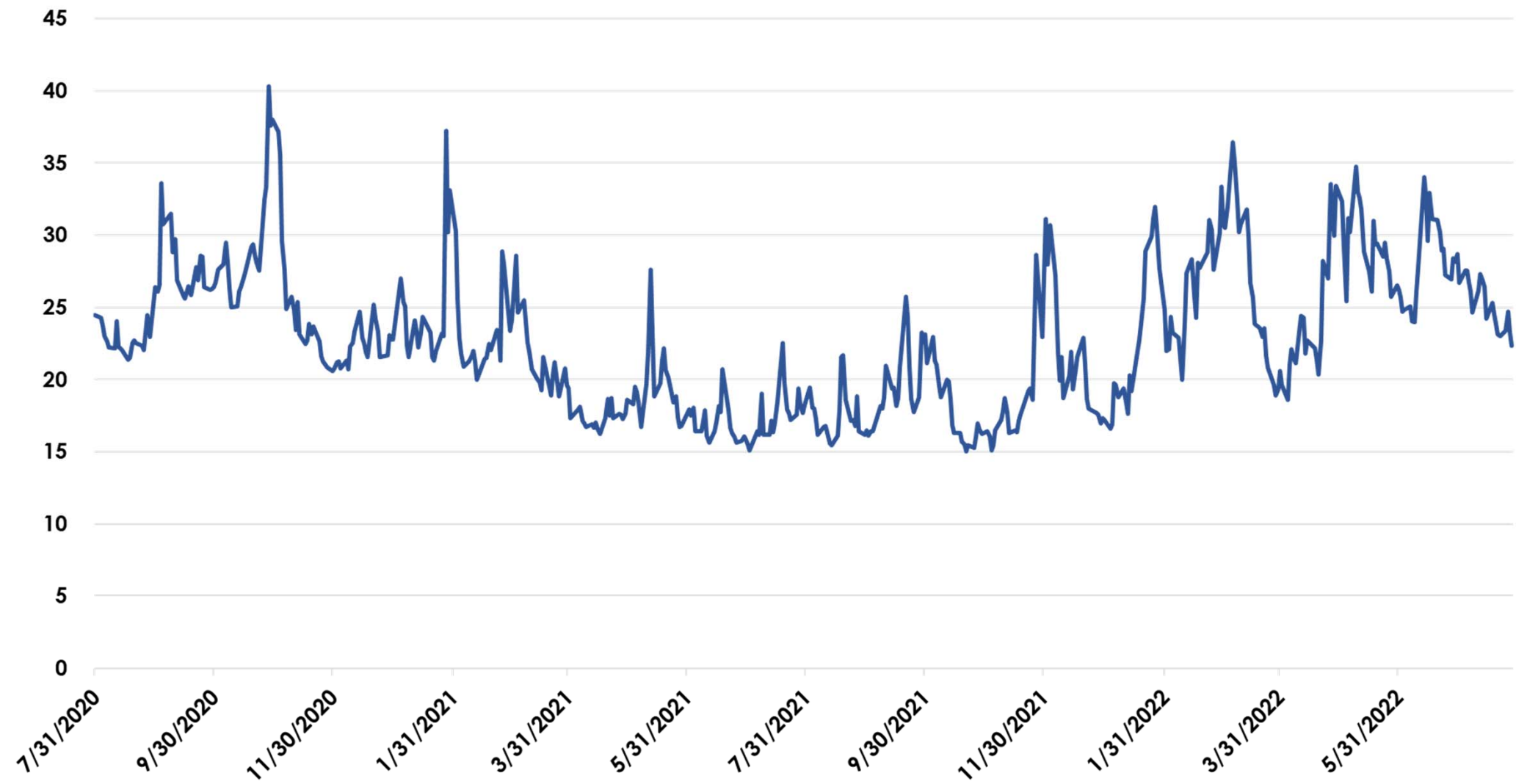
30-Year US Treasury Rate (%)



Source: St. Louis Federal Reserve

Constant Volatility in Equities Markets

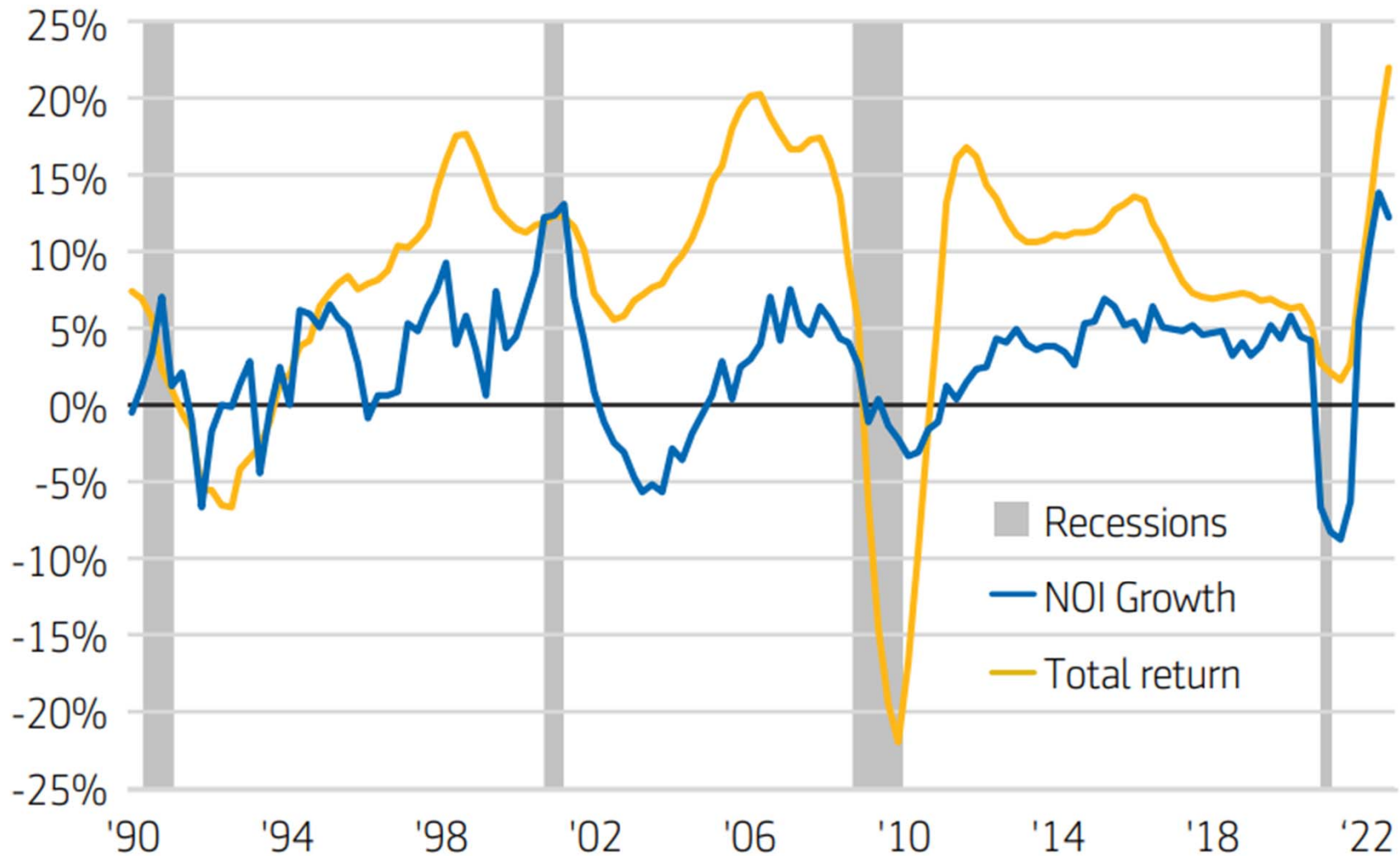
VIX Volatility Index



Source: St. Louis Federal Reserve & Chicago Board Options Exchange

Real Estate Returns are Historically Less Volatile

NCREIF Property Index (Unlevered) – YoY Change through Q1 2022



Source: NCREIF & AEGON Asset Management

REAL ESTATE

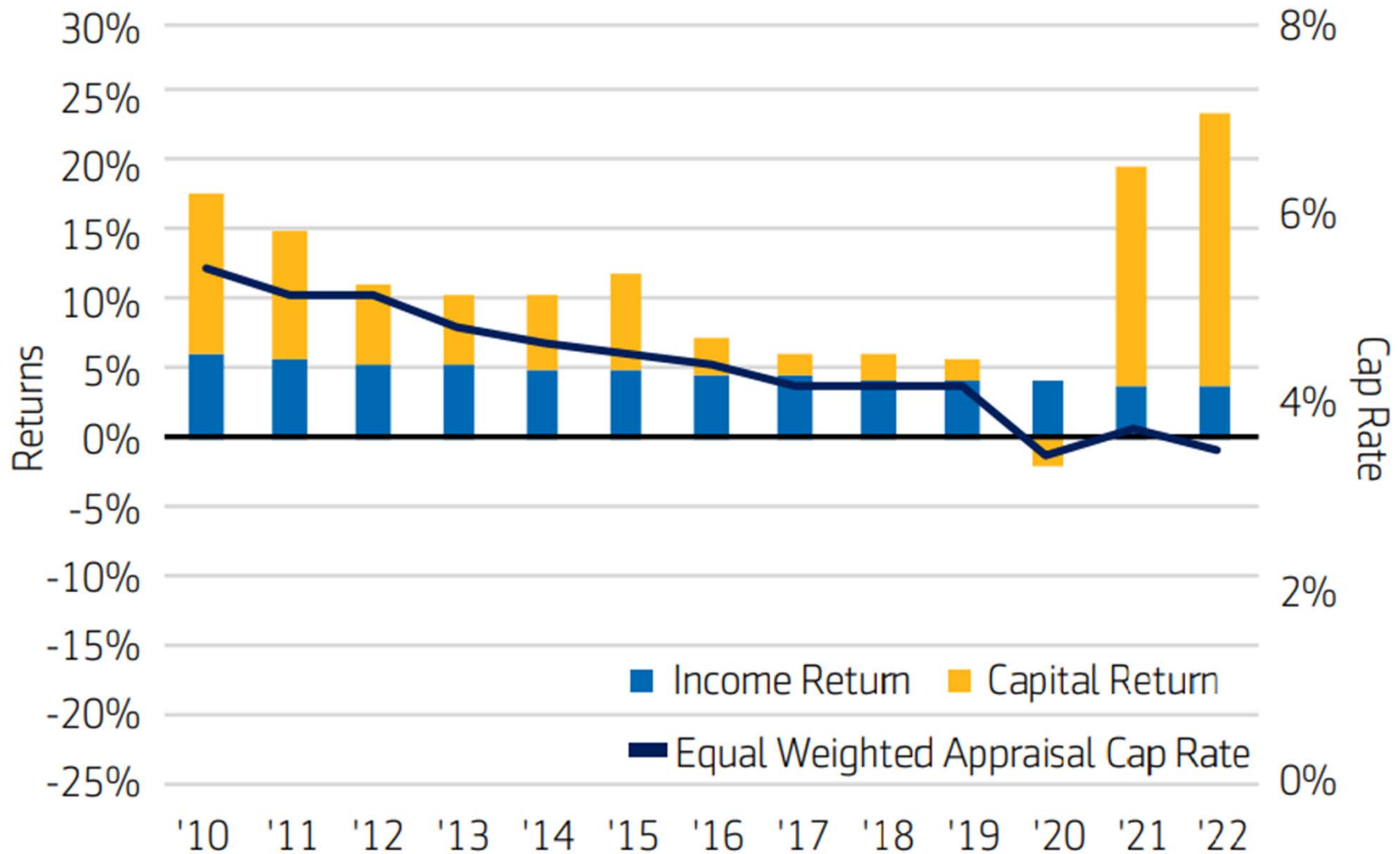
Real Estate Market



Source: YouTube

Real Estate Returns – Apartment

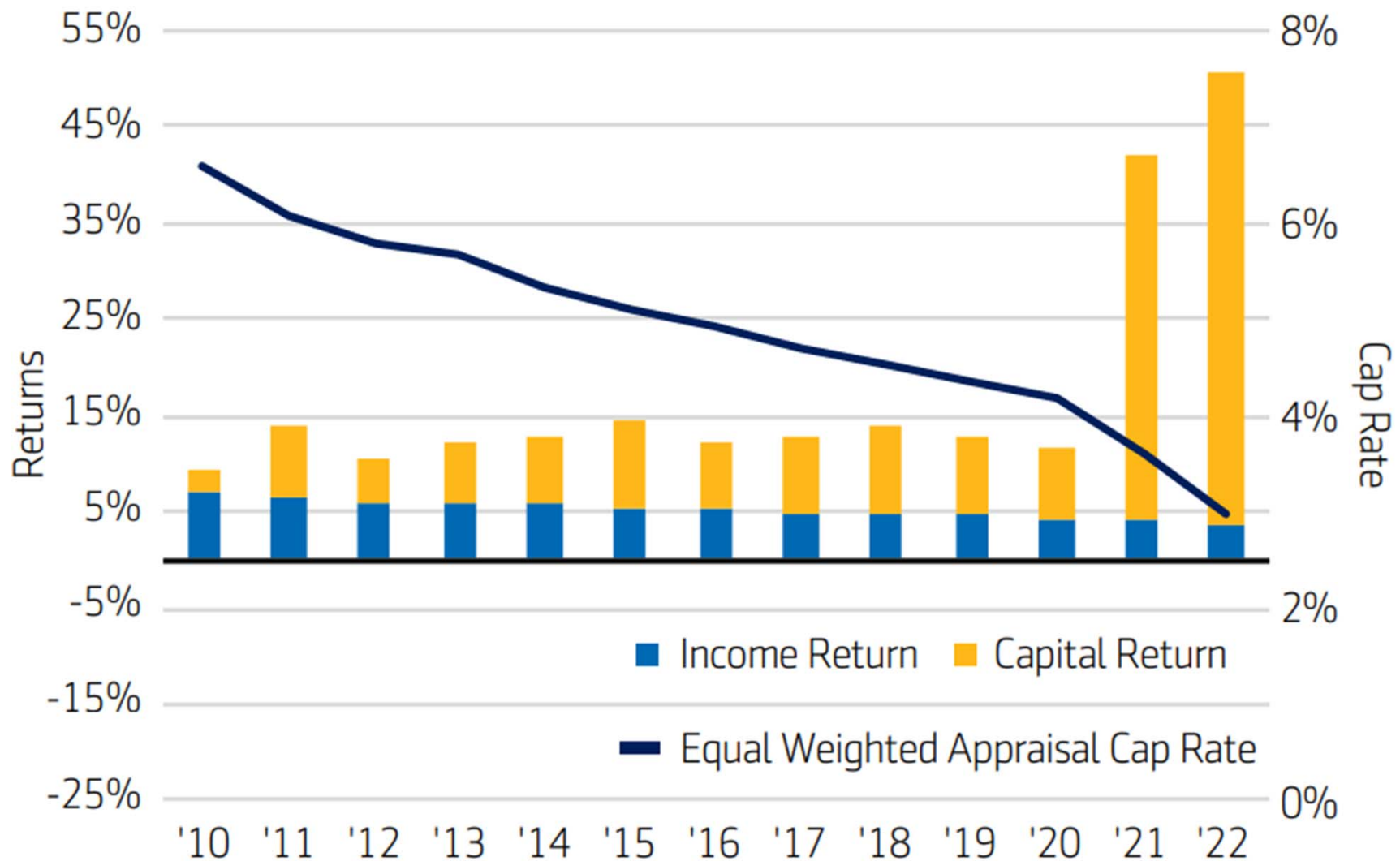
Apartment Performance - NCREIF Property Index (Unlevered)



Source: NCREIF & AEGON Asset Management

Real Estate Returns – Industrial

Industrial Performance - NCREIF Property Index (Unlevered)



Source: NCREIF & AEGON Asset Management

Real Estate Value Drivers

- Backed by Contract Law
- Provide Stable Cash Flows
- Tangible Assets
- Provide Basic Necessities
- Land is a Finite Resource
- Construction Costs Rise Over Time
- Low Correlation to Values of Other Asset Classes

Real estate in the United States is considered a safe haven to investors around the world due to the historical returns/appreciation achieved and the political and legal stability compared to other countries.

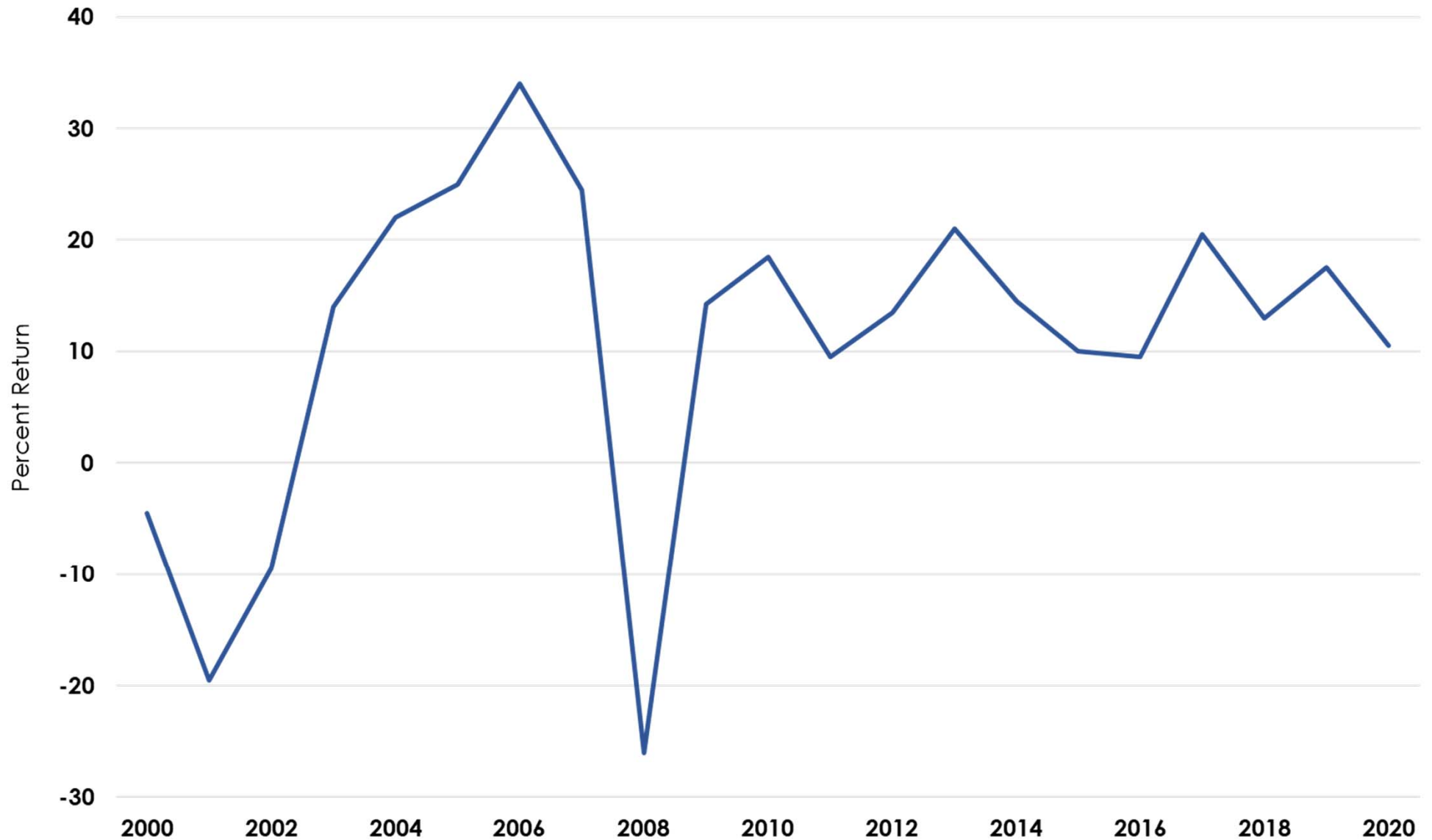
Private Equity Real Estate vs. Public REITs

- Private markets vs. public markets in real estate have significant differences
- Value-add time horizon: 3 to 5 years to implement business plan
- Private markets have ability to withstand temporary market adjustments
- Public REITs focus on short-term results due to short-sighted Wall Street expectations
- Private investors have the ability to be more nimble to win the best deals

Even within a specific asset class like real estate, there are significant differences between public and private markets.

PRIVATE EQUITY

Private Equity Returns



Source: McKinsey & Company; Burgiss

WHERE TO INVEST

Where to Invest

- Market volatility has made asset allocation a challenge for pension funds
- It is important to maintain a diversified portfolio, but search for more stable yields
- Privately-held assets allow investors to benefit from implementing long-term plans that are not interrupted by short-term Wall Street expectations
- Alternatives, including real estate and private equity business can offer investors the opportunity to hire experienced investment managers to implement proven business plans to generate superior risk-adjusted returns

THANK YOU

CONTACT INFORMATION

Info@TerraCapMgmt.com

www.TerraCapMgmt.com

Corporate Headquarters

999 Vanderbilt Beach Road, Suite 701
Naples, FL 34108
239.540.2002

Tampa Office

5550 W. Idlewild Ave., Suite 105
Tampa, FL 33634

Atlanta Office

2970 Clairmont Road, Suite 350
Brookhaven, GA 30329

Denver Office

4700 S. Syracuse Street, Suite 510
Denver, CO 80237

TerraCap is a member and supporter of the following state organizations:

