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MEMORANDUM

TO: Members of the Investment Committee, CalPERS
FROM: Meketa Investment Group
DATE: June 10, 2024
RE: Annual Program Review, inclusive of Quarterly Private Equity Performance Review, as of March 31, 2024

In our role as the Board Private Equity Consultant, Meketa Investment Group ("Meketa") conducted an annual performance review of the Private Equity Portfolio ("the Portfolio") for the period ended March 31, 2024[1] 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 and resources during the time-period.

Performance

Similar to the prior report, Private Equity continued to generate muted returns relative to the Policy Benchmark for the one-year period ending March 31, 2024, as valuations in the public markets continued to climb through the first quarter of the year. The performance of the Portfolio significantly trailed the Policy Benchmark over the prior one-year period as private market valuations lag public markets performance. However, we note that the Portfolio's performance continues to outpace the Policy Benchmark for the 3-year and 10-year time horizons as shown below.

Private Equity Performance as of March 31, 2024[1]

	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)
CalPERS PE Portfolio[2]	**10.1**	**11.7**	**12.4**	**11.1**
Policy Benchmark[3]	*24.3*	*7.6*	*13.8*	*11.0*
FTSE Global All Cap + 150 bp[4]	*24.3*	*7.6*	*13.8*	*9.9*
Excess vs. Policy Benchmark	↓ -14.2	↑ 4.1	↓ 1.4	↑ 0.1
Excess vs. FTSE Global All Cap + 150 bps	↓ -14.2	↑ 4.1	↓ 1.4	↑ 1.2

[1] State Street's CalPERS Private Equity performance analysis for the period ended March 31, 2024, 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] 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 prior reports, private equity performance is reported with a significant delay compared to publicly traded assets. As such, the Portfolio and the Policy Benchmark performance as of March 31, 2024 are each reported with a one-quarter lag (i.e., values through December 31, 2023). 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 March 31, 2024 was $72.6 billion, an increase of $6.1 billion (net of cash flows) compared to the March 31, 2023 NAV of $55.1 billion. The current NAV represents 14.7% of the Total Fund. In March, the Board approved an increase to the Private Equity target allocation from 13% to 17%. As we noted above, the Portfolio's NAV is calculated based upon December 31, 2023 values, while the overall CalPERS portfolio includes publicly traded assets valued as of March 31, 2024.

Performance by Strategy[1]

	NAV ($M)	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)
Buyouts	48,926	10.8	13.4	13.3	12.4
Credit	1,059	5.8	7.5	4.9	3.5
Growth/Expansion	15,789	9.6	7.7	11.7	11.2
Opportunistic	6,017	7.8	11.1	12.6	13.1
Venture	795	-2.1	4.6	11.6	5.4
Other[2]	40	NA	NA	NA	NA
CalPERS PE Portfolio	**72,626**	**10.1**	**11.7**	**12.4**	**11.1**

The total Portfolio's one-year performance was significantly higher than at the same time last year (10.1% vs. -4.7% previously), despite the Portfolio performing below the public benchmarks. The table above highlights that Buyout strategies are a key return driver for the Portfolio, representing approximately 67% of the NAV and providing attractive returns overall, both recently and over longer time periods. Growth/Expansion and Opportunistic strategies each generated positive returns over the trailing one-year period after each produced negative returns for the trailing one-year period last year. Although much improved from last year, Venture continued to produce negative returns over the trailing one-year period. We note that Venture is a small portion of the Portfolio at just over 1% of NAV.

1 Source: State Street. All trailing returns included in this report are time-weighted.
2 Includes currency and stock holdings.

One Year Relative Performance[1]	Relatively Stronger	Relatively Weaker
Strategy	--	Venture Capital, Credit, Opportunistic
Structure	Co-Invest/Direct, CIA[2]	Fund of Funds/Secondaries
Geography	Developed Asia	Emerging Markets
Vintages	2017 – 2022	2006 – 2016

The table above outlines areas of stronger or weaker relative performance of the Portfolio during the trailing 1-year time period. Areas where performance was near the average or not meaningful are not included in the table above.

Performance by Structure[3]

	NAV ($M)	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)
Customized Investment Accounts	23,743	11.5	11.4	13.0	10.1
Co-Investments / Direct	7,190	13.7	13.7	11.4	9.2
Fund of Funds / Secondaries	1,476	3.9	10.0	6.8	8.7
Funds	40,177	9.1	11.5	12.7	11.4
Other[4]	40	NA	NA	NA	NA
CalPERS PE Portfolio	**72,626**	**10.1**	**11.7**	**12.4**	**11.1**

The Portfolio's performance over the last year has been driven primarily by Funds, the largest exposure by structure, while CIAs and Co-Investments/Direct Investments generated the highest returns for the trailing one-year period, adding to overall performance. The Fund of Funds portfolio has underperformed across all longer-term time periods, in part due to their higher fee loads.

[1] Source: State Street. All trailing returns included in this report are time-weighted.
[2] Customized Investment Account.
[3] Source: State Street. All trailing returns included in this report are time-weighted.
[4] Includes currency and stock holdings.

Performance by Geography[1]

	NAV ($M)	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)
United States	55,574	10.7	12.7	12.9	10.9
Developed International	15,438	9.2	11.0	14.5	14.5
Emerging Markets	1,574	1.2	-0.3	0.9	5.6
Other[2]	40	NA	NA	NA	NA
CalPERS PE Portfolio	**72,626**	**10.1**	**11.7**	**12.4**	**11.1**

While the Portfolio has been primarily driven by the US investments, Developed International investments (primarily in Europe) have been a strong contributor to returns over longer time periods. Emerging Markets still significantly trails other geographies but returns for the trailing one-year period remained positive for the second consecutive quarter. The longer-term underperformance in Emerging Markets is partially impacted by the prior use of Fund of Funds (with comparatively high fees) initially used to gain exposure to the region.

Implementation

For the trailing 12 months ending March 31, 2024, Staff completed an aggregate of $18.9 billion of new commitments, which includes $7.4 billion of investments under previously approved CIAs[3]. During this time, Staff completed 55 new fund commitments, one fund-like CIA, and seven discretionary co-investments. In addition to the $18.9 billion of commitments above, Staff completed $11.2 billion of new CIAs that are expected to draw capital over a multi-year time frame. Overall, during the 12 months ending March 31, 2024, Staff deployed approximately 50% of the capital in no-, or low-fee investment vehicles. From a strategy perspective, Staff has continued to add exposure to Growth/Expansion and Venture to complement the existing exposure in Large and Mega Buyouts.

As part of a comprehensive update, the Board approved several policy changes that provided Staff with additional flexibility to meet the private equity allocation target. These included: increasing delegated authority limits; expanding the range of co-investment sources; modifying the use of PPOs in co-investments; raising the limits on the percent ownership stake CalPERS can take in certain vehicles; and adjusting the private equity strategy ranges and long-term targets. These changes are being utilized to expand the investment opportunity set for CalPERS.

Since Board approval, we have been monitoring the impact of these policy changes and we note that some investments were executed in compliance with the updated policy that represented expansion of authority from the prior policy. We do not have material concerns about any of the investments or the expansion of policy limits that were utilized to consummate these investments.

[1] Source: State Street.
[2] Includes currency and stock holdings.
[3] Note that CIAs are typically drawn over multi year periods. Also, CIAs may not be being fully invested as CalPERS maintains opt out rights or otherwise not fully deployed.

Key Policy Parameters

The Portfolio is compliant with all key parameters related to strategy diversification, as demonstrated in the table below. The Portfolio is above the asset allocation target of 13% (increased to 17%) but remains within the range (+/- 5%).

Strategy	NAV[1] ($M)	Percent of Total NAV (%)	CalPERS Target (%)	Target Range (%)
Buyout	48,926	67.4	65	55 - 80
Credit	1,059	1.5	0	0 - 10
Growth/Expansion	15,789	21.7	25	5 - 30
Opportunistic	6,017	8.3	4	0 - 10
Venture	795	1.1	6	0 - 12
Other[2]	40	0.1	NA	NA
Total Portfolio	**72,626**	**14.7[3]**	**13[4]**	**+/- 5**

Staffing and Resources

As of May 1, 2024, the Private Equity group had 43 approved positions, with 34 staff and nine openings. This compares to 35 staff at the end of the last fiscal year. The Program is currently recruiting an Investment Director ("ID"), five Investment Officer ("IO") II, and one IO I. Since May 1, 2023, the Private Equity group has made 10 promotions and six professionals have left the team. Anton Orlich continues to lead the Private Equity Program as the Managing Investment Director after taking over from Greg Ruiz who resigned in November 2022. The remainder of Staff comprises one Investment Director, eight Investment Managers, six Associate Investment Managers, and 13 Investment Officers (I, II, and III), among others.

While we believe the staffing levels are sufficient to execute the current investment strategy, we note there are several open positions currently. Additionally, the Program will likely need further additions to Staff as well as an expansion of skills to identify, execute, and monitor an increasingly complex portfolio.

1 Source: State Street.
2 Includes currency and stock holdings.
3 PE portfolio NAV as a percent of total CalPERS portfolio as of March 31, 2024.
4 In March 2024, the Board approved a 17% target allocation (effective July 2024) for the Portfolio.

Conclusion

The Portfolio continues to show strong recent performance despite trailing the Policy Benchmark over the last twelve months. The Portfolio's performance continues to outpace the Policy Benchmark for the 3-year and 10-year time horizons. Additionally, the Portfolio, as a percentage of CalPERS' total portfolio, is slightly above CalPERS' target of 13%, to which, as previously noted, the Board has approved an increase to 17%. The recent increase in values corresponds with the broader market recovery, and the Portfolio's long-term asset growth continues to be driven by both strong underlying performance and Staff's activities to enhance the Portfolio by sourcing attractive investments with high conviction managers. Staff has continued to focus on increasing allocation to co-investments and adding portfolio diversification through identification of high-quality managers in mid-market buyout, growth equity, and venture strategies.

We note that the Staff has been executing on the Private Equity Strategic Plan, specifically:

→ Increasing capital deployment – Staff has been committing over $15 billion per year over the last two years, which is in line with investment targets communicated by Staff. This recent commitment pace compares to $3 billion to $5 billion per year in the 2016 to 2018 timeframe.

→ Increasing cost efficiency – No-/low-fee co-investments and Customized Investment Accounts are an important and growing portion of the Portfolio. In the last 12 months, 50% of investment capital has been deployed through no-/low-fee direct co-investments and co-investments executed under CIAs.

→ Adding diversification to the Portfolio – Staff has been adding more Venture, Growth Equity and Mid-Market Buyout strategies to complement the Portfolio's Large- and Mega-Buyout exposure.

→ Maintaining and enhancing relationships with high quality managers – Staff has been able to invest meaningful capital with highly sought out managers.

CalPERS has made substantial progress in building and diversifying the portfolio. Staff's continued focus on deploying capital through lower cost investment structures will continue to help mitigate overall fees.

The Appendix includes some data and commentary on the private equity asset class for the fourth quarter of 2023.

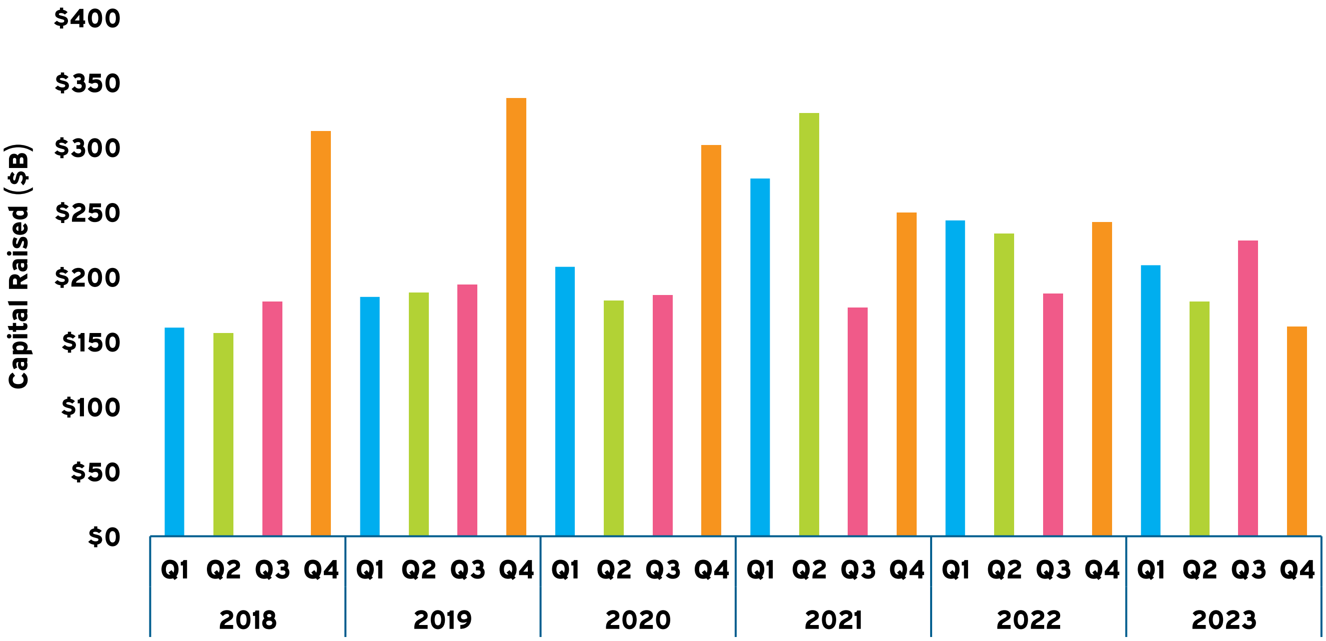
Please do not hesitate to contact us if you have questions or require additional information.

SH/LR/JM/SPM/JC/nca

Attachments

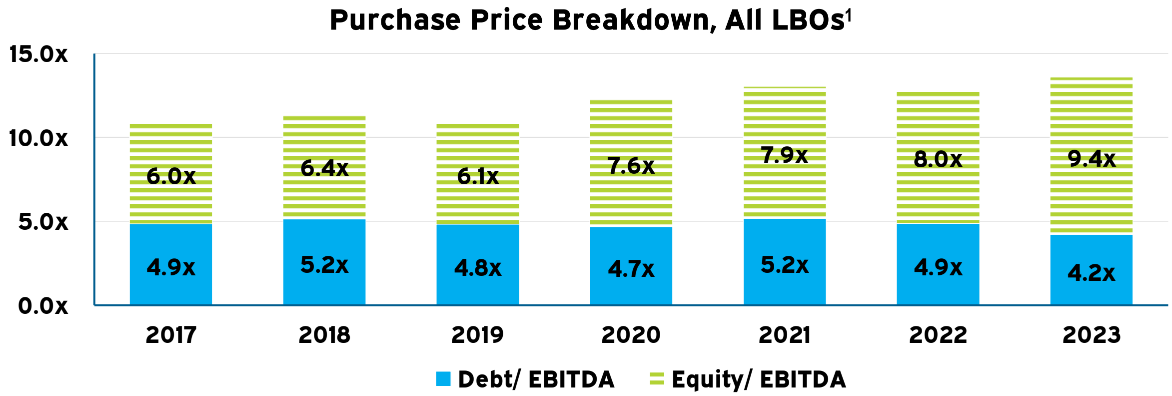
Private Equity Market Commentary – Q4 2023

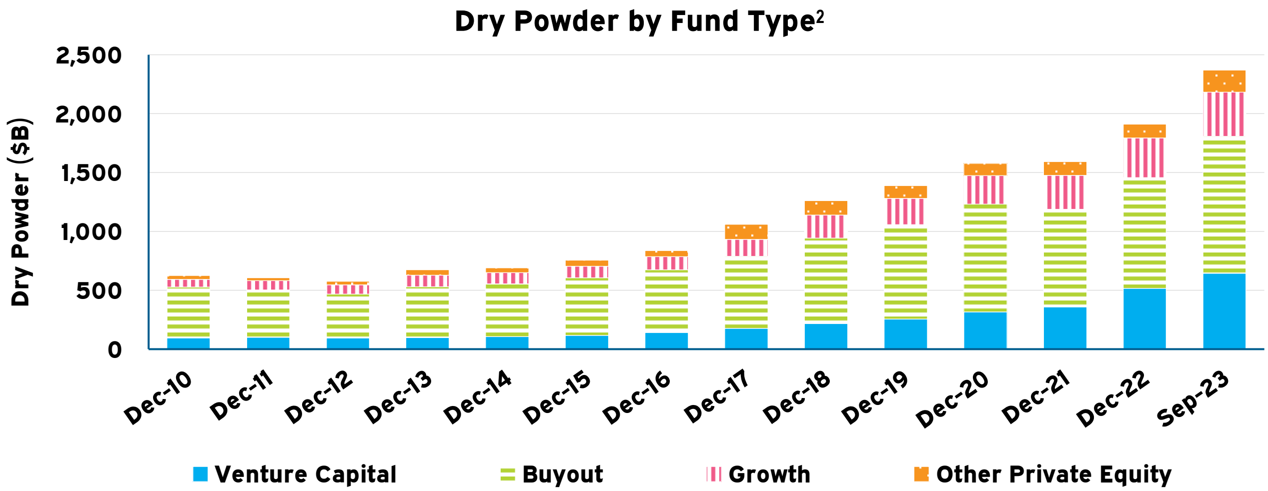
Global Fundraising[1]



Fundraising activity for private equity funds in the fourth quarter of 2023 decreased by 29% compared to the previous quarter, with $162 billion raised, and represents the lowest amount of capital raised for a quarter in over five years. The fourth quarter showed continued signs of moderation in the private equity fundraising market as the slowdown in private equity exit volumes has weighed on the amount of capital that some LPs have available to deploy. While the overall equity market backdrop has improved sentiment, the proportion of investors looking to commit smaller amounts of fresh capital to private equity over the next 12 months is increasing. A total of 66% of private equity investors tracked by Preqin plan to deploy less than $50 million, an increase from 62% in the preceding year. According to Preqin data, there were over 10,600 funds raising in the market as of January 2024, with aggregate capital targeted of over $1.6 trillion. Both metrics are pushing record highs, and therefore, paint a continued picture of highly competitive fundraising. As a result, funds have been spending more time on the road than ever, with 61% of private equity funds (and 63% of venture capital funds) closed through Q4 in 2023 having been in market for more than 18 months compared to an average of 41% (and 37% for venture capital) from 2018-2022. Overall, with fewer funds closing on larger amounts of capital, the fundraising environment continues to point towards a continuation of the recent trend for consolidation.

[1] Source: Preqin.

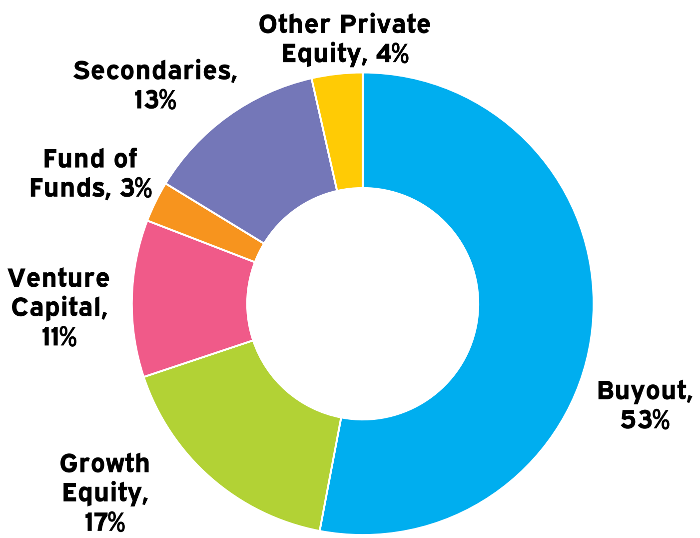




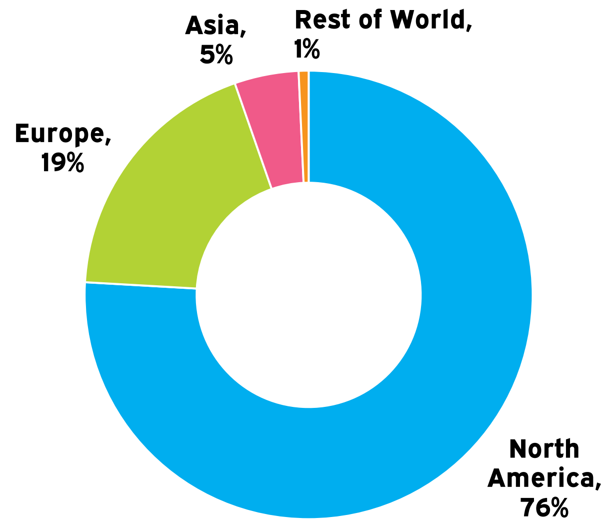
Relative to 2022, the median private equity buyout purchase price multiple increased from 12.9x EBITDA to 13.6x EBITDA in 2023. This represents a 6% increase from 2022 relative to the 1% decrease observed in 2022 from 2021. Due to the higher interest rate environment, recent deals, in aggregate, have been financed with more equity capital, as well. Overall, the increase in purchase price multiples on the year shows resilience to the downward pressure of higher interest rates and sellers not willing to exit deals at lower valuations despite the imbalance between expectations of buyers and sellers through most of the year. Although purchase price multiples remain elevated, global buyout deal flow (i.e., number of deals) was down 19% in 2023 compared to the previous year. However, private equity deal value picked up in the final quarter of 2023, representing a 17% increase in deal value compared to the same quarter in 2022 and a 58% increase from the previous quarter. Deal volume increased slightly in the fourth quarter relative to the prior quarter, as well. Improved financing conditions and more realistic pricing expectations between buyers and sellers have contributed to deals flowing again. Dry powder levels as of Q3 2023, have increased by approximately 24% from Q4 2022 and remain at all-time highs. Despite macroeconomic worries, GPs still have ample dry powder to deploy, which helps support deal flow even as debt financing has become more expensive and more restrictive.

[1] Source: Preqin. Data pulled on April 15,2024.
[2] Global Private Equity Dry Powder Split by Strategy. Provided by Preqin on April 5, 2024. There is a six-month lag in Preqin's dry powder data with September 30, 2023, representing the latest figures, which were released in April 2024.

Capital Raised by Strategy[1]



Capital Raised by Geography[1]



Buyout (53% of all private equity capital raised), Growth Equity (17%), Secondaries (13%), and Venture Capital (11%) represented the most popular private equity sub-strategies during the fourth quarter of 2023. Buyout funds decreased from 63% of capital raised in Q3 2023 to 53% in the fourth quarter of 2023. Growth Equity increased the most of any strategy in Q4 2023 from 10% of capital raised to 17%. Secondaries, as a percentage of total capital raised, also increased by 3% as the denominator effect and subdued private equity exit environment increased the number of LPs looking to trim allocations in the secondaries market. As of the fourth quarter of 2023, some investors anticipate higher returns for secondaries given the heightened demand for liquidity and 29% of investors were planning to target secondaries strategies over the next 12-month period, a 5% increase since the same quarter last year. However, secondaries funds in market still make up a relatively small percentage of the overall offering at 3% of all funds in market (but tend to be among the largest by capital). Fund of Funds and Other Private Equity, which includes co-investment and hybrid vehicles, remained relatively consistent as a percentage of total capital raised through the fourth quarter compared to the previous quarter.

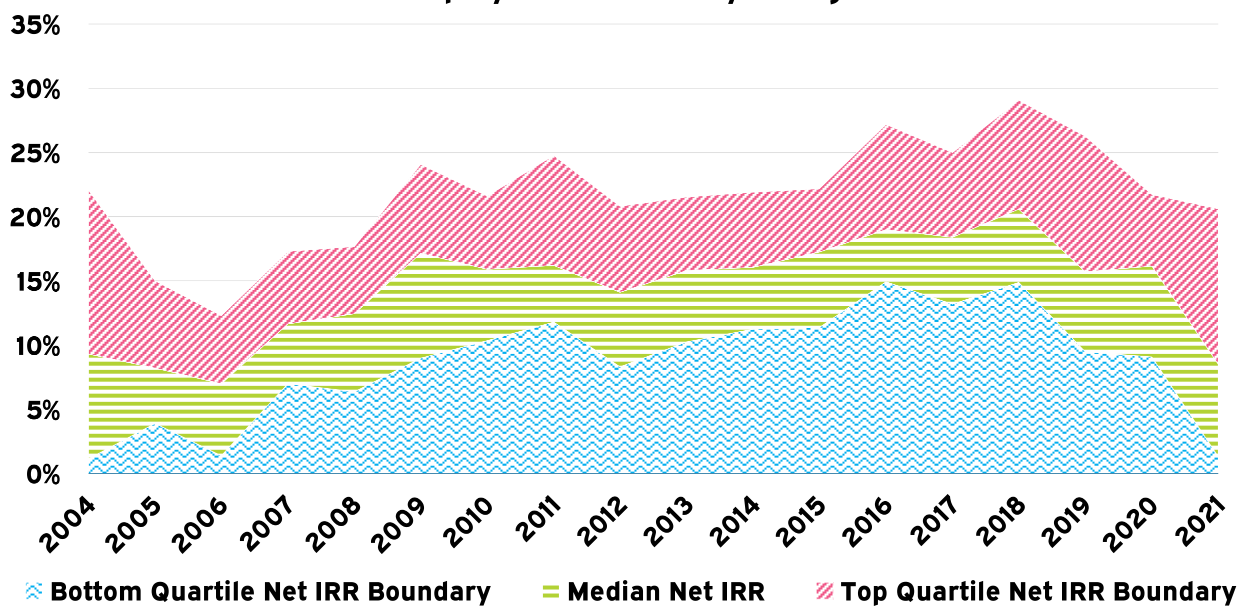
North America-focused vehicles continued to represent the majority of funds raised during the fourth quarter, representing 76% of total capital. This represents a substantial increase from the 63% of aggregate capital raised in the prior quarter, which is consistent with Preqin forecasts predicting the region to continue growing its share of the global market through 2028. Conversely, as a percentage of total capital raised, commitments to Europe decreased from 29% to 19%. Asia-focused funds remained low, only representing 5% of total capital raised. As China-focused funds had made up the lion's share of funds raised in the region in recent years, the limited capital raised by Asia-focused funds recently highlights investors' risk aversion toward China among geopolitical and economic challenges. Investor appetite for Rest of World remained low with $1.2 billion of aggregate capital raised across nine funds during the quarter.

[1] Source: Preqin.

Private Equity Performance by Horizon[1]

Horizon	Private Equity (%)	Buyout (%)	Venture Capital (%)	Growth Equity (%)
1 Year to 9/2023	5.1	8.1	(7.6)	1.6
3 Years to 9/2023	17.0	18.5	9.9	10.7
5 Years to 9/2023	15.4	16.3	11.6	13.9
10 Years to 9/2023	15.5	16.3	12.4	15.5

Private Equity Performance by Vintage Year[2]



As of September 30, 2023, one-year private equity returns increased from the prior quarter, generating a 5.1% IRR over the trailing 12 months through Q3 2023. This compares to the trailing 12-month return of 4.6% as of Q2 2023 and a one-year return of 3.5% at Q3 2022. Overall, private equity returns have proven resilient but still remain far below the highs of recent years. One-year returns remain negative for Venture funds at a -7.6% IRR but have increased for all strategies relative to Q2 2023 marks. In general, however, performance has been strong in each vintage year since the Global Financial Crisis. Buyout, Venture, and Growth funds have all generally performed well over the various time horizons on an absolute basis, with Buyout outperforming both Growth Equity and Venture funds across longer time periods as of Q3 2023. Lastly, the spread between first and third quartile performance in private equity has increased since the Global Financial Crisis; 2007 vintage funds reported a 10.3% spread while 2021 vintage funds reported a 19.3% spread.

[1] Source: Preqin Horizon IRRs as of 9/30/2023. Data as of 12/31/2023 is not yet available.
[2] Source: Preqin, Private Equity – All, Quartile Returns as of 12/31/2023. Data pulled on April 15, 2024.