Revisions to the Total Fund Policy- Private Assets Second Reading

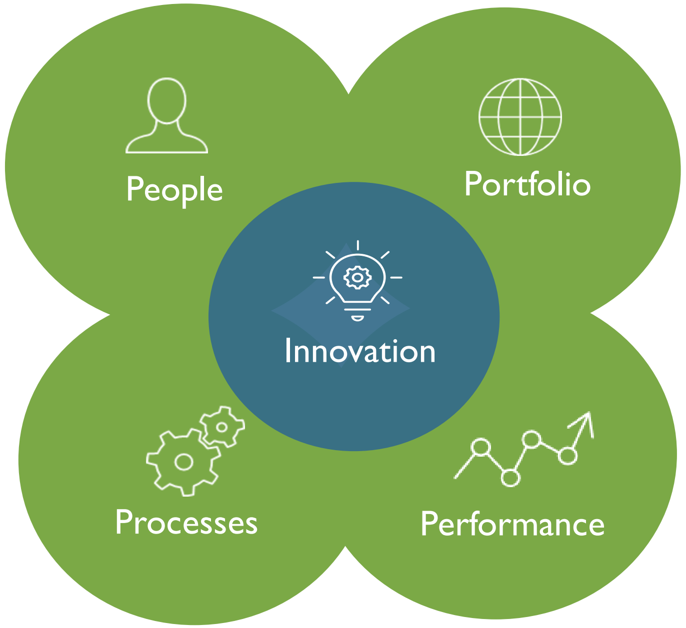
Amy Deming

Agenda

- **Governance Overview**
- Policy Changes Overview
    1. Staff Delegation Limits
    2. Prudent Person Opinions (PPOs)
    3. Private Equity Program
    4. Real Assets Program
- Appendix

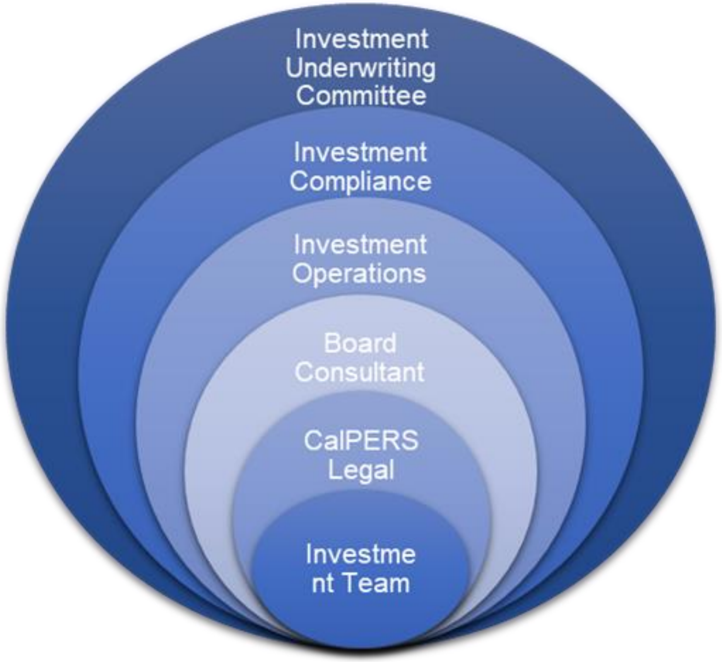
Private Asset Class Governance

Enhanced Governance Framework

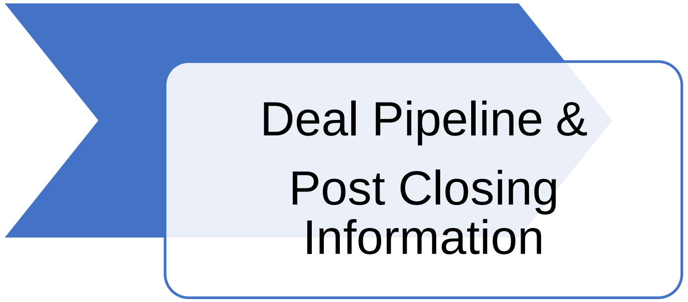


3 New CIO-chaired Committees

Program Oversight



Board Reporting & Transparency



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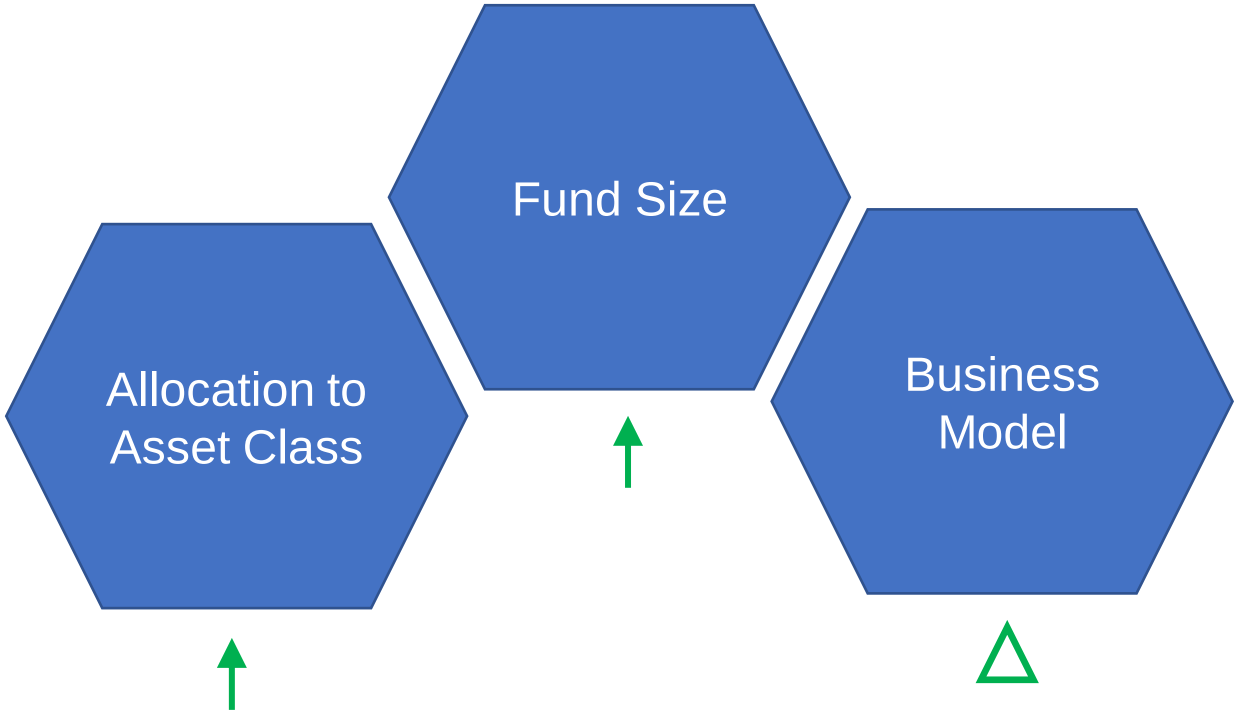
Staff Delegation Limits

- Increase delegation limits for Real Assets and Private Equity
- Establish Deputy CIO limits between CIO and asset class heads
- Establish delegation limits for secondary sales of Funds and Customized Investment Accounts within Private Equity
- The Investment Underwriting Committee will provide a central point of oversight, and the Managing Investment Director fiscal year limits are no longer necessary

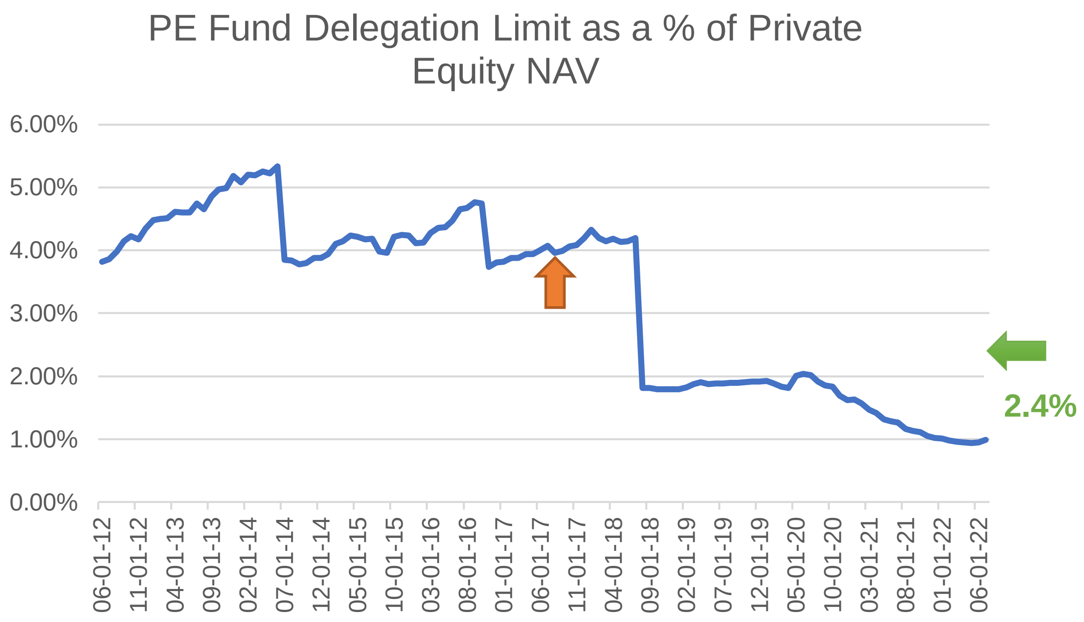
3 Factors Influence Delegation Limits

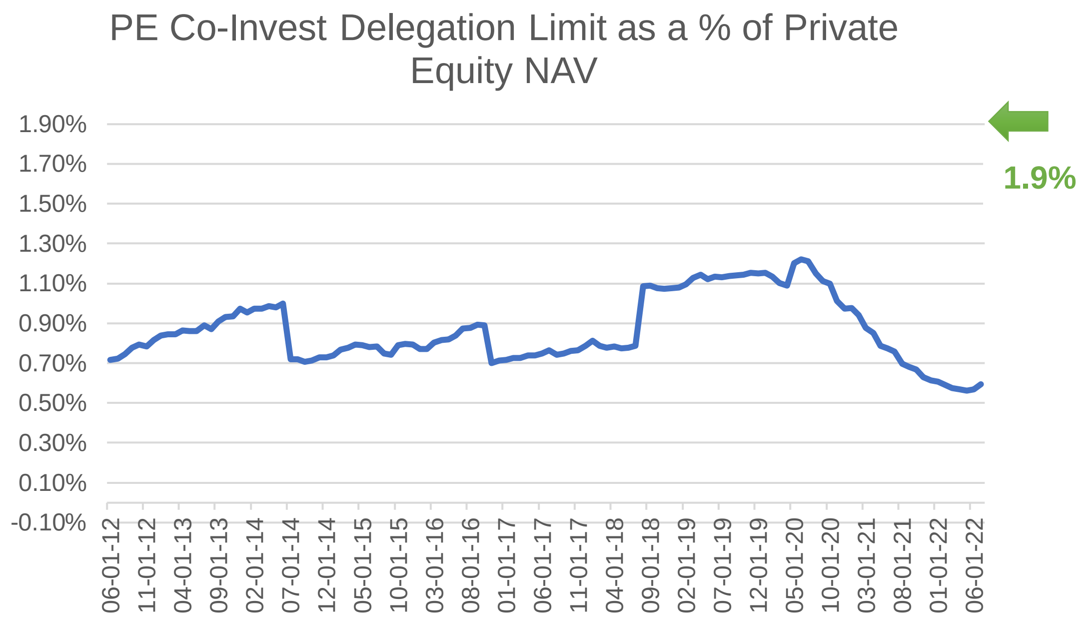


Rationale For Increasing Private Equity Delegation Amounts

- The size of the Private Equity market has grown substantially in the last decade
- As the industry has scaled, deal sizes and co-investment opportunity set have expanded
- CalPERS PE go-forward commitment pacing is targeted to stay at current levels to achieve the target allocation of 13% to Private Equity
- Delegation for Fund and co-investment commitments as a percent of Total Fund size and Private Equity program are at long-time lows
- Adjusting delegated authority limits to better reflect the evolution of the industry will provide CalPERS a greater ability to deploy capital into high conviction managers in a highly cost-efficient way by continuing to ramp a co-investment program

Delegation limits are very low relative to the NAV





In 2017 ALM cycle, Fund delegation was ~4% of PE program NAV

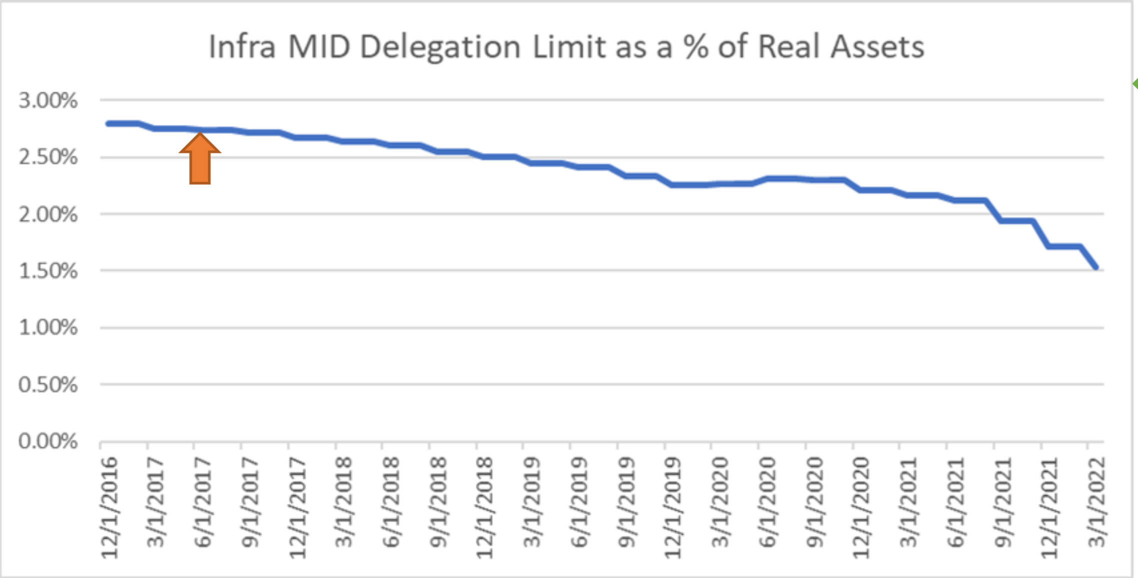
Co-investment is a strategic priority

Proposed delegation limits

Rationale For Increasing Infrastructure Delegation Amounts

- Our delegation limits, as a proportion of total plan assets are at an all time low, hindering our ability to achieve our SAA.
- The size of the infrastructure market has grown substantially in the last decade
- The average deal size is ~$2.5 billion in our target market
- The size of the market is expected to continue to grow substantially
- The Real Assets Team has been focused on building out the infrastructure portfolio over the past two years and have made good progress
- CalPERS infrastructure investment needs to more than double in size over the next three years to meet our SAA targets
- Doing this effectively and efficiently will require CalPERS to commit larger dollars to each investment

Delegation limits are very low relative to the NAV



Proposed delegation limit at 3.2%

In 2017 ALM cycle, infrastructure delegation was nearly 3% of RA program NAV

Growing the infrastructure portfolio is consistent with Real Assets' Strategic Plan

Board Direction: Opportunity Cost of Lower Delegation Limits

- Co-investments = cost savings. Most co-investments are effectively fee-free and carry-free, therefore investing $1 billion in co-investment is estimated to generate costs savings of $335 million over 10 years relative to investing $1 billion in fund commitments.
- Small co-investment deals lead to a heavy monitoring burden, while larger deals will allow the team to scale the co-investment program.
- 70% of Private Equity fund commitments will likely exceed the MID delegated authority limits
- CalPERS intends to commit $5 billion per year to infrastructure and the average commitment size is $1.25 billion per deal. Therefore, the majority of the infrastructure commitments will exceed the MID delegated authority.
- It is difficult to achieve scale with lower delegated authority limits and detracts from our ability to reach our Strategic Asset Allocation.

Prudent Person Opinions (PPOs)

1. Increase PPO thresholds for Real Assets and Private Equity with the intent to balance good governance with the ability to implement the Board-approved SAA
2. Establish PPO thresholds for Private Debt

Higher PPO thresholds align with objectives

We should consider the associated costs

Private Equity Program

1. Co-invest alongside institutional investors with which we do not currently invest

2. Increase the committed capital limit per General Partner

3. Increase the percentage per-fund investment limit

4. Modify strategy allocation targets and ranges, with a marginal shift to growth and venture strategies

Real Assets Program

1. Modify infrastructure geographic limits to increase international exposure

Region	Current Infrastructure	Proposed Infrastructure	Changes
United States	40–100%	30–100%	Bottom range reduced from 40% to 30%
International Developed Markets	0-60%	0-70%	Increased from 60% to 70%
International Emerging Markets	0-15%	0-15%	Unchanged
International Frontier Markets	0-5%	0-5%	Unchanged

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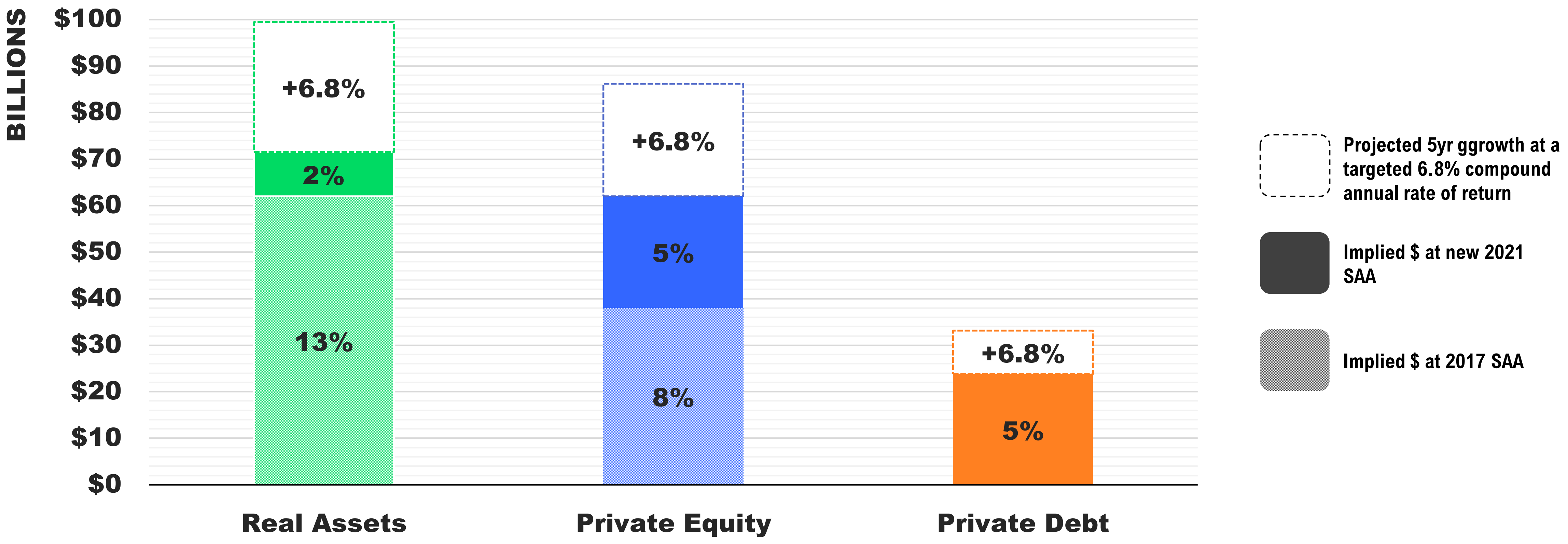
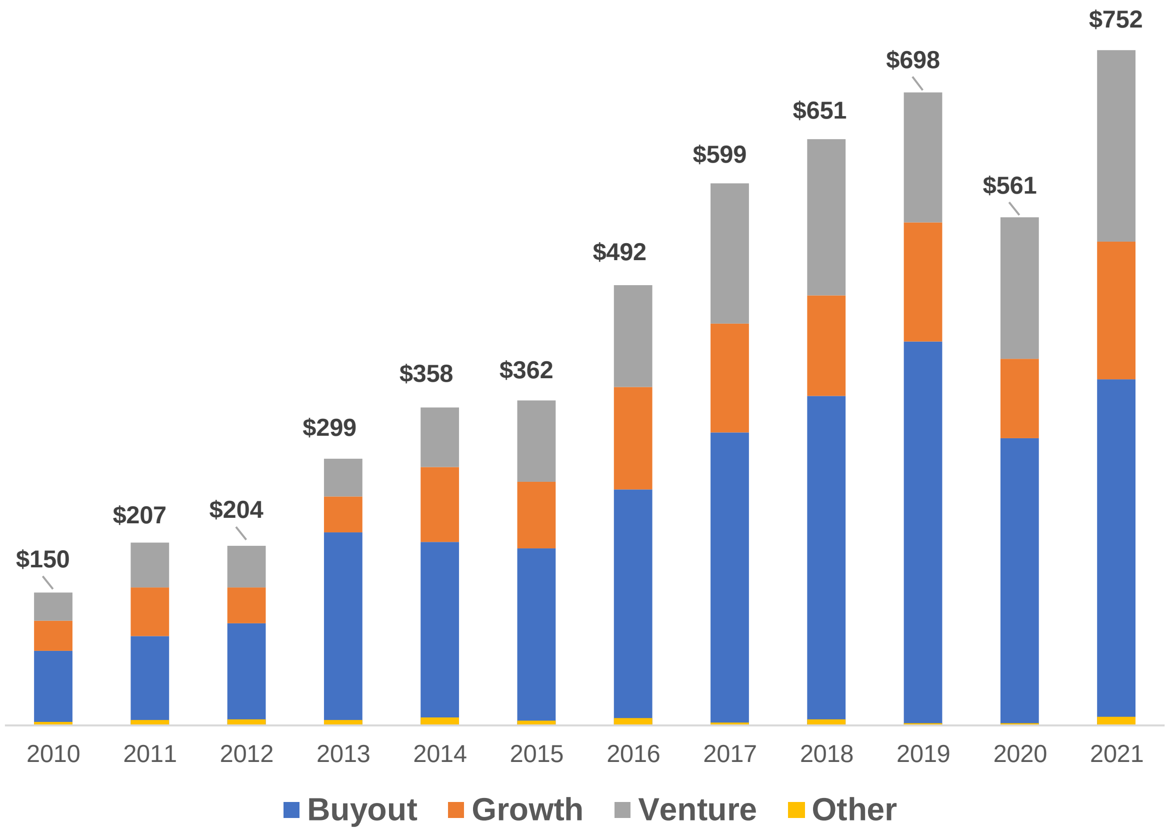
New SAA requires significant deployment of capital



$Billions calculated using PERF NAV at the time of the 2021 ALM-Strategic Asset Allocation

Global Private Equity Fundraising by Asset Subclass, $billions

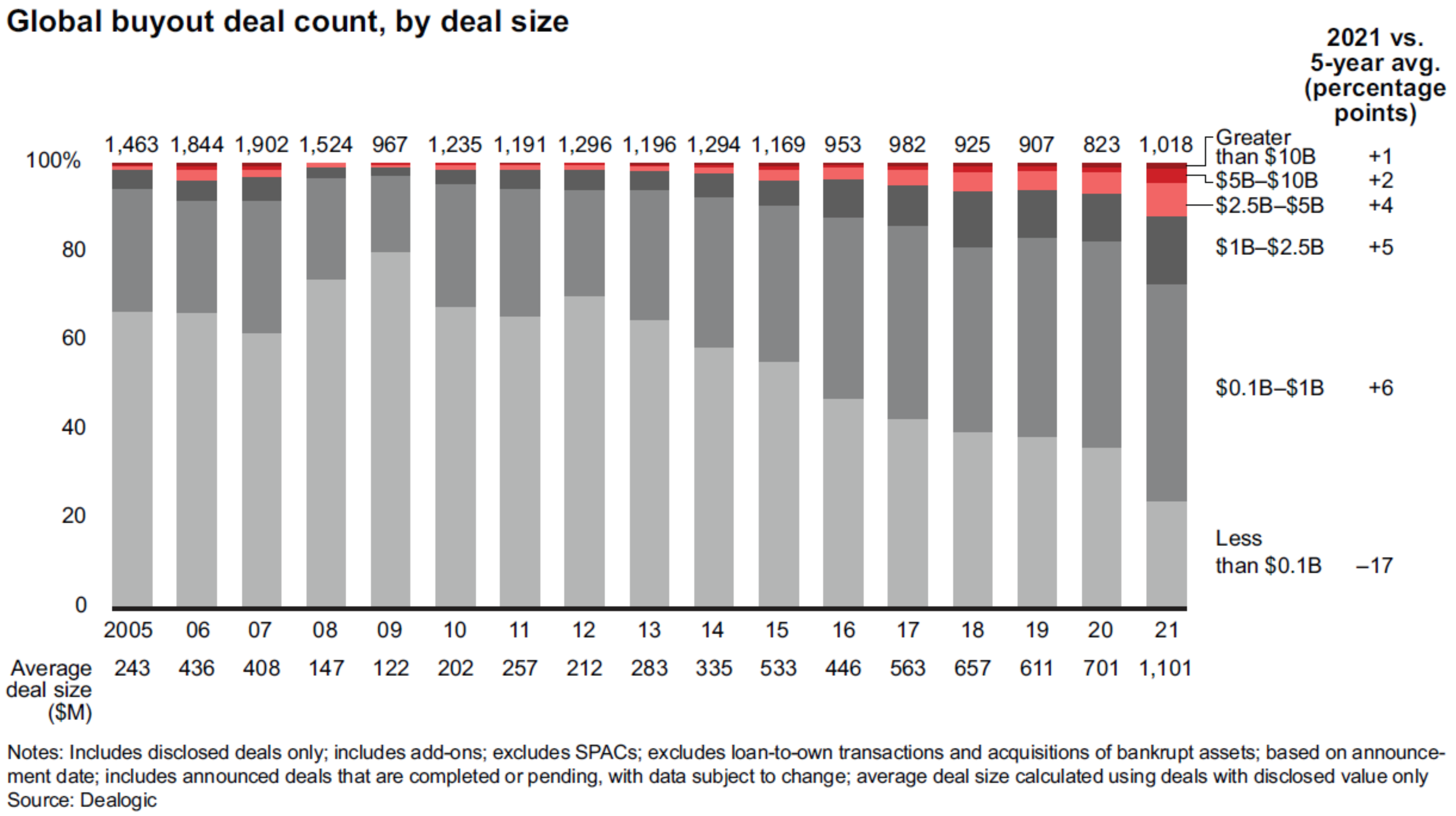


Source: Preqin. Excludes secondaries, fund-of-funds, and co-investment vehicles

- Private Equity global fundraising increased at a compound rate of 14.4% from 2010 through 2021

CalPERS

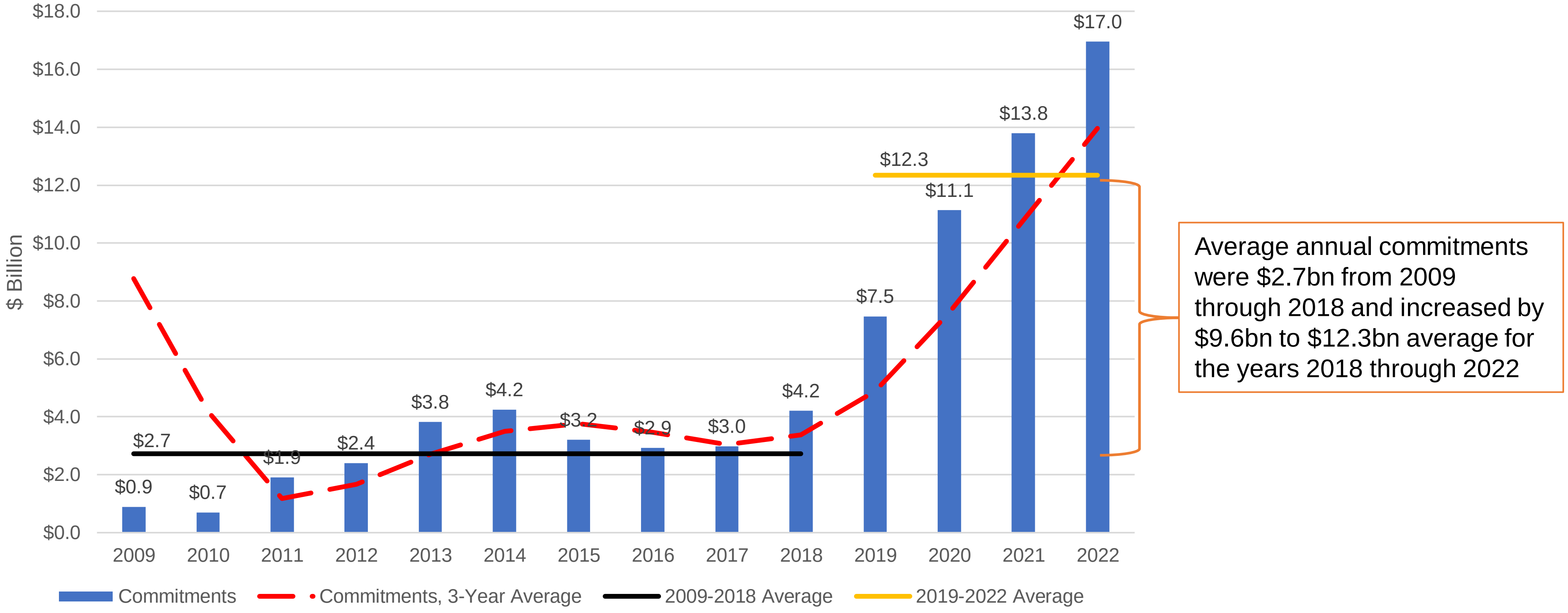
Private Equity Industry and Deal Size Growth



Source: Bain global PE report - 2022

- As the industry has scaled, there has been an expansion in deal size and co-investment opportunity set

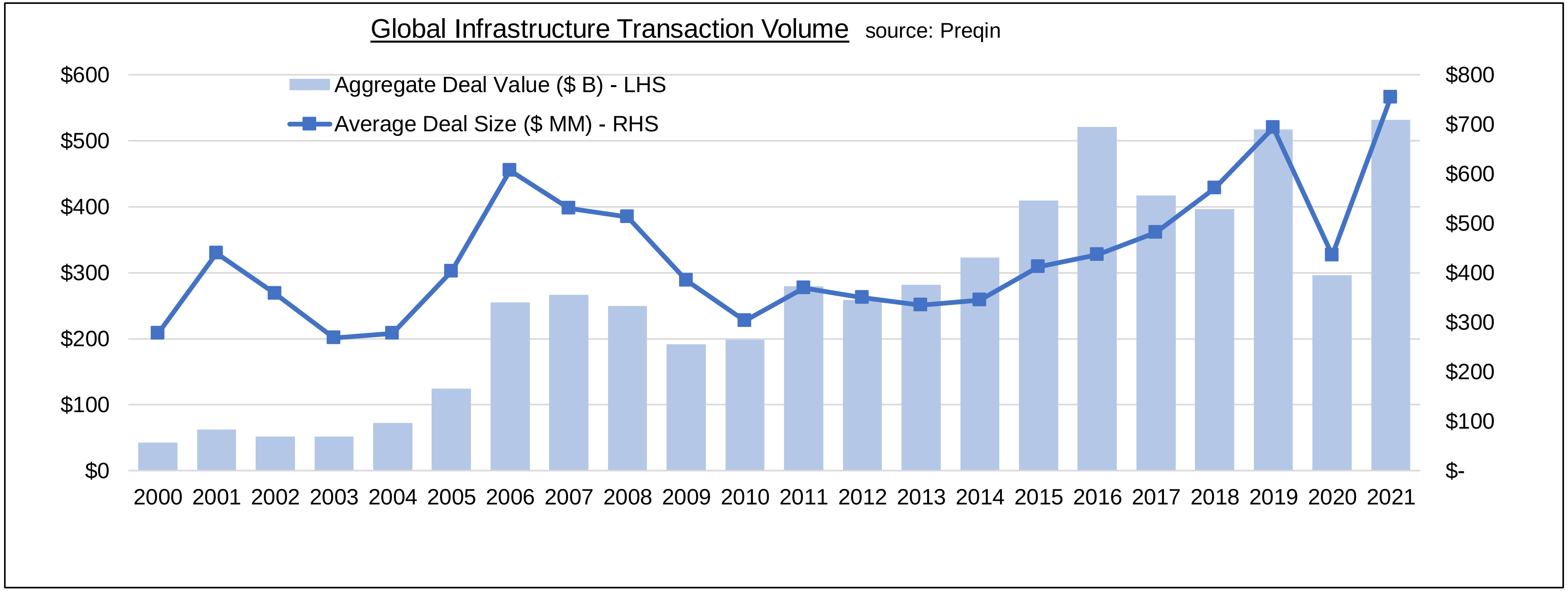
CalPERS Private Equity Annual Commitment History by Fiscal Year ($bn)



- **Despite the expansion of Total Fund and the private equity industry, CalPERS' capital commitments have averaged $2.7B/year from 2009 – 2018 leading to persistent under-exposure to private equity relative to target allocation**
- **Expected annual commitment pacing of $15B+ required to achieve current target allocation of 13%**

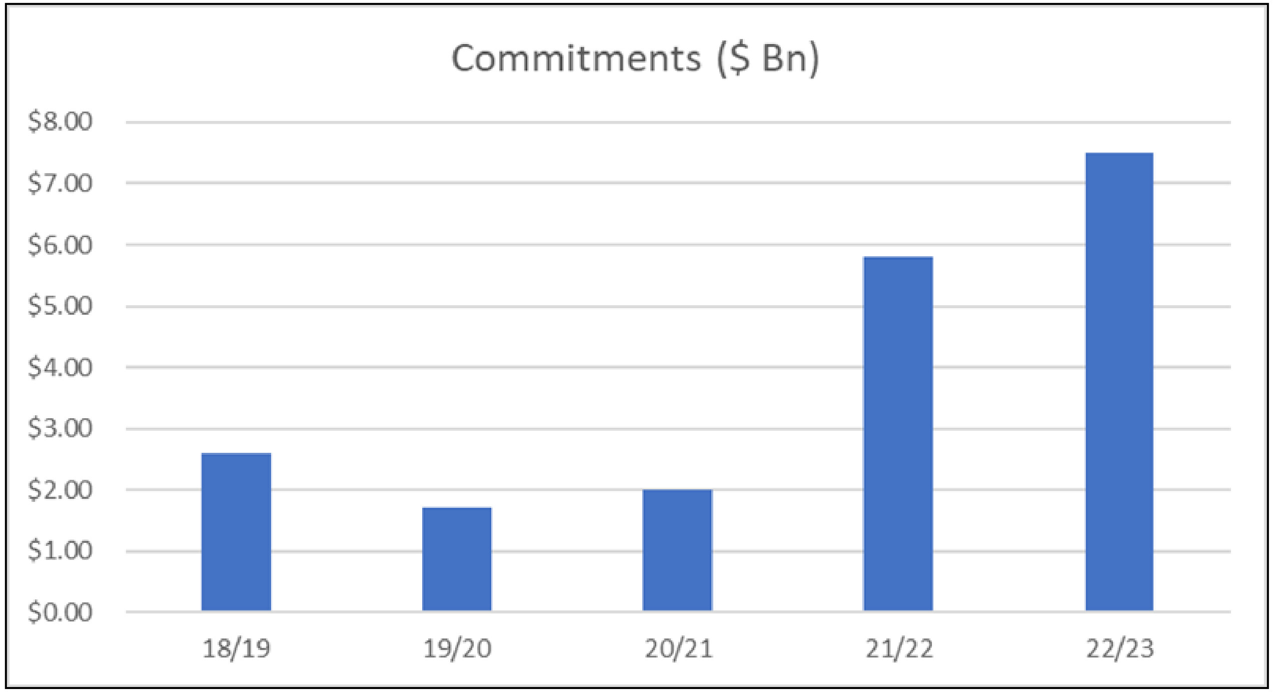
CalPERS

Market Growth of Global Infrastructure



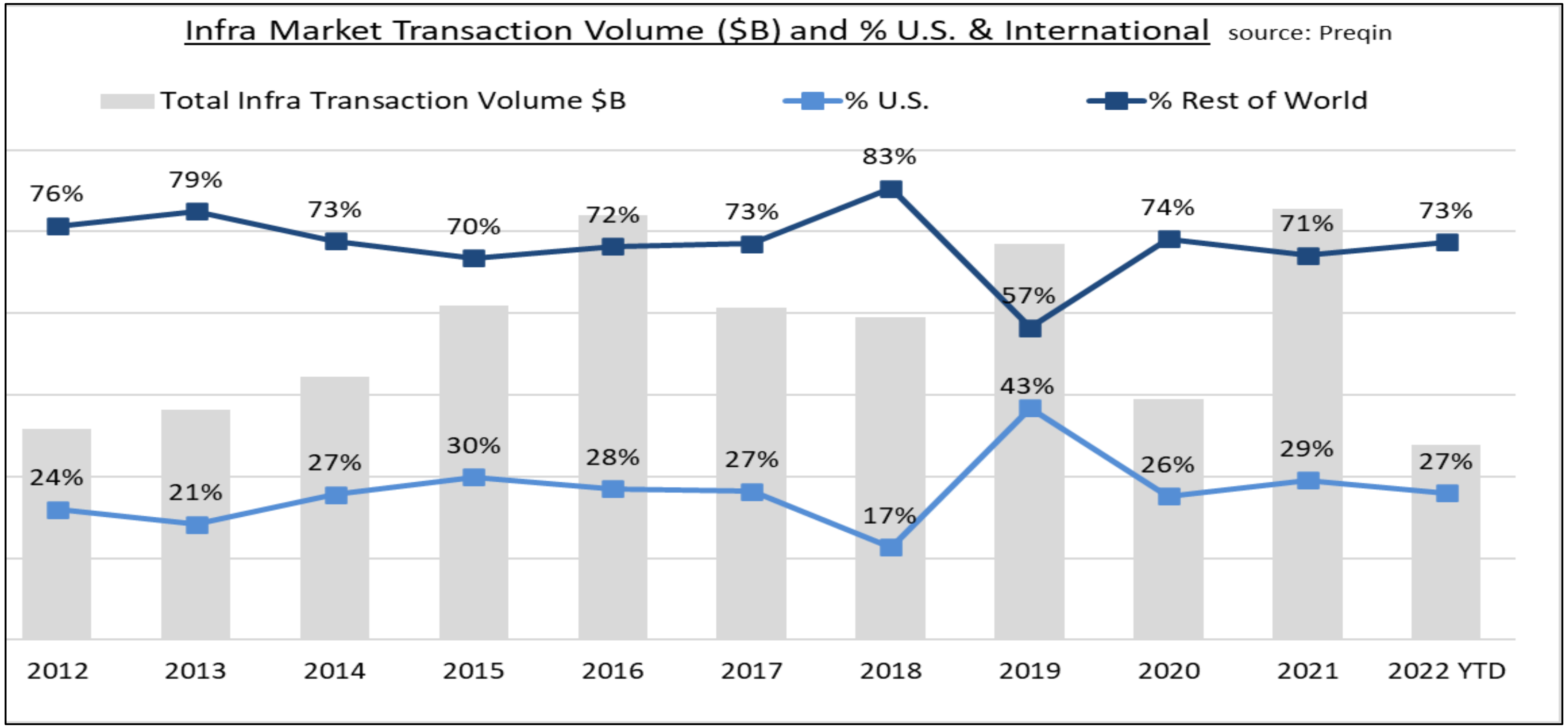
- Infrastructure transaction volume has exceeded $500 billion in three of the past six years
- Larger equity checks are required to fund the acquisitions

Growth of CalPERS Infrastructure Program



- Consistent with the Real Assets Strategic Plan, growth of the infrastructure program has been a key focus for the past two years
- To maintain the new SAA target for Real Assets, ~$5B per year will need to be committed to infrastructure investments

Global Infrastructure Market



- The majority of global infrastructure transactions are outside of the United States
- Scaling the Program will require investing outside of the United States