MEKETA

5796 Armada Drive
Suite 110
Carlsbad, CA 92008

760.795.3450
Meketa.com

MEMORANDUM

TO: Members of the Investment Committee, CalPERS
FROM: Meketa Investment Group
DATE: March 17, 2025
RE: Semi-Annual Private Equity Performance Review as of December 31, 2024

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, 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 during the time period.

Performance

Private Equity showed strong absolute returns for the one-year period as of year-end 2024 relative to the prior report. However, the performance of the Portfolio still significantly trailed the Policy Benchmark over the prior one-year period, as private market valuations lagged public markets performance. Performance of the Portfolio across the longer time periods shown below has been slightly below the Policy Benchmark, while significantly exceeding CalPERS' long term return expectations for the asset class.

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

	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)
CalPERS PE Portfolio[2]	11.9	6.0	13.3	11.1
Policy Benchmark[3]	*33.7*	*9.7*	*14.1*	*12.2*
FTSE Global All Cap + 150 bp[4]	*33.7*	*9.7*	*14.1*	*11.4*
Excess vs. Policy Benchmark	-21.8	-3.7	-0.8	-1.1
Excess vs. FTSE Global All Cap + 150 bps	-21.8	-3.7	-0.8	-0.3

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 December 31, 2024 are each reported with a one-quarter lag (i.e., values through September 30, 2024). 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.

[1] State Street's CalPERS Private Equity performance analysis for the period ended December 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.
[4] Figures are one quarter lagged, time weighted. FTSE Global All Cap returns are based on 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.

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Over the trailing one-year period ending September 30, 2024, public equities experienced a robust rally, gaining more than 30%. As expected, the Portfolio lagged meaningfully over this recent period partly due to the relatively limited volatility among private equity assets.

The Portfolio's NAV as of December 31, 2024 was $89.0 billion, an increase of $9.0 billion (net of cash flows) compared to the December 31, 2023 NAV of $67.9 billion. The current NAV represents 17.0% of the Total Fund, equal to the 17% long-term target. As we noted above, the Portfolio's NAV is calculated based upon September 30, 2024 values, while the overall CalPERS portfolio includes publicly traded assets valued as of December 31, 2024.

Performance by Strategy[1]

	NAV ($M)	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)
Buyouts	56,814	11.9	7.3	14.0	12.3
Credit	891	-2.1	1.1	5.1	2.3
Growth/Expansion	21,175	13.4	1.7	13.1	11.8
Opportunistic	7,983	11.2	6.7	13.6	13.5
Venture	2,037	7.2	7.4	10.9	5.0
Other[2]	130	NA	NA	NA	NA
CalPERS PE Portfolio	**89,031**	**11.9**	**6.0**	**13.3**	**11.1**

The total Portfolio's one-year performance was slightly higher than at the same time last year (11.9% vs. 8.8% previously), despite the Portfolio continuing to perform below the Policy Benchmark. The table above highlights that Buyout strategies are a key driver for the Portfolio, representing approximately 64% of the NAV and providing attractive returns overall, both recently and over longer time periods. Venture and Growth/Expansion experienced the largest increases in trailing one-year performance since our December 2023 report, with the trailing one-year return increasing 12.6% and 10.0%, respectively. Credit strategies generated a lower one-year return compared to the trailing one-year period as of December 31, 2023, producing negative returns over the last twelve months. Venture generated positive returns over the trailing one-year period after delivering negative returns for the trailing one-year period as of December 31, 2023. We note that Venture is a small portion of the Portfolio at 2.3% 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	Growth/Expansion	Venture Capital, Credit
Structure	Co-Invest/Direct, CIA[2]	Fund of Funds/Secondaries
Geography	United States	Emerging Markets
Vintages	2022, 2023	2007 – 2010, 2012-2016, 2018

The table above outlines areas of stronger or weaker relative performance of the Portfolio during the trailing one-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	37,553	15.2	8.7	14.5	11.5
Co-Investments / Direct	8,137	15.5	9.0	13.2	10.9
Fund of Funds / Secondaries	1,448	4.4	2.5	8.9	7.7
Funds	41,763	9.2	4.3	12.7	11.1
Other[4]	130	NA	NA	NA	NA
CalPERS PE Portfolio	**89,031**	**11.9**	**6.0**	**13.3**	**11.1**

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

Performance by Geography[5]

	NAV ($M)	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)
United States	68,653	13.0	6.7	13.9	10.9
Developed International	18,540	9.3	5.6	14.4	15.0
Emerging Markets	1,708	-1.1	-6.5	0.9	4.4
Other[6]	130	NA	NA	NA	NA
CalPERS PE Portfolio	**89,031**	**11.9**	**6.0**	**13.3**	**11.1**

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.
5 Source: State Street.
6 Includes currency and stock holdings.

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While the Portfolio has been primarily driven by the US investments, which also represented the highest returns of any geography over the trailing one-year period, Developed International investments (primarily in Europe) have been a strong contributor to returns over time. Emerging Markets performance still significantly trails other geographies across all time periods with longer term underperformance in Emerging Markets 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 December 31, 2024, Staff completed an aggregate of $15.0 billion of new commitments, which includes $8.0 billion of funded co-investments. During this time, Staff completed 48 new fund commitments, four fund-like CIAs, and over 100 discretionary co-investments. Overall, during the 12 months ending December 31, 2024, Staff deployed approximately 57% 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.

Key Policy Parameters

The Portfolio is compliant with key parameters related to strategy diversification, as demonstrated in the table below. The Portfolio is now in line with the long-term asset allocation target of 17%.

Strategy	NAV[1] ($M)	Percent of Total NAV (%)	CalPERS Target (%)	Target Range (%)
Buyout	56,814	63.8	65	55-80
Credit	891	1.0	0	0-10
Growth/Expansion	21,176	23.8	25	5-30
Opportunistic	7,983	9.0	4	0-10
Venture	2,037	2.3	6	0-12
Other[2]	130	0.1	NA	NA
Total Portfolio	**89,031**	**17.0[3]**	**17[4]**	**+/- 5**

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

Conclusion

The Portfolio continues to show strong recent absolute performance, albeit trailing the Policy Benchmark over all trailing periods. The Portfolio, as a percent of CalPERS' total portfolio, has reached CalPERS' long-term target of 17% and is approximately 0.9% higher since the last report. The recent increase in values corresponds with the broader market rally, 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 focused 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 $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 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, 57% 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 grown the Portfolio significantly in recent years. While CalPERS faces challenges in building the Portfolio, it 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 some data and commentary on the private equity asset class for the third quarter of 2024.

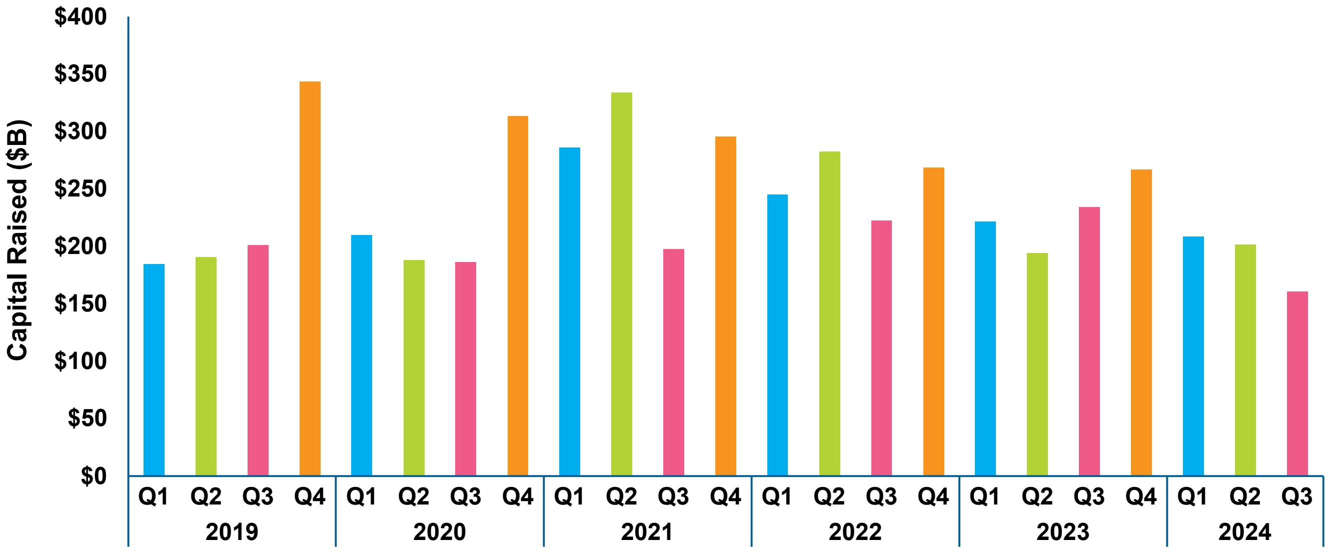
Please do not hesitate to contact us if you have questions or require additional information.

JM/SPM/JC/LR/jls

Attachments

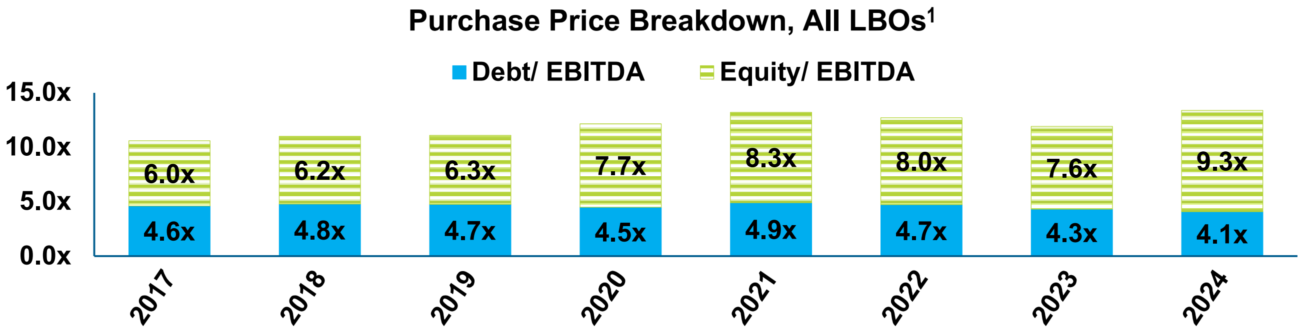
Private Equity Market Commentary – Q3 2024

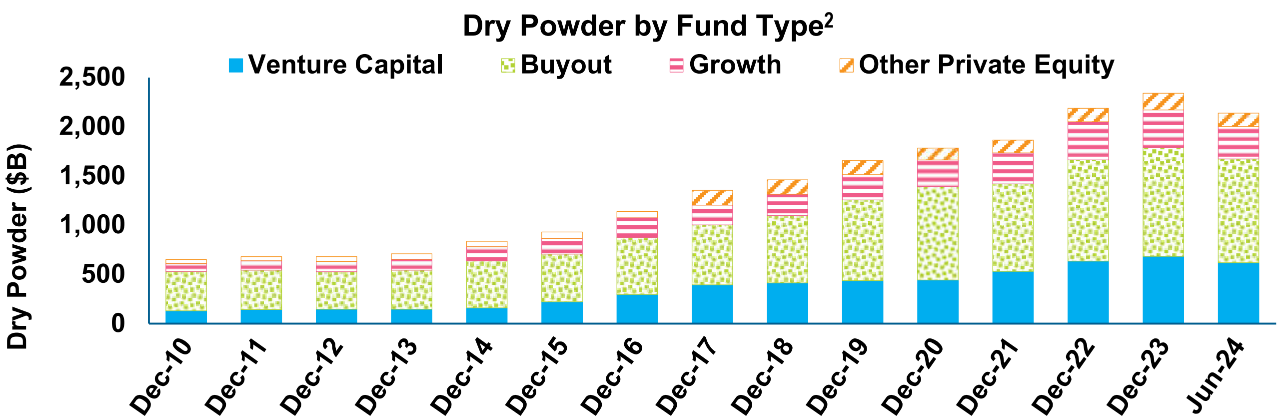
Global Fundraising[1]



Fundraising activity for private equity funds in the third quarter of 2024 decreased by 20% compared to the previous quarter, with $160.5 billion raised, and represents the lowest amount of capital raised for any quarter over the last six years. The third quarter showed continued signs of moderation in the private equity fundraising market despite exit activity (by number) slightly increasing by 4% relative to the prior quarter and aggregate exit value stagnant at approximately 1% less than Q2 2024. On the deals side, the number of deals and aggregate deal value declined 11% and 9% quarter-over-quarter, respectively, relative to the prior three-month period. During the quarter, the Federal Reserve (the "Fed") implemented a 50 basis point interest rate cut despite the continued strength of the US economy, which could provide stimulus to the corporate sector, including private equity valuations, deal activity, and exits. Given the Fed's recent activities, inflation seems to be under control, but this remains a constant balancing act as US inflation-rate expectations ticked upwards from the 2.0% target, now approaching 2.3%. According to Preqin data, there were over 12,000 funds raising in the market as of September 2024, with aggregate capital targeted of approximately $1.5 trillion. Larger private equity funds ($1 billion or more target) account for approximately 65% of the aggregate capital targeted but only 10% of the number of funds in market. Funds continue to spend more time on the road, with 50% of private equity funds (and 46% of venture capital funds) closed year-to-date 2024 having been in market for more than two years compared to an average of 26% (and 23% for venture capital) from 2019-2023. Quarter-over-quarter there was an 18% decrease in the number of funds closed matched by the 20% decrease in aggregate capital raised in the third quarter relative to the prior quarter.

[1] Source: Preqin.





Relative to 2023, the median private equity buyout purchase price multiple has increased from 11.9x EBITDA to 13.4x EBITDA thus far in 2024. This represents a 12% increase from 2023 relative to the 6% decrease observed in 2023 from 2022. Due to the continued 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' resistance to exit deals at lower valuations despite the continued imbalance between expectations of buyers and sellers through most of the year. Overall, total deal value decreased 9% relative to the second quarter as fewer deals (11% decline) were completed in the third quarter. In the third quarter, the global private equity buyout deal value decreased to $139.4 billion from $153.8 billion in Q2 2024 and remains below the historical average value of around $157.5 billion since 2018 but above the average quarterly value since 2023 of around $120.5 billion. The total number of deals was 1,738 in the third quarter, down from the 1,959 deals in the second quarter. Exit activity in the third quarter showed some progress compared with the second quarter with the number of exits increasing by 4% relative to the prior quarter although aggregate exit value decreased by 1%. In the third quarter, there were a total of 570 exits, up from 550 exits in the prior quarter. The aggregate exit value decreased to $96.3 billion in the third quarter from $97.4 billion in the prior quarter. Dry powder levels as of Q2 2024 decreased by approximately 8.5% from Q4 2023 and sit at the lowest level since Q2 2022 but still remain elevated relative to historical data. Despite macroeconomic worries and decreased fundraising in 2023, GPs still have ample dry powder to deploy, which helps support deal flow even as debt financing has become more expensive and more restrictive.

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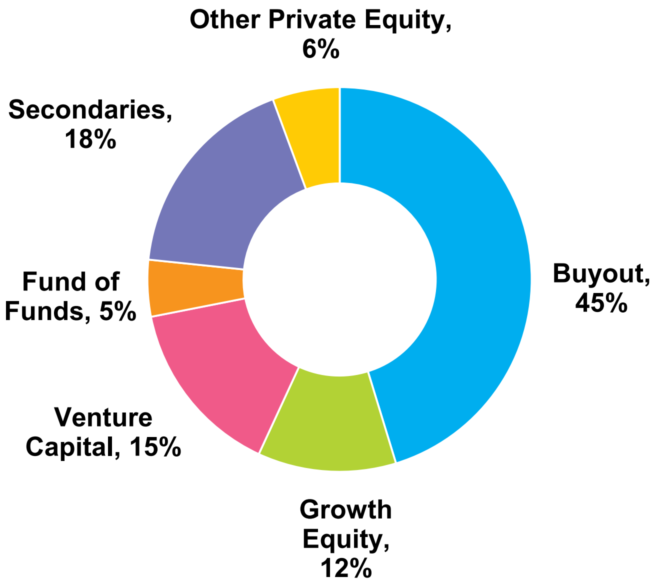
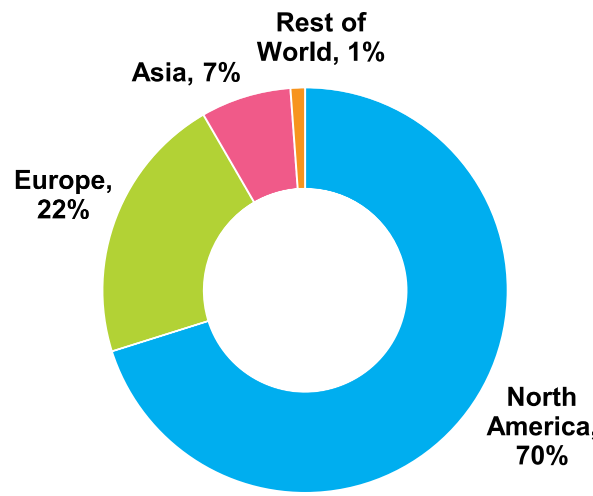
[1] Preqin: Transaction Intelligence. Data pulled on January 9, 2025.

[2] Global Private Equity Dry Powder Split by Strategy. Provided by Preqin on October 25, 2024. There is a six-month lag in Preqin's dry powder data with March 31, 2024, representing the latest figures, which were released in October 2024.

Capital Raised by Strategy[1]



Capital Raised by Geography[1]



Buyout (45% of all private equity capital raised), Secondaries (18%), and Venture Capital (15%) represented the private equity sub-strategies with the most capital raised during the third quarter of 2024. Buyout funds decreased from 55% of capital raised in Q2 2024 to 45% in the third quarter of 2024. Secondaries increased the most of any strategy over the quarter, jumping up by 10% of capital raised from the prior quarter to 18%. Secondaries demand remains as GPs and LPs seek liquidity solutions in a subdued exit environment. Growth funds decreased from 15% of capital raised to 12% in the third quarter. Venture Capital, Fund of Funds, and Other Private Equity, which includes co-investment and hybrid vehicles, remained relatively consistent (+/- 2%) as a percentage of total capital raised through the third quarter compared to the prior quarter.

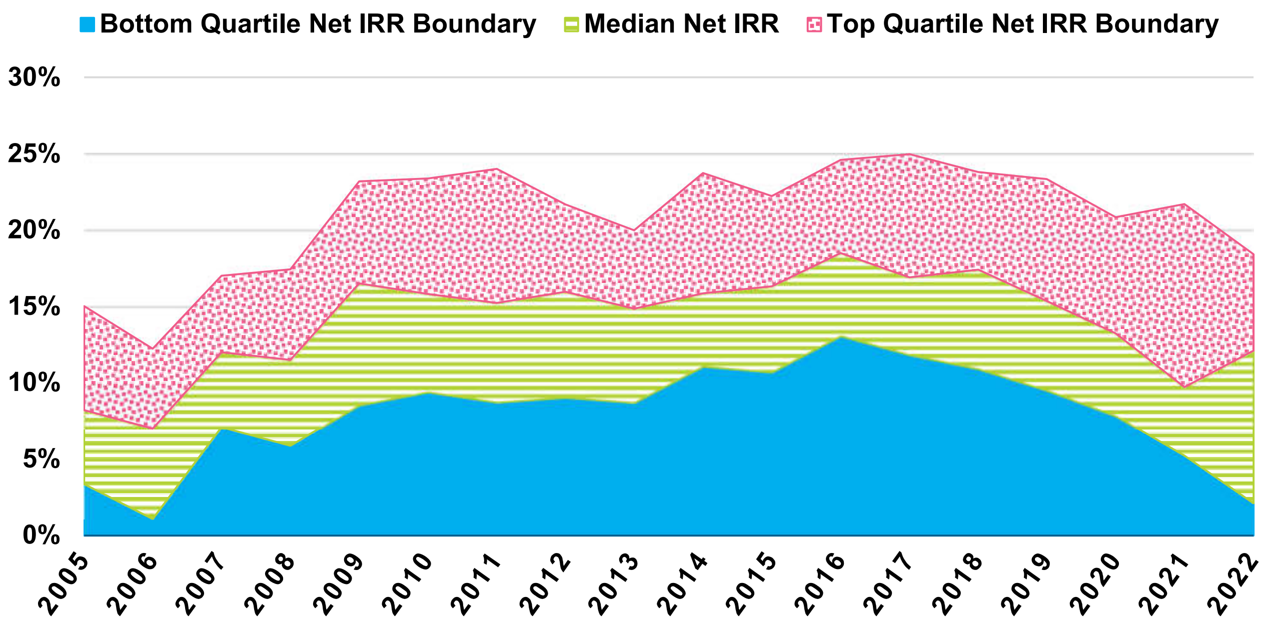
North America-focused vehicles continued to represent the highest geographic allocation of funds raised during the third quarter, representing 70% of total capital. This represents a slight increase from the 68% of aggregate capital raised in the prior quarter, and North America accounted for 65% of the number of funds closed during the quarter. Similarly, as a percentage of total capital raised, commitments to Europe increased from 18% to 22% and also represented 22% of funds closed. Asia-focused funds decreased by approximately 2% as a percentage of total capital raised relative to the prior quarter, representing 7% of total capital raised, remaining low compared to historical standards. Investor appetite for Rest of World also remains subdued with $1.9 billion of aggregate capital raised across 16 funds (4% of funds closed) during the quarter.

[1] Source: Preqin.

Private Equity Performance by Horizon[1]

Horizon	Private Equity (%)	Buyout (%)	Venture Capital (%)	Growth Equity (%)
1 Year to 6/2024	8.7	10.8	(4.9)	7.5
3 Years to 6/2024	8.6	10.3	(3.6)	4.3
5 Years to 6/2024	16.3	17.4	8.9	11.7
10 Years to 6/2024	15.3	16.5	10.3	13.7

Private Equity Performance by Vintage Year[2]



As of June 30, 2024, one-year private equity returns decreased from the prior quarter, generating an 8.7% IRR over the trailing 12 months through Q2 2024. This compares to the trailing 12-month return of 8.9% as of Q1 2024 and a one-year return of 4.6% at Q2 2023. Overall, private equity returns have proven resilient but remain below the highs of recent years. One-year returns were negative for Venture funds at a -4.9% IRR, decreased for Growth funds to 7.5% IRR (from 8.6%), and increased for Buyout funds to 10.8% IRR (from 10.4%) relative to Q1 2024 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 Q2 2024.

[1] Preqin Horizon IRRs as of 6/30/2024. Data as of 9/30/2024 is not yet available.
[2] Preqin, Private Equity – All, Quartile Returns as of 9/30/2024. Data pulled on January 2, 2025.

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