

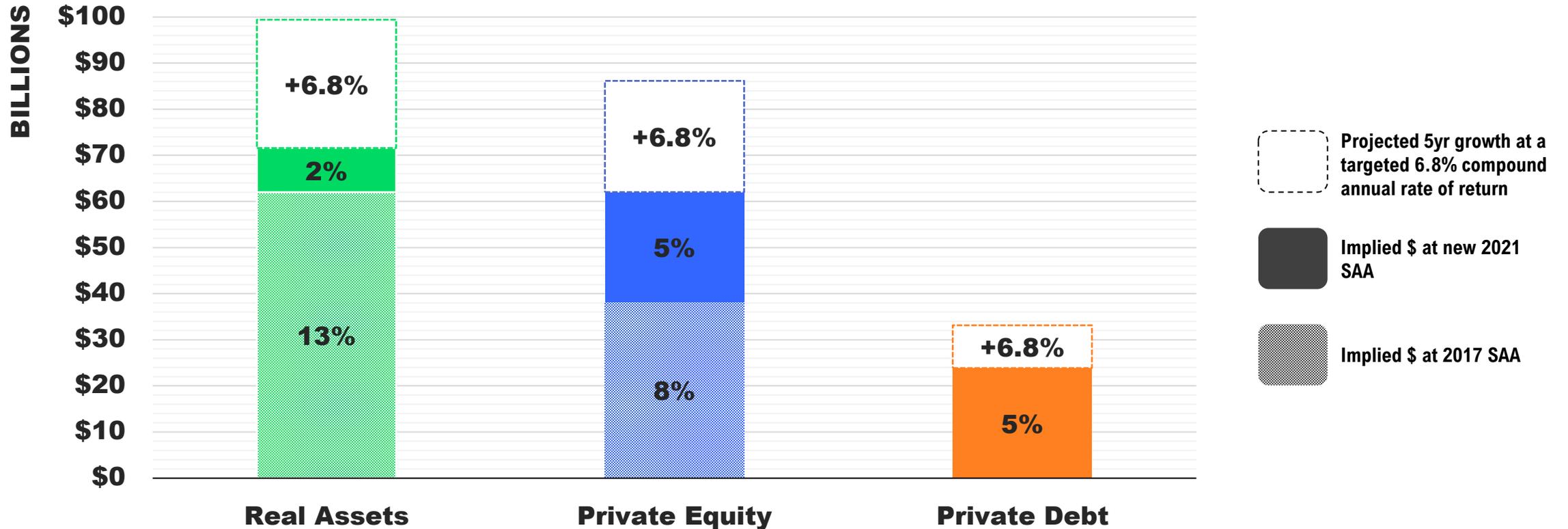
Revisions to the Total Fund Policy- Private Assets First Reading

Nicole Musicco, Greg Ruiz, Sarah Corr, Amy Deming

Agenda

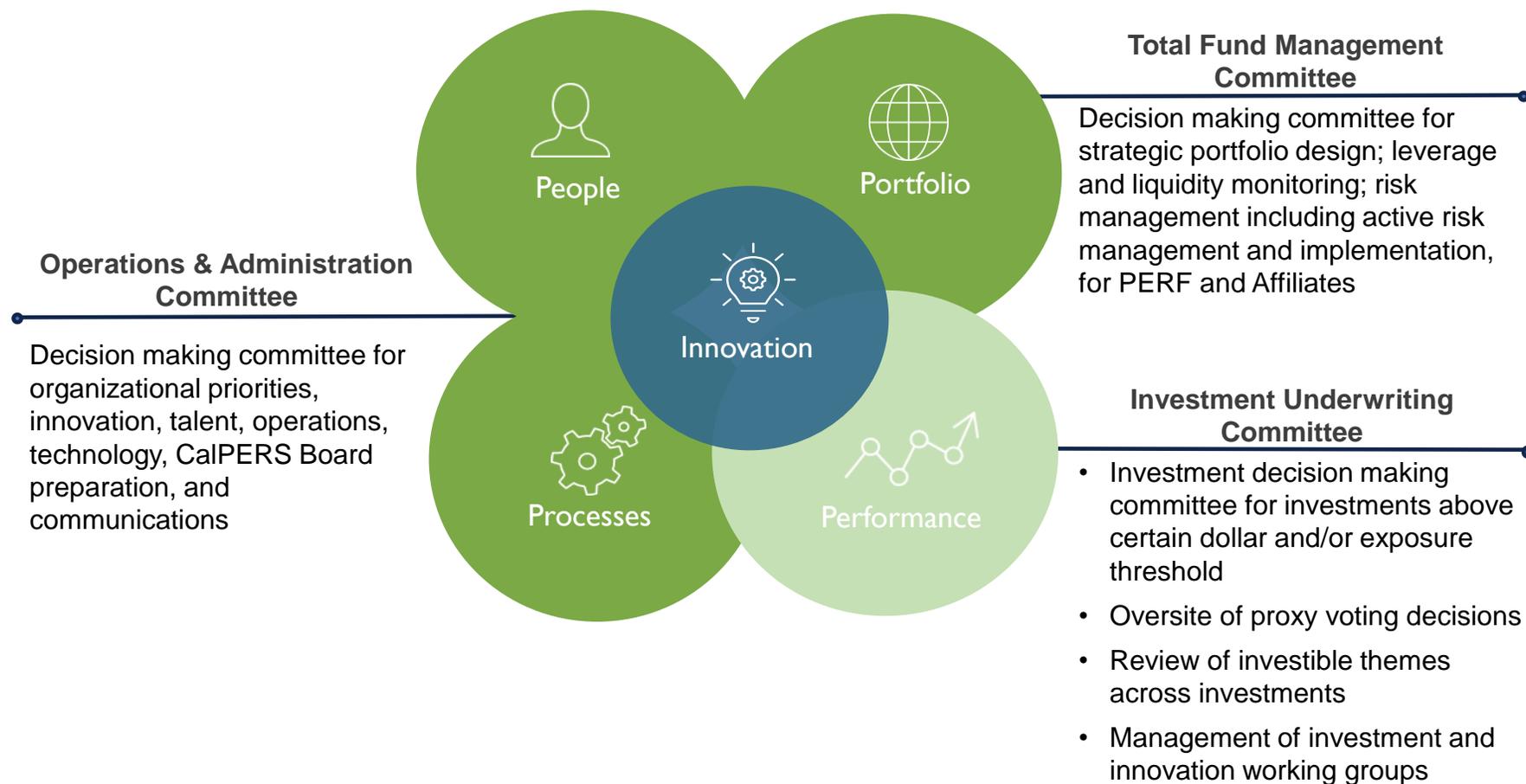
- **CIO Overview**
- Policy Update by Program
 - Private Equity
 - Real Assets
- Policy Changes Overview

New SAA requires significant deployment of capital



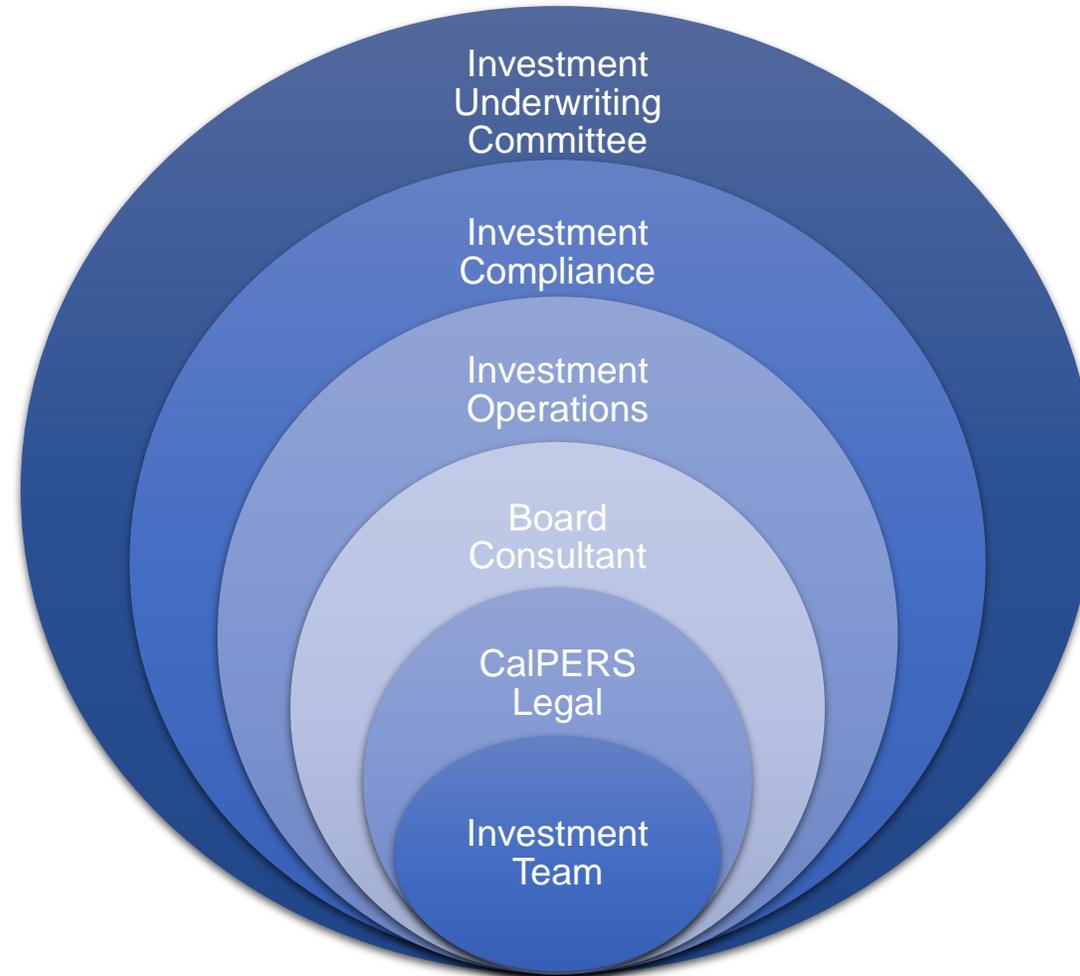
\$Billions calculated using PERF NAV at the time of the 2021 ALM-Strategic Asset Allocation

Enhanced Governance Framework



Program Oversight

6 teams including Board Consultants, performing pre- & post- deal oversight functions



Board Reporting and Transparency

As deals are sourced, evaluated, negotiated, and closed, existing reports will continue to provide transparency to the Board.

Deal Pipeline Information

- Strategy
- General Partner
- Anticipated sizing
- Transaction status

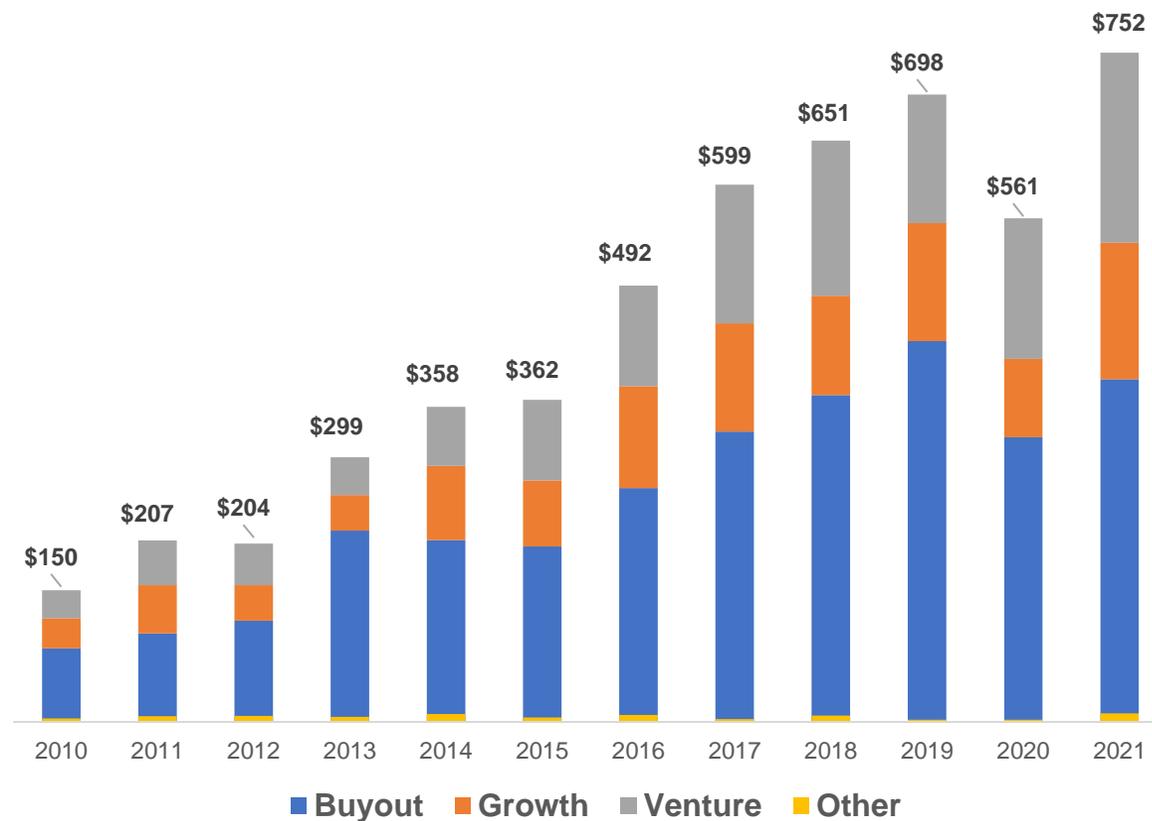
Post-closing Information

- Key economic terms
- Analysis related to the transaction
- General Partner information

Agenda

- CIO Overview
- **Policy Update by Program**
 - **Private Equity**
 - Real Assets
- Policy Changes Overview

Global Private Equity Fundraising by Asset Subclass, \$billions

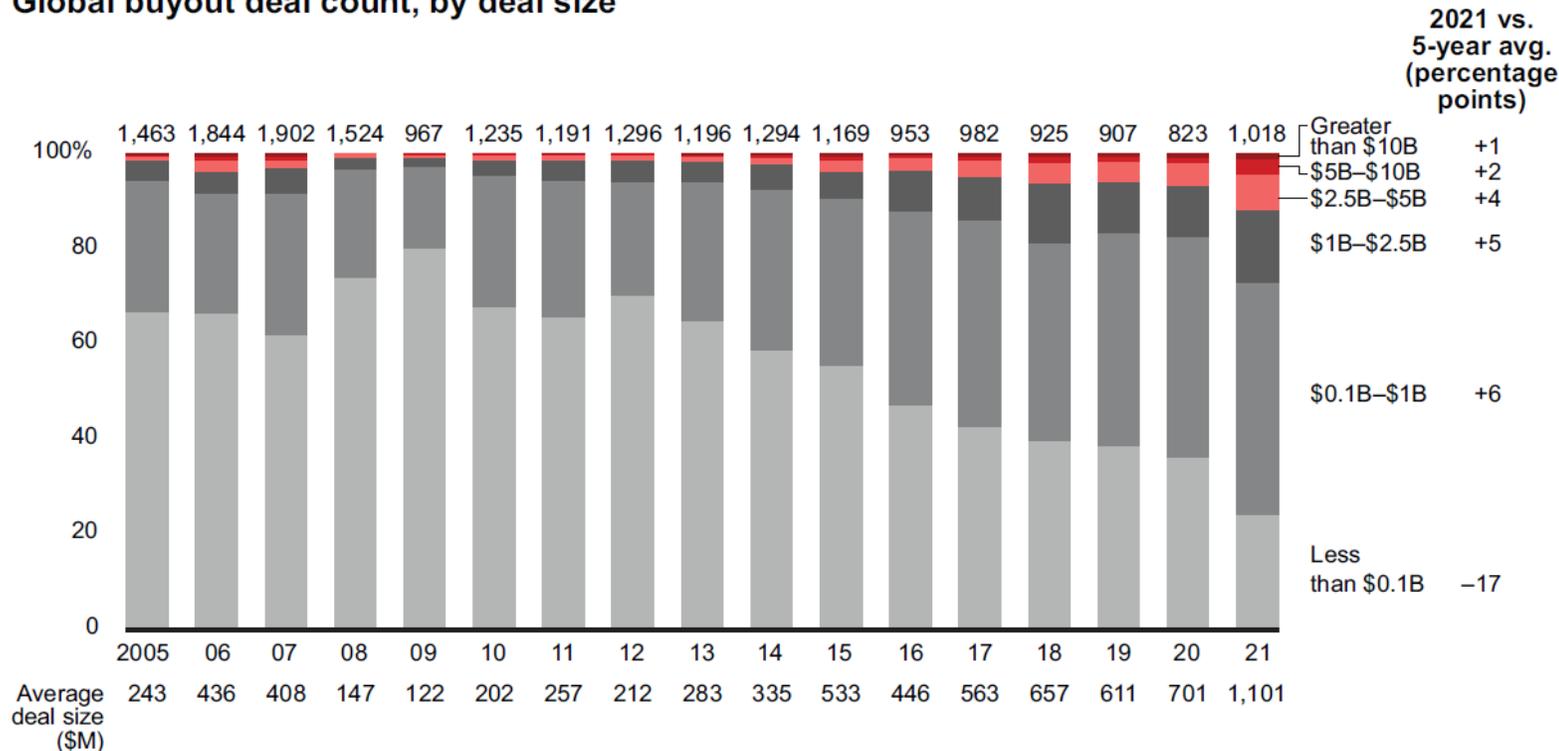


Source: Preqin. Excludes secondaries, fund-of-funds, and co-investment vehicles

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

Private Equity Industry and Deal Size Growth

Global buyout deal count, by deal size

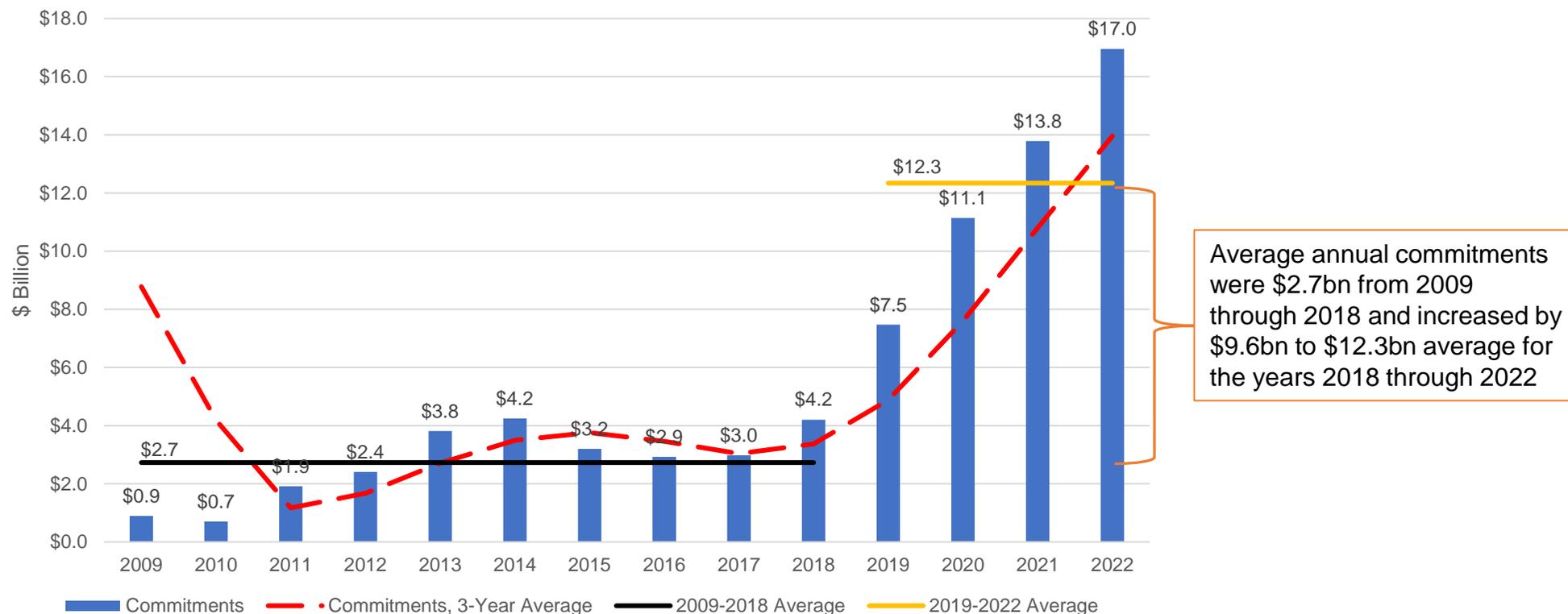


Notes: Includes disclosed deals only; includes add-ons; excludes SPACs; excludes loan-to-own transactions and acquisitions of bankrupt assets; based on announcement date; includes announced deals that are completed or pending, with data subject to change; average deal size calculated using deals with disclosed value only
 Source: Dealogic

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)

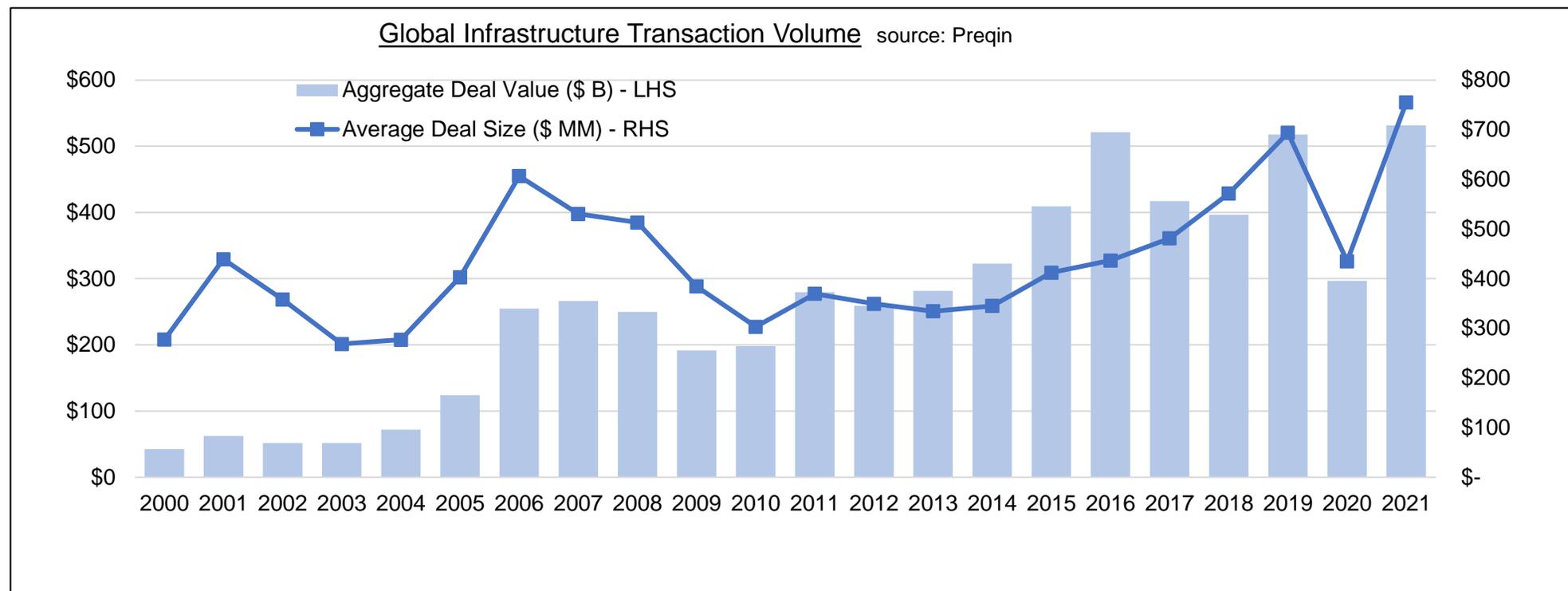


- Despite the expansion of Total Fund and the private equity industry, CalPERS' capital commitments have averaged \$2.7B/year from 2009 – 2018 leading to persistent under-exposure to private equity relative to target allocation
- Expected annual commitment pacing of \$15B+ required to achieve current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

Agenda

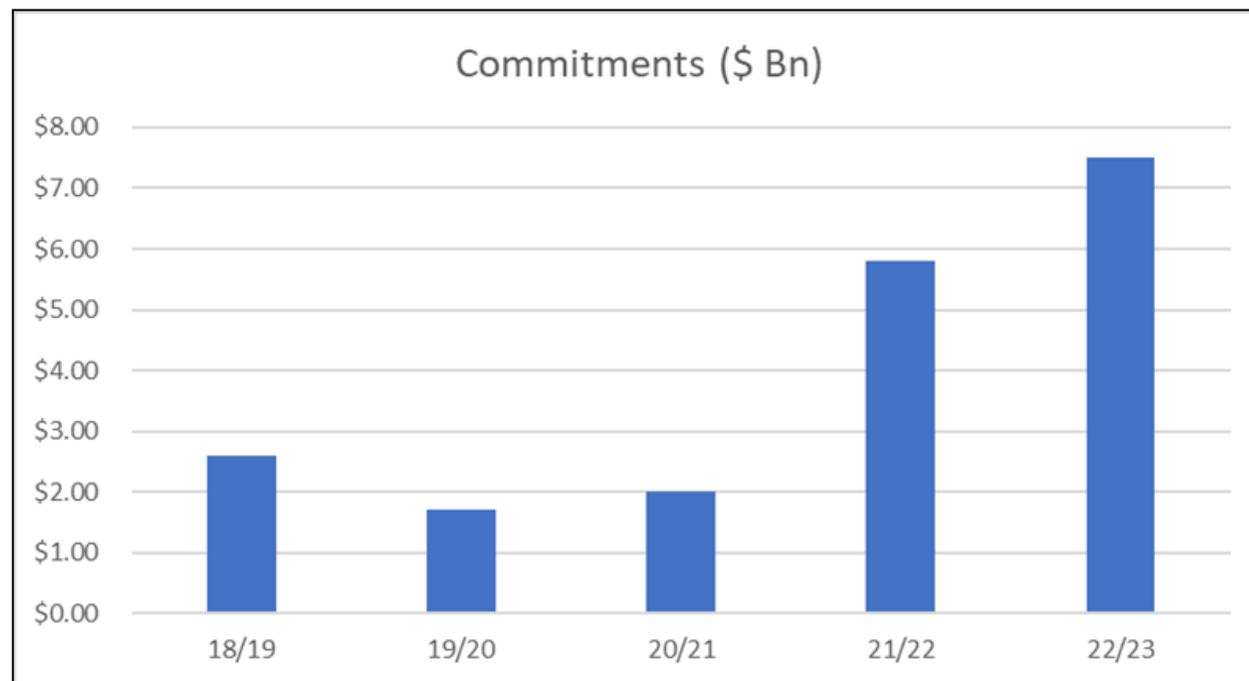
- CIO Overview
- **Policy Update by Program**
 - Private Equity
 - **Real Assets**
- Policy Changes Overview

Market Growth of Global Infrastructure



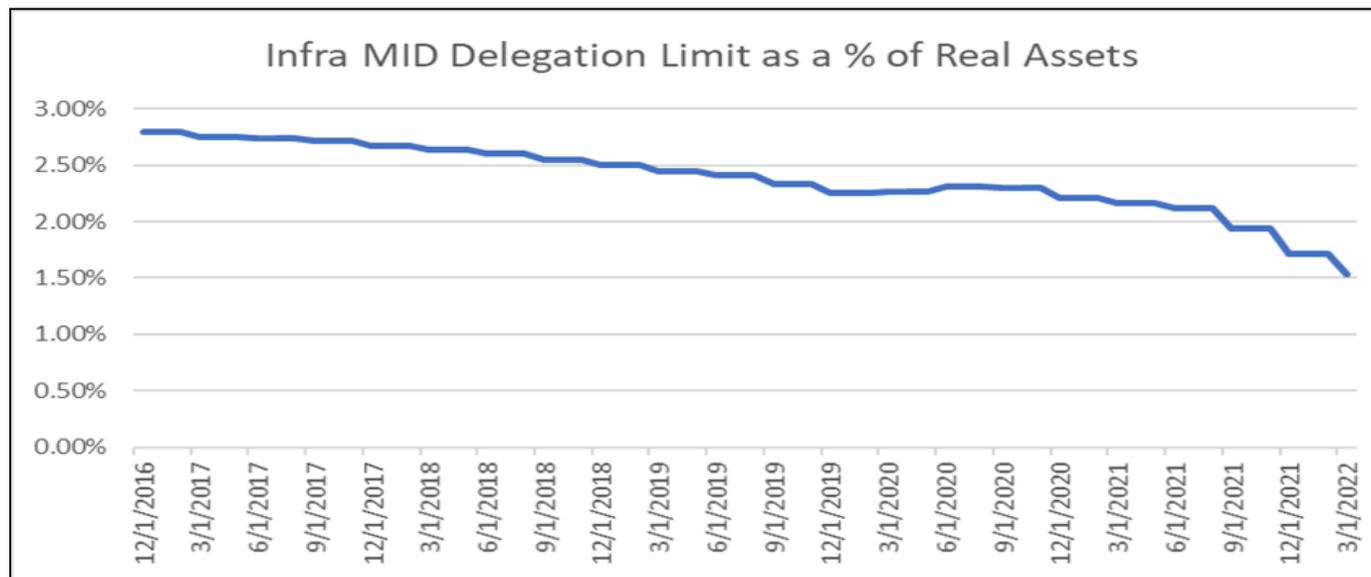
- Infrastructure transaction volume has exceeded \$500 billion in three of the past six years
- Larger equity checks are required to fund the acquisitions

Growth of CalPERS Infrastructure Program



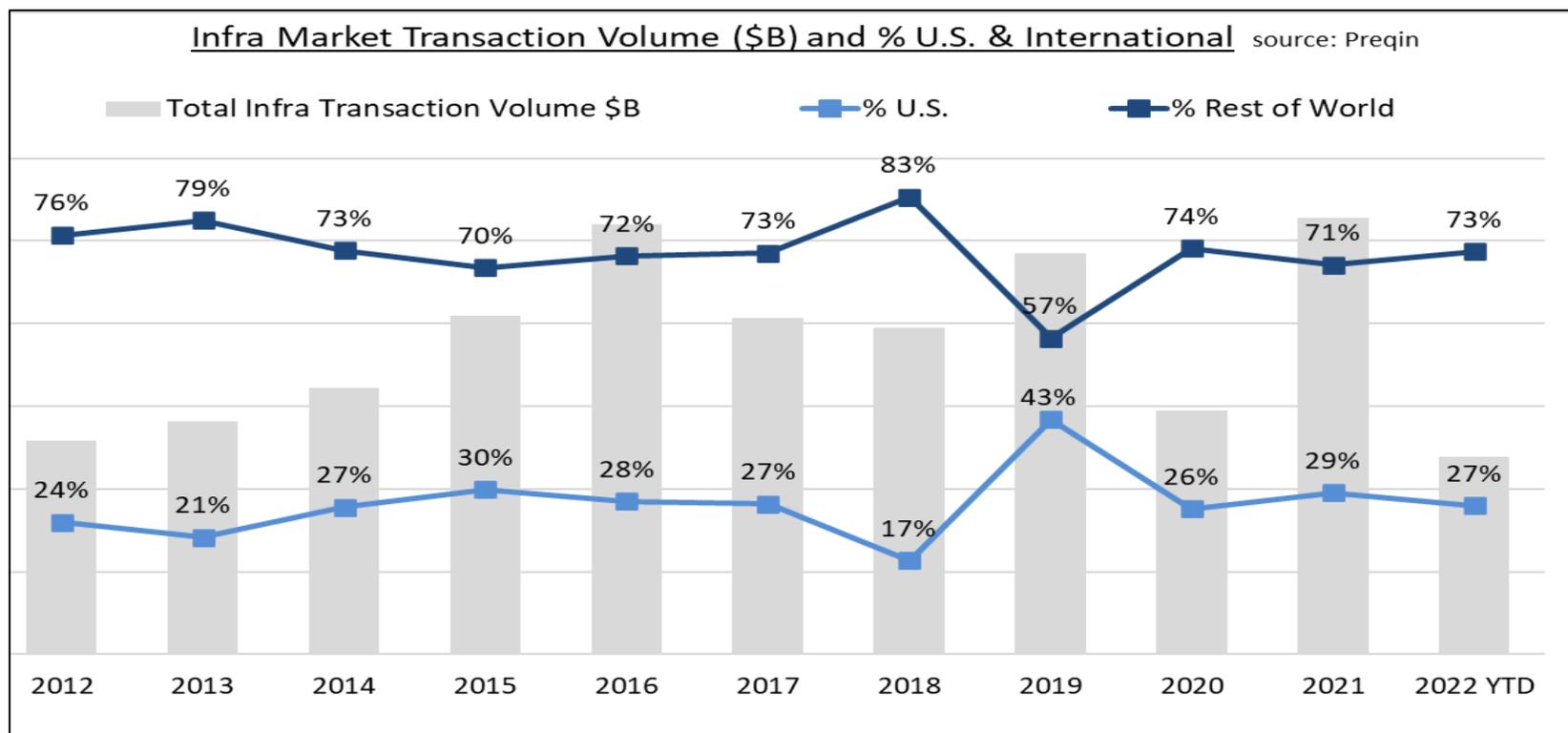
- Consistent with the Real Assets Strategic Plan, growth of the Infrastructure program has been a key focus for the past two years
- To maintain the new SAA target for Real Assets, ~\$5B per year will need to be committed to Infrastructure investments

Infrastructure Delegation as a % of Real Assets Program



- Current delegation levels relative to the size of the Infrastructure Program are decreasing, negatively impacting the ability to scale the program to the required SAA levels

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

Agenda

- CIO Overview
- Policy Update by Program
 - Private Equity
 - Real Assets
- **Policy Changes Overview**

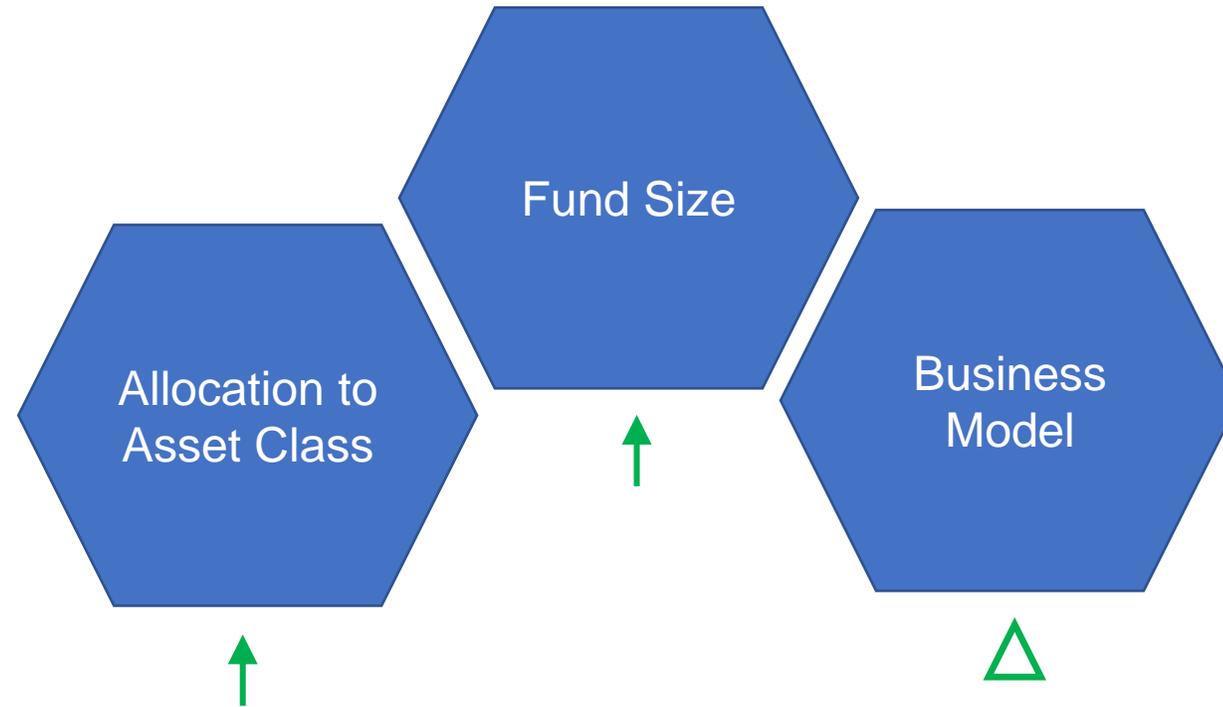
Four areas of proposed policy changes- First Read

1. Staff Delegation Limits
2. Prudent Person Opinions (PPOs)
3. Private Equity Program
4. Real Assets Program

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
- Because the Investment Underwriting Committee will provide a central point of oversight, we no longer need the Managing Investment Director fiscal year limits

3 Factors Influence Delegation Limits



Delegation limits are very low relative to the NAV

PE Fund Delegation Limit as a % of Private Equity NAV



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

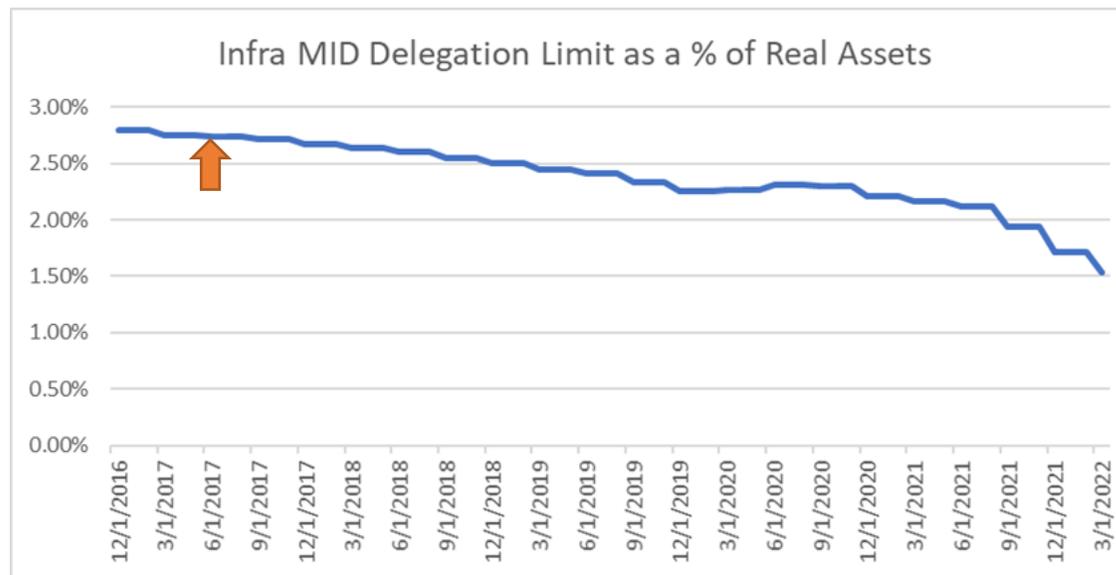
PE Co-Invest Delegation Limit as a % of Private Equity NAV



Co-investment is a strategic priority

← Proposed delegation limits

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

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-Investment Flexibility

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

2. Ability to scale

- Increase the committed capital limit per General Partner
- Increase the percentage per-fund investment limit

3. Diversify the portfolio across our Middle Market, Growth, and Venture segments

- Modify strategy allocation targets and ranges to achieve greater diversification, with a marginal shift to growth and venture strategies

Real Assets Program

1. Modify infrastructure geographic limits to increase international exposure

Next Steps

- This item is a first read
- Solicit Investment Committee feedback on the potential changes
- Incorporate the feedback
- The policy changes will be brought back for a second read as an action item in November to seek the Committee's review and approval