

MEMORANDUM

TO: Members of the Investment Committee, CalPERS
FROM: Meketa Investment Group
DATE: March 15, 2021
RE: Semi-Annual Private Equity Performance Review as of December 31, 2020

In our role as the Board Private Equity Consultant, Meketa Investment Group (“Meketa”) conducted a semi-annual performance review of the Private Equity Portfolio (“the Portfolio”) for the period ended December 31, 2020¹ based on data provided by State Street and selected reports from staff. This memorandum provides the Portfolio performance data and information on key policy parameters, along with observations on staff activities during the time period.

Performance

Private Equity, as well as other asset classes, rebounded in the second half of 2020 with both the CalPERS’ Portfolio and the Policy Benchmark returning to positive returns for the 1-year period. Performance of the Portfolio and the Policy Benchmark across longer time periods have also increased in recent months. The Program’s performance exceeds the Policy Benchmark for each of the 1 and 3-year periods but dips below the benchmark for the 5- and 10-year periods. As a reminder, the Policy Benchmark was most recently changed to the Custom FTSE Global All Cap +150 basis points beginning in July 2018.

	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)
CalPERS PE Program ²	12.5	9.2	10.4	11.5
<i>Policy Benchmark³</i>	11.7	9.0	13.2	13.2
<i>Cambridge Associates All PE Global⁴</i>	17.9	14.6	13.7	13.9
<i>FTSE Global All Cap + 150 bp⁵</i>	11.7	8.7	12.2	10.3
Excess vs. Policy Benchmark	0.8	0.2	-2.8	-1.6
Excess vs. CA All PE Global	-5.4	-5.3	-3.4	-2.3
Excess vs. FTSE Global All Cap + 150 bp	0.8	0.5	-1.8	1.2

¹ State Street’s CalPERS Private Equity performance analysis for the period ended December 31, 2020, reported with a 1-quarter lag.

² Source: State Street. CalPERS returns are reported as time-weighted.

³ The current Policy Benchmark is a Custom FTSE Global All Cap ex-Tobacco Net of Tax Index + 150 basis points, lagged by one quarter. Previous benchmark was blend FTSE US + FTSE AW ex US + 3% lagged 1 quarter from September 2011 to June 2018, Wilshire 2500 ex-tobacco +3% between July 2009 and September 2011, and the Custom Young Fund Index prior to July 2009.

⁴ Returns as of September 30, 2020. Cambridge Associates figures are net IRR.

⁵ Figures are one quarter lagged, time weighted. FTSE Global All Cap returns are based on the FTSE Global All Cap Index + 150 basis points through October 2011, the FTSE Global All Cap Net of Tax (US RIC) Index + 150 basis points through March 2015, and thereafter on the FTSE Global All Cap ex-Tobacco Net of Tax Index + 150 basis points.



As we have noted in other reports, private equity performance is reported with a significant delay compared to publicly traded assets. As such, the Program and the Policy Benchmark performance as of December 31, 2020 are each reported with a one-quarter lag (i.e., values through September 30, 2020). Additionally, private equity asset values tend to be less volatile, both in up as well as down markets, compared to publicly traded asset values. In other words, private equity assets tend to fall less in declining public equity markets, and increase more slowly in rapidly rising public equity markets.

The Portfolio's NAV as of December 31, 2020 was \$30.8 billion, an increase of \$5.1 billion (net of cash flows) compared to the June 30, 2020 NAV of \$24.5 billion. The current NAV represents 7.0% of the Total Fund, compared to the 8.0% target. As we noted above, the Program's NAV is calculated based upon September 30, 2020 values, while the overall CalPERS portfolio includes publicly traded assets valued as of December 31, 2020. We would expect that when December 31, 2020 private equity values are received, the Program's NAV will have a modest uplift from September 30 values.

Strategy¹

	NAV (\$ mm)	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)
Buyouts	21,787	11.4	9.8	11.8	12.3
Credit	1,866	0.1	0.4	1.6	7.2
Growth/Expansion	4,883	23.7	11.1	13.2	12.5
Opportunistic	1,700	10.0	10.1	9.1	11.6
Venture	448	21.8	11.9	5.4	7.5
Other ²	90	NA	NA	NA	NA
CalPERS PE Program	30,773	12.5	9.2	10.4	11.5

The performance rebound from COVID-19 is evident across the portfolio with all strategies experiencing significant increases. Venture and Growth/Expansion strategies have generated particularly strong returns in recent periods, while Credit continues to be a drag on performance. Overall, the Program has been, and will continue to be, driven by the Buyouts strategy, which has also rebounded and provided attractive returns over the long term.

¹ Source: State Street. All trailing returns included in this report are time-weighted.

² Includes currency and stock holdings.



Performance by Geography¹

	NAV (\$ mm)	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)
United States	21,442	12.2	8.9	9.6	11.4
Canada	124	2.8	15.1	18.3	12.8
Developed Asia	89	-1.0	-29.1	-7.5	-2.6
Europe	6,617	19.4	14.5	17.4	14.6
Emerging Markets	2,411	3.0	3.0	6.0	8.6
Other ²	90	NA	NA	NA	NA
CalPERS PE Program	30,773	12.5	9.2	10.4	11.5

While the Program has been primarily driven by the U.S. investments, Europe has been a strong contributor to returns over time. Certain managers in the region have provided particularly strong performance over the years.

Implementation

For the second half of 2020, Staff completed 26 commitments totaling \$9.0 billion³, and 46 commitments totaling \$18.0 billion from January 2020 through December 2020. This was a very active period for the Program, maintaining a high level of engagement while continuing to be in a work-from-home status. Staff has increased their emphasis on no/low fee separate managed accounts and co-investments by leveraging CalPERS' size and scale.

¹ Source: State Street.

² Includes currency and stock holdings.

³ See Appendix for list of investments completed in the second half of 2020.



Key Policy Parameters

The Portfolio is compliant with key parameters related to strategy diversification as demonstrated in the table below.

Strategy	NAV ¹ (\$ mm)	Percent of Total NAV (%)	CalPERS Target (%)	Target Range (%)
Buyout	21,787	70.8	70	60-80
Credit	1,866	6.1	5	0-10
Growth/Expansion	4,883	15.9	15	5-20
Opportunistic	1,700	5.5	10	0-15
Venture	448	1.5	1	0-7
Other ²	90	0.3	NA	NA
Total Program	30,773	7.0³	8	+/- 4%

Conclusion

The Private Equity portfolio's recent performance shows resiliency as the Program reported over \$5 billion of gains since our prior report. Staff maintained a high level of engagement while being in a work-from-home status and worked closely with the underlying managers to monitor the health of the portfolio, which has largely remained resilient. The Program's investment pace remained strong and staff expanded its implementation of lower cost separate managed accounts and co-investments.

CalPERS faces challenges in building the Program, but also has opportunities given its scale, experience, and large investment team. Staff's continued focus on deploying capital through lower cost investment structures will help mitigate overall fees.

The Appendix includes a list of investments completed during the second half of 2020, as well as some data and commentary on the private equity asset class for the third quarter of 2020.

Please do not hesitate to contact us if you have questions or require additional information.

SH/JC/SPM/jls

¹ Source: State Street.

² Includes currency and stock holdings.

³ PE program NAV as a percent of total CalPERS portfolio as of 9/30/2020.



Attachment

CalPERS Private Equity Completed Investments – H2 2020

Investment	Date Signed	Geography	Strategy	Commitment (\$ mm)
BDC IV D	July 2020	Europe	Growth Equity	200
Co-Investment	July 2020	Europe	Growth Equity	50
GCM Grosvenor DEM III	August 2020	Global	Opportunistic	50
AlpInvest Secondaries Fund VII	August 2020	Global	Secondary	500
New Mountain Partners VI	August 2020	Global	Buyout	600
TPG Growth V	August 2020	Global	Growth Equity	200
Sierra Partners (CIA)	September 2020	Global	Secondary	150
Blackstone Tactical Opportunities Fund III – C Surge	September 2020	Global	Opportunistic	350
Redwood Opportunities (CIA)	September 2020	Global	Buyout	600
LongRange Capital Fund I (CIA)	September 2020	Global	Buyout	1,500
EQT IX (No. 2) USD	September 2020	Europe	Buyout	750
Fourth Street Partners – CPS (CIA)	September 2020	Global	Buyout	500
Co-Investment	October 2020	US	Growth Equity	84
California Partners (CIA)	October 2020	US	Buyout	350
Top Castle Sidecar VII (CIA)	October 2020	Global	Secondary	500
TCV XI	October 2020	US	Growth Equity	300
Thoma Bravo XIV	October 2020	US	Buyout	600
Co-Investment	October 2020	US	Growth Equity	60
Co-Investment	November 2020	US	Buyout	50
Co-Investment	November 2020	Global	Buyout	50
Samson Partners, L.P.	November 2020	US	Buyout	239
Co-Investment	December 2020	US	Buyout	50
TCC Opportunities (CIA)	December 2020	Global	Buyout	500
Co-Investment	December 2020	Europe	Growth Equity	181
Nordic Bear (CIA)	December 2020	Europe	Buyout	500
Co-Investment	December 2020	US	Buyout	75



Private Equity Market Commentary – Q3 2020

Private Equity Global Fundraising¹

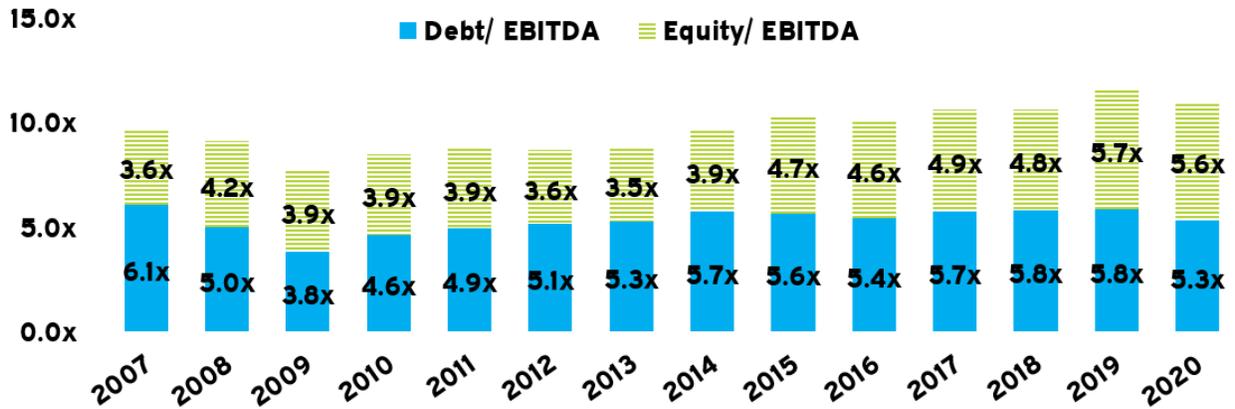


Fundraising for private equity funds in the third quarter of 2020 increased slightly from the previous quarter, with \$127.0 billion raised, but remained below historical fundraising totals for the same time period over the last four years. In recent years, fundraising has typically increased during the third quarter, but no such increase was seen in 2020. Fundraising appears to have been hampered by the COVID-19 pandemic, with the fewest number of funds closed in a quarter over the last five years. Overall, fundraising showed signs of further capital consolidation with larger, more established managers, who are gradually increasing their market share.

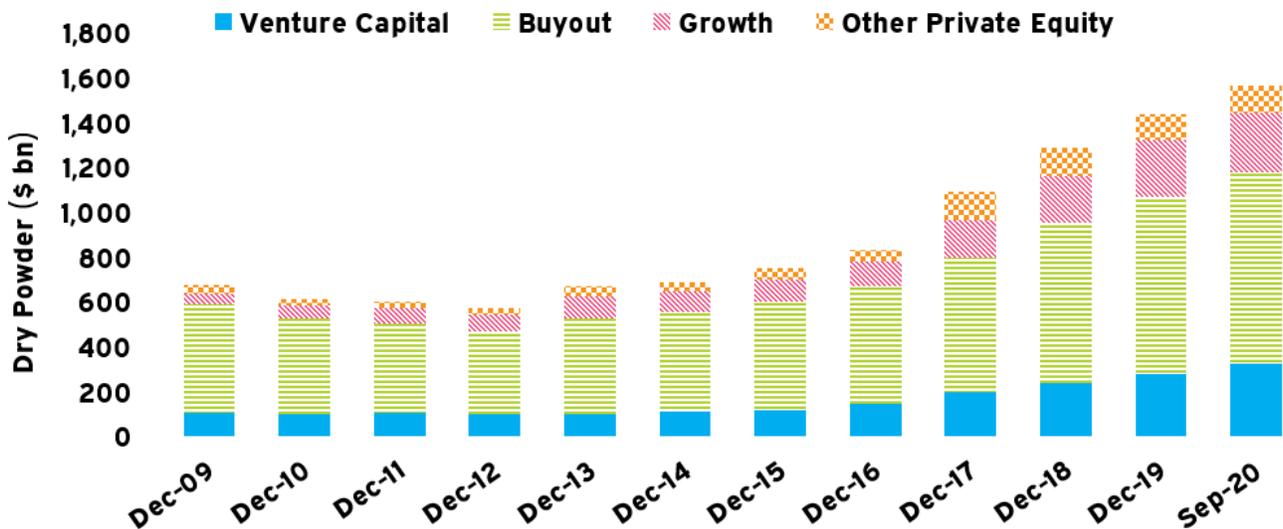
¹ Source: Preqin.



Purchase Price Breakdown, All LBOs¹



Dry Powder by Fund Type²



Private Equity purchase price multiples through the third quarter of 2020 remained slightly lower than in 2019 but remained near all-time highs. Notably, equity contribution (relative to total purchase price) increased, and total purchase prices now comprise slightly more equity than debt for the first time since 2009. Elevated prices were supported by a continued record level of dry powder, which has surpassed the level of the previous year. Dry powder levels will remain high as long as more capital is being raised than is being deployed, and investors may expect to continue to see high purchase prices as a result. Capital concentration and a more cautious investment approach due to market uncertainty may contribute to increasing levels of dry powder as well, with larger funds taking longer to deploy all capital. TMT (70%), Services & Leasing (14%), and Healthcare (7%) were the three largest sectors targeted for LBOs, collectively making up nearly 91% of all deals during the first three quarters of 2020.³

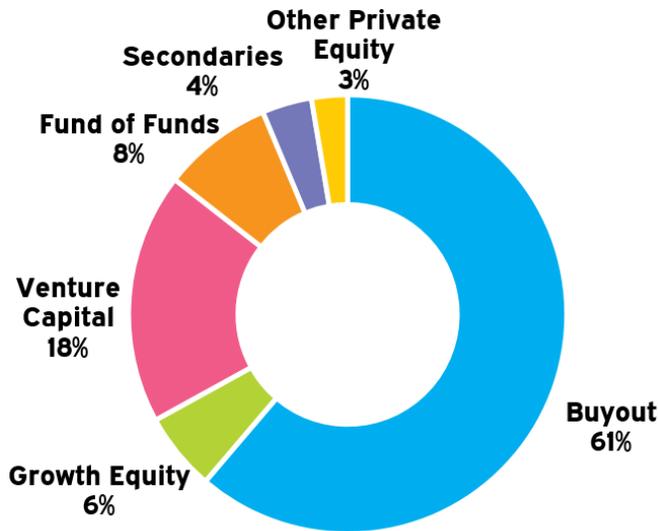
¹ Source: S&P.

² Source: Preqin.

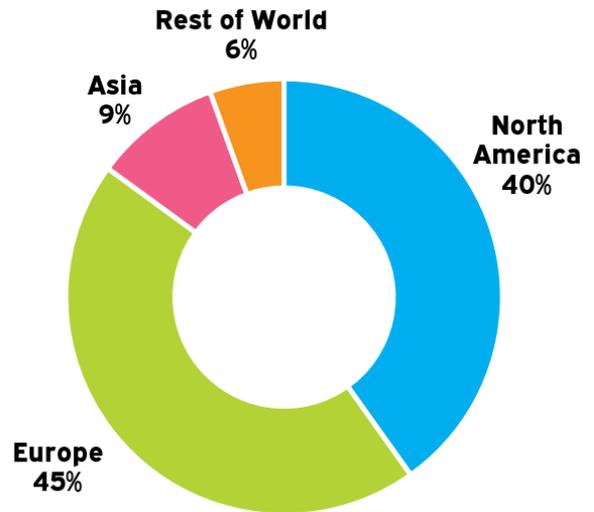
³ Source: S&P.



Capital Raised by Strategy¹



Capital Raised by Geography²



Buyout funds continued to be the most popular private equity strategy with 61% of all private equity capital raised dedicated to Buyout funds in the third quarter of 2020. Alternatively, Growth Equity strategies, as a proportion of total capital raised, decreased compared with the last quarter, falling from 16% in Q2 2020 to 6% in Q3 2020. Venture Capital also experienced a modest decline of 21% from last quarter, to 18%. Fund of Funds and Other Private Equity, which includes co-investment and hybrid vehicles, stayed relatively consistent at 8% and 3%, respectively. Secondaries decreased from 18% of capital raised to 4% since last quarter. Europe surpassed North America, with 45% of private equity capital raised in the third quarter, at 45%. Asia-focused funds decreased from 14% to 9% of aggregate capital raised. Overall, private equity investors favored commitments to Europe and Rest of World over North America and Asia compared to the previous quarter, as the COVID-19 pandemic continued to disproportionately affect North America in fundraising totals during the quarter.

¹ Source: Preqin.

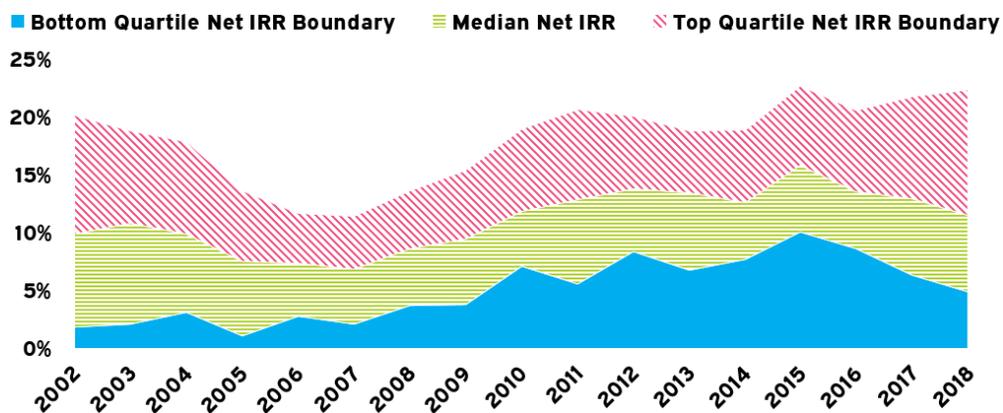
² Source: Preqin.



Top Quartile Private Equity Performance by Horizon¹

Horizon	Private Equity (%)	Buyout (%)	Venture Capital (%)	Fund of Funds (%)
1 Year to Sep-20	8.7	5.8	15.0	7.8
3 Years to Sep-20	13.4	11.4	18.0	12.1
5 Years to Sep-20	11.7	11.8	12.1	9.3
10 Years to Sep-20	14.2	14.2	16.0	12.1

Private Equity Performance by Vintage Year²



Recently published aggregate private equity trailing 3, 5, and 10-year period returns decreased slightly from the preliminary second quarter data with all of private equity generating an 8.7% IRR over the past year. One-year performance of Buyout, Venture Capital, and Fund of Funds has remained consistent between preliminary and published Q2 benchmark data. In general, performance has been strong in each vintage year since the Global Financial Crisis. Buyout and Venture funds have generally both performed well over the various horizons on an absolute basis, with Venture funds significantly outperforming Buyout funds over the past year. The spread between first and third quartile performance in private equity has grown consistently since the Global Financial Crisis; 2007 vintage funds reported a 10% spread while 2018 vintage funds reported a 22% spread.

¹ Source: Cambridge Associates.

² Source: Cambridge Associates.