

TO: Members of the Investment Committee, CalPERS
FROM: Meketa Investment Group
DATE: September 13, 2021
RE: Semi-Annual Private Equity Performance Review as of June 30, 2021

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 June 30, 2021¹ 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 further in the first half of 2021 with both the CalPERS’ Portfolio and the Policy Benchmark generating very strong 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 trails the Policy Benchmark for each time horizon below. 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 Program²	43.8	13.7	14.2	12.0
<i>Policy Benchmark³</i>	61.1	14.3	16.3	13.4
<i>Cambridge Associates All PE Global⁴</i>	54.2	20.9	18.6	14.4
<i>FTSE Global All Cap + 150 bp⁵</i>	61.1	14.3	15.6	11.3
Excess vs. Policy Benchmark	↓ -17.3	↓ -0.6	↓ -2.1	↓ -1.5
Excess vs. CA All PE Global	↓ -10.4	↓ -7.2	↓ -4.4	↓ -2.4
Excess vs. FTSE Global All Cap + 150 bp	↓ -17.3	↓ -0.6	↓ -1.4	↑ 0.7

¹ State Street’s CalPERS Private Equity performance analysis for the period ended June 30, 2021, 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 March 31, 2021. 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 June 30, 2021 are each reported with a one-quarter lag (i.e., values through March 31, 2021). 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 June 30, 2021 was \$38.8 billion, an increase of \$8.0 billion (net of cash flows) compared to the December 31, 2020 NAV of \$30.8 billion. The current NAV represents 8.3% of the Total Fund, compared to the 8.0% target. As we noted above, the Program's NAV is calculated based upon March 31, 2021 values, while the overall CalPERS portfolio includes publicly traded assets valued as of June 30, 2021. We would expect that when June 30, 2021 private equity values are received, the Program's NAV will have an additional uplift from March 31 values.

Strategy¹

	NAV (\$ mm)	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)
Buyouts	27,735	45.4	13.8	15.2	12.9
Credit	2,204	33.0	4.2	5.8	6.7
Growth/Expansion	6,044	46.9	16.4	17.7	13.1
Opportunistic	1,990	37.4	15.9	13.3	11.8
Venture	441	27.0	18.2	9.6	8.4
Other ²	358	NA	NA	NA	NA
CalPERS PE Program	38,772	43.8	13.7	14.2	12.0

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 3-, 5-, and 10-year 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.

Structure¹

	NAV (\$ mm)	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)
Customized Investment Accounts	6,822	39.5	14.7	13.7	9.7
Co-Investments / Direct	2,808	43.1	9.5	16.6	10.2
Fund of Funds / Secondaries	1,758	15.6	7.4	7.2	9.1
Funds	27,026	47.9	14.6	15.0	12.6
Other ²	358	NA	NA	NA	NA
CalPERS PE Program	38,772	43.8	13.7	14.2	12.0

The Funds portfolio is the largest portfolio by structure, and the key driver of overall performance. The CIA and Co-Investment portfolios are younger and will likely have some variation in performance until they develop more maturity. The Fund of Funds portfolio has underperformed across all time periods, in part due to their higher fee loads.

Performance by Geography³

	NAV (\$ mm)	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)
United States	27,310	47.2	13.9	14.0	11.9
Canada	143	44.3	22.7	21.2	15.1
Developed Asia	221	10.0	-32.4	-8.7	-3.6
Europe	8,171	44.5	18.1	19.8	15.2
Emerging Markets	2,569	20.5	5.2	7.7	8.7
Other ⁴	358	NA	NA	NA	NA
CalPERS PE Program	38,772	43.8	13.7	14.2	12.0

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. Emerging markets had a more limited uplift recently, and longer-term results are impacted by the prior use of fund of funds (with comparatively high fees) to gain exposure to the region.

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

² Includes currency and stock holdings.

³ Source: State Street.

⁴ Includes currency and stock holdings.

Implementation

For the first half of 2021, Staff completed 24 commitments totaling \$4.8 billion¹, and 50 commitments totaling \$13.8 billion from July 2020 through June 2021. Staff continues to increase their emphasis on no/low fee co-investments by leveraging CalPERS' size and scale. Additionally, Staff has looked to add exposure to Growth Equity and Mid-size Buyouts in order to complement the existing exposure in Large and Mega Buyouts.

Key Policy Parameters

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

Strategy	NAV ² (\$ mm)	Percent of Total NAV (%)	CalPERS Target (%)	Target Range (%)
Buyout	27,735	71.5	70	60-80
Credit	2,204	5.7	5	0-10
Growth/Expansion	6,044	15.6	15	5-20
Opportunistic	1,990	5.1	10	0-15
Venture	441	1.1	1	0-7
Other ³	358	0.9	NA	NA
Total Program	38,772	8.3⁴	8	+/- 4

Conclusion

The Private Equity portfolio's recent performance shows continued recovery from the COVID-19 pandemic as highlighted by the approximately \$8 billion of gains since our prior report. As we noted earlier, private asset class valuations tend to lag public markets, both down and up. 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 and identify attractive co-investments and separate managed accounts. The Program's investment pace remained strong and Staff has focused on Growth Equity and other strategies to complement the Large and Mega Buyout exposure.

¹ See Appendix for list of investments completed in the first half of 2021.

² Source: State Street.

³ Includes currency and stock holdings.

⁴ PE program NAV as a percent of total CalPERS portfolio as of 3/31/21.

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 first half of 2021, as well as some data and commentary on the private equity asset class for the first quarter of 2021.

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

SH/JC/SPM/jls

Attachment

CalPERS Private Equity Completed Investments – H1 2021

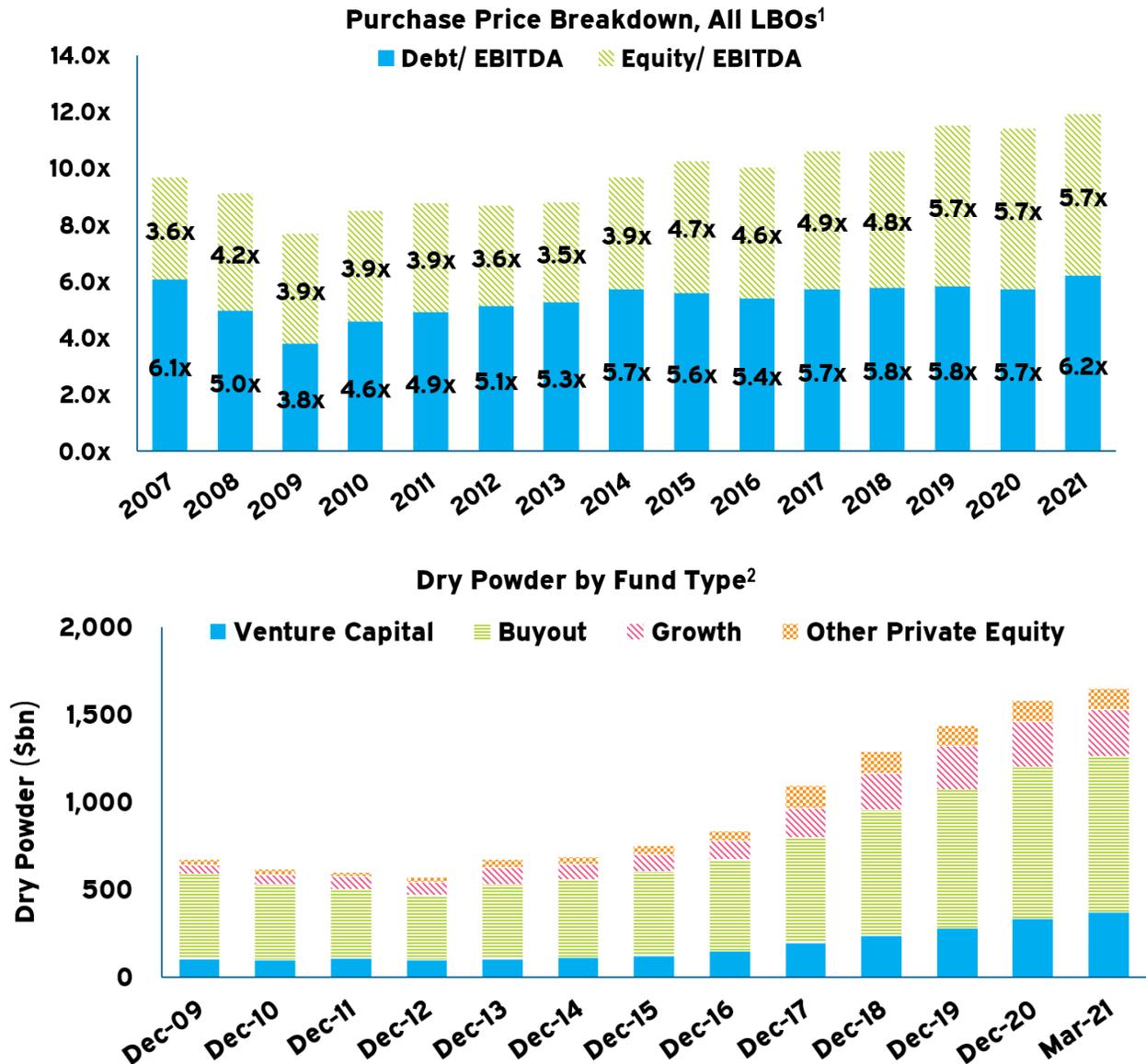
Investment	Date Signed	Geography	Strategy	Commitment (\$ mm)
Greenleaf Co-Invest Partners (CIA)	January 2021	Global	Buyout	600
Project Sunshine (Co-Investment)	January 2021	US	Buyout	29
Hellman & Friedman X	February 2021	US	Buyout	1,000
Berkshire Fund X	February 2021	US	Buyout	400
NM Pacific (CIA)	February 2021	US	Buyout	200
Project Pebble (Co-Investment)	February 2021	Asia	Growth Equity	90
Project North Star (Co-Investment)	February 2021	US	Buyout	50
TPG Golden Bear Partners (CIA)	March 2021	US	Buyout	200
Project Turbo (Co-Investment)	March 2021	US	Buyout	57
Co-Investment	March 2021	US	Buyout	86
GCP - Genstar Capital Partners X	March 2021	Global	Buyout	100
GCP - Opportunities X	March 2021	Global	Buyout	150
Whitney Global Partners (CIA)	April 2021	Global	Buyout	902
Bear Technology Fund (CIA)	April 2021	US	Growth Equity	100
Project Royal (Co-Investment)	April 2021	US	Buyout	50
Project Capitol (Co-Investment)	April 2021	US	Buyout	50
Project Alpine (Co-Investment)	May 2021	US	Buyout	63
Project Neeley (Co-Investment)	May 2021	US	Buyout	38
Providence Strategic Growth V	May 2021	US	Growth Equity	100
TA XIV, L.P.	May 2021	Global	Growth Equity	150
TA Select Opportunities Fund II	May 2021	Global	Growth Equity	50
Project Indigo (Co-Investment)	May 2021	US	Buyout	9
Project Jaguar (Co-Investment)	June 2021	US	Buyout	175
K5 Private Investors	June 2021	US	Buyout	150

Private Equity Market Commentary – Q1 2021

Global Fundraising¹

Fundraising activity for private equity funds in the first quarter of 2021 decreased compared to the previous quarter, with \$188.5 billion raised, but still marks the highest fundraising total for Q1 over the last five years. First quarter fundraising in 2021 is up 16% from the same period last year. The number of fund closings also increased 5% to 452 funds, relative to Q1 2020. In general, fundraising is typically slower during the first quarter as managers are generally eager to close funds before year end. The immediate impact of COVID-19 on global financial markets prompted some investors to reassess their allocations to private equity, but it appears fundraising has recovered to some extent in the past two quarters. That said, the annual growth rate of private equity fundraising has been declining since 2017, so a longer-term slowdown could be the prevailing trend. Fundraising also demonstrated signs of further capital consolidation with larger, more established managers gradually increasing their market share. The average size of funds still in the market has been declining, indicating that smaller funds are hardest hit by the challenging conditions and have had difficulty establishing new LP relationships.

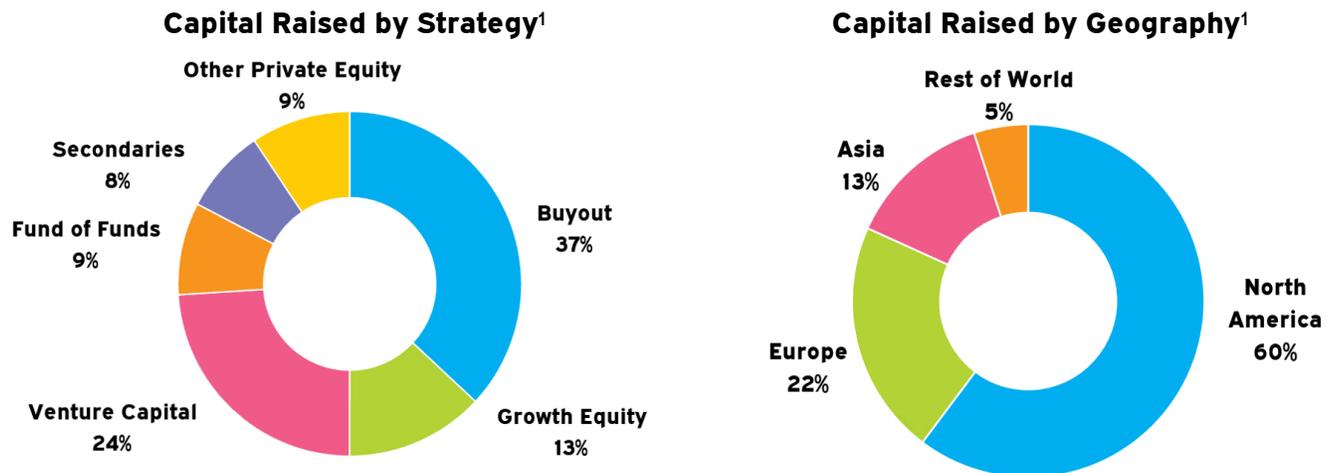
¹ Source: Preqin.



Private equity purchase price multiples in the first quarter of 2021 increased compared to 2020 and extended all-time highs to 11.9x. Equity contribution (relative to total purchase price) decreased slightly to 48%, causing total purchase prices to comprise slightly more debt than equity. Elevated prices during the first quarter were supported by a continued record level of dry powder, which surpassed the year-end level in 2020. 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 of the high levels of capital competing for deals. TMT (48%), Retail (13%), Building Materials (7%), and Healthcare (7%) were the four largest sectors targeted for LBOs, collectively making up approximately 75% of all LBO deals during the first quarter of 2021.¹

¹ Source: S&P.

² Source: Preqin.



Buyout funds continued to be the most popular private equity sub-strategy category, despite a decrease from 44% of all private equity capital raised in 2020 to 37% dedicated to Buyout funds in the first quarter of 2021. Alternatively, Venture Capital strategies, as a percentage of total capital raised, increased from 2020, rising from 21% to 24% in the first quarter of 2021. Growth Equity funds also increased from 11% to 13%. Secondaries strategies experienced a decrease in capital raised from 13% in 2020 to 8% in the first quarter of 2021. Other Private Equity, which includes co-investment and hybrid vehicles, increased from 3% in 2020 to 9% in Q1 2021. Fund of Funds stayed relatively consistent through the first quarter.

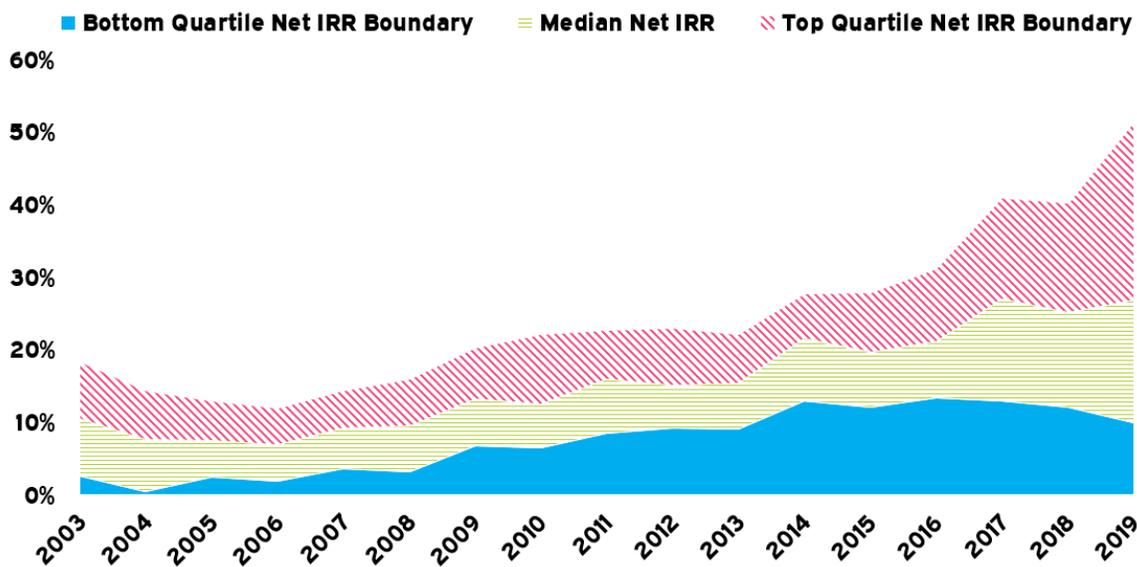
North America-focused vehicles continued to be a majority of all funds raised during the first quarter, representing 60% of capital raised. This is relatively consistent with the prior year, despite private equity investors favoring commitments to Europe in Q3 2020, as the COVID-19 pandemic disproportionately affected North America in fundraising totals during the middle of last year. The geographic diversification in fundraising totals during the first quarter of 2021 closely mirrored that of 2020 with Europe-focused funds remaining at 22% of capital raised, Asia-focused funds decreasing slightly from 15% to 13%, and Rest of World inching from 4% to 5%. Overall, private equity investors continued to favor commitments to developed markets in North America- and Europe-focused funds over Asia and Rest of World during the first quarter of 2021.

¹ Source: Preqin.

Private Equity Performance by Horizon¹

Horizon	Private Equity (%)	Buyout (%)	Venture Capital (%)	Fund of Funds (%)
1 Year to 3/2021	58.0	47.0	81.9	65.2
3 Years to 3/2021	22.8	17.9	32.9	22.9
5 Years to 3/2021	19.7	17.8	23.6	17.1
10 Years to 3/2021	14.9	13.7	19.0	12.6

Private Equity Performance by Vintage Year²



Recent private equity returns have been very strong, with all Private Equity generating a 58.0% IRR over the past year following the outbreak of the COVID-19 pandemic in Q1 2020. One-year performance of Venture Capital was particularly impressive, at an 81.9% IRR. In general, performance has been strong in each vintage year since the Global Financial Crisis. Buyout and Venture Capital funds have generally both performed well over the various horizons on an absolute basis, with Venture funds significantly outperforming Buyout funds over the one-year and three-year time horizons. The spread between first and third quartile performance in private equity has grown consistently since the Global Financial Crisis; 2007 vintage funds reported a 10.7% spread while 2019 vintage funds reported a 41.5% spread.

¹ Source: Cambridge Associates Preliminary Global Pooled Returns as of 3/31/2021. Buyout, Venture Capital, and Growth Equity returns are published. Fund of Funds and Secondaries data is preliminary.

² Source: Cambridge Associates Preliminary Global Quartile Returns as of 3/31/2021. Buyout, Venture Capital, and Growth Equity returns are published. Fund of Funds and Secondaries data is preliminary.