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MEMORANDUM

TO: Members of the Investment Committee, CalPERS
FROM: Meketa Investment Group
DATE: June 16, 2025
RE: Annual Program Review, inclusive of Quarterly Private Debt Performance Review, as of March 31, 2025

In our role as the Board Private Debt Consultant, Meketa Investment Group ("Meketa") conducted an annual performance review of the Private Debt Portfolio ("the Portfolio") for the period ended March 31, 2025[1] based on data provided 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 aforementioned time period.

Key highlights include the following:

1. Performance remained strong on an absolute and relative basis over all time periods.
2. Staff committed $16.2 billion across 22 investments over the trailing 12 months, bringing the total Private Debt program to 3.7% of the Total Fund. (The current target is 8%).
3. Direct lending continues to represent the majority of the Private Debt program (84.2%).

Performance

The Private Debt program has an official inception date of July 1, 2022; however, underlying investments in the Portfolio have a longer track record from their inclusion in the Opportunistic Strategies program, which dates to July 1, 2020. Similar to the prior report, Private Debt continued to deliver strong performance through March 31, 2025, with the Portfolio outpacing the Policy Benchmark over each time period shown below.

Private Debt Performance as of March 31, 2025[1]

	FYTD (%)	1 Year (%)	3 Year (%)	Since Inception[2] (%)
CalPERS PD Portfolio[3]	7.8	13.5	11.1	10.3
Policy Benchmark[4]	*7.6*	*10.0*	*8.8*	*8.1*
Excess vs. Policy Benchmark	⬆ 0.2	⬆ 3.4	⬆ 2.3	⬆ 2.2

Of note, private debt performance is reported with a delay compared to publicly traded assets. As such, the Portfolio and the Policy Benchmark performance as of March 31, 2025 are each reported with a one-quarter lag (i.e., values through December 31, 2024).

1 CalPERS Private Debt performance analysis for the period ended March 31, 2025, reported with a 1-quarter lag. Since Inception and 3-Year performance includes historical periods prior to the Private Debt segment's inception of July 1, 2022 when Private Debt investments were held within the Opportunistic Strategies Program.
2 Inception date is July 1, 2020.
3 Source: CalPERS. CalPERS returns are reported as time-weighted.
4 The current Policy Benchmark is a Custom S&P LSTA US LL Index one-quarter lagged + 125 bps from July 1, 2022 onward and 7% absolute return prior to July 1, 2022.

As of March 31, 2025, the Portfolio consisted of 60 underlying investments totaling $49.2 billion of committed capital with an aggregate net asset value ("NAV") of $19.4 billion, an increase of $2.0 billion (net of cash flows) compared to the March 31, 2024 NAV of $12.6 billion. The current NAV represents 3.7% of the Total Fund, compared to the 8% long-term target. As we noted above, the Portfolio's NAV is calculated based upon December 31, 2024 values, while the overall CalPERS portfolio includes publicly traded assets valued as of March 31, 2025.

Performance by Strategy[1]

	NAV ($M)	Percent of Total NAV (%)	FYTD (%)	1 Year (%)	3 Year (%)	Since Inception (%)
Direct Lending	16,306	84.2	8.3	14.3	11.7	11.3
Specialty Lending	2,213	11.4	5.1	9.3	8.7	8.5
Real Estate Financing	852	4.4	8.2	11.8	9.0	8.0
CalPERS PD Portfolio	**19,371**	**100.0**	**7.8**	**13.5**	**11.1**	**10.3**

The table above highlights that Direct Lending strategies make up the majority of the Portfolio, which is consistent with policy guidelines and expectations. In aggregate, CalPERS has completed 43 commitments, or 72% of the total number of commitments, to Direct Lending strategies. The Portfolio also includes 13 commitments to Specialty Lending and 4 to Real Estate Financing. Direct Lending strategies have generated attractive returns overall and the strongest returns over each time period shown above relative to the other two strategies. Of note, Direct Lending includes sub-strategies of Senior Direct Lending, Mezzanine, and Special Situations (mostly Senior Direct Lending with some Special Situations and one Mezzanine mandate). The Direct Lending portfolio is 81% senior debt, 9% junior debt, and 10% preferred equity & equity. Across the Direct Lending portfolio, the average fund-level leverage is ~1.1x (debt-to-equity) with an average spread and OID of 670 bps and 200 bps, respectively.

Performance by Structure[2]

	NAV ($M)	Percent of Total NAV (%)	FYTD (%)	1 Year (%)	3 Year (%)	Since Inception (%)
Customized Investment Account	13,034	67.3	8.3	13.7	11.5	10.0
Fund	6,154	31.8	6.9	13.1	10.4	11.4
Co-investment	184	0.9	11.4	17.3	13.3	13.6
CalPERS PD Portfolio	**19,371**	**100.0**	**7.8**	**13.5**	**11.1**	**10.3**

The Portfolio has exposure to three discrete investment structures, including customized investment accounts ("CIAs"), funds, and co-investments. CIAs represent the majority of current exposure, totaling over two-thirds of NAV across 47 commitments. Of note, CIAs include a number of co-investment funds (no management fee, no incentive fees), which account for most of the Portfolio's co-investment exposure. Twelve fund commitments aggregate to nearly 32% of the Portfolio's NAV. As shown above, there is one co-investment, which represents a single co-investment opportunity executed outside of a CIA structure totaling approximately 1% of NAV. CIAs have produced higher returns than Funds over the fiscal-year-to-date, one-year, and three-year time periods.

[1] Source: CalPERS.
[2] Source: CalPERS.

Performance by Geography[1]

	NAV ($M)	Percent of Total NAV (%)	FYTD (%)	1 Year (%)	3 Year (%)	Since Inception (%)
United States	9,167	47.3	9.2	15.1	12.8	11.1
Global	7,434	38.4	6.2	12.3	9.2	9.7
Europe	2,771	14.3	8.1	11.1	11.3	9.7
CalPERS PD Portfolio	**19,371**	**100.0**	**7.8**	**13.5**	**11.1**	**10.3**

As of March 31, 2025, approximately 47% of the current NAV is invested in US-focused strategies, with the balance deployed across Global and European-focused mandates. The Portfolio's geographic diversification is largely consistent with the broader private credit market, which is predominantly focused on North America and Europe. The trailing returns for US-focused strategies have outpaced Global and Europe over each time period shown above.

Implementation

For the trailing 12 months ending March 31, 2025, Staff completed an aggregate of $16.2 billion of new commitments, which includes $12.2 billion across 17 customized investment accounts and $4.1 billion across five fund commitments. Overall, during the 12 months ending March 31, 2025, Staff deployed approximately 75% of the capital in CIAs. From a strategy perspective, Staff has continued to add exposure to Direct Lending and Specialty Lending, which accounted for 49% and 36% of committed capital, respectively, over the last 12 months. Geographically, approximately 62% of committed capital was allocated to Global strategies during the past year, with the balance to United States (30%) and Europe (9%) strategies.

Key Policy Parameters

The Portfolio is compliant with all key parameters related to strategy diversification, as demonstrated in the table below. The Portfolio continues to ramp towards the desired exposure of an 8% target allocation.

Strategy	NAV[2] ($M)	Percent of Total NAV (%)	Target Range (%)
Direct Lending	16,306	84.2	20 – 100
Specialty Lending	2,213	11.4	0 – 40
Real Estate Financing	852	4.4	0 – 40
Residential Mortgages	0	0.0	0 – 40
Total Portfolio	**19,371**	**3.7[3]**	**8[4]**

[1] Source: CalPERS.
[2] Source: CalPERS.
[3] PD portfolio NAV as a percent of total CalPERS portfolio as of March 31, 2025.
[4] In March 2024, the Board approved an 8% long-term target allocation for the Portfolio, an increase from 5%.

Staffing and Resources

As of May 5, 2025, the Private Debt group comprised 12 staff, an increase from eight people 12 months prior. The current team includes three Investment Directors ("IDs"), three Investment Managers ("IMs"), two Associate Investment Managers ("AIMs"), three Investment Officers ("IOs"), and one Staff Services Assistant ("SSA"). There are three more approved positions including one Managing Investment Director ("MID"), one IM, and one AIM for which the group is actively recruiting. Anton Orlich currently serves as the interim Head of Private Debt after Jean Hsu retired in July 2024, but this position (MID) is in the process of being filled. Since May 5, 2024, the Private Debt group has made one promotion and two professionals (one MID retirement, one SSA departure to HR) have left the team.

While we believe the staffing levels are sufficient to execute the current investment strategy, we note there are several open positions currently, highlighted by the ongoing MID search. 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.

Conclusion

The Portfolio continues to show strong performance, outpacing the Policy Benchmark over the trailing one-year period as well as longer time periods. Additionally, the Portfolio, as a percentage of CalPERS' total portfolio, continues to approach CalPERS' long-term target of 8% and is approximately 1.1% higher compared to March 31, 2024.

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

→ Increasing capital deployment – Over the year ending March 31, 2025, Staff committed approximately $16.2 billion in private debt, including both initial commitments (76% of total) and upsizes to existing commitments (24% of total).

→ Increasing cost efficiency – CIAs and co-investments, which offer preferential terms, are an important and growing portion of the Portfolio. In the last 12 months, 75% of investment capital has been deployed through CIAs.

→ Adding diversification to the Portfolio – Staff has been adding more Specialty Lending and Real Estate Financing strategies to complement the Portfolio's Direct Lending exposure. Staff has also continued to add Global and European-focused strategies alongside US-focused mandates.

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

The Appendix includes some data and commentary on the private debt asset class for the fourth quarter of 2024.

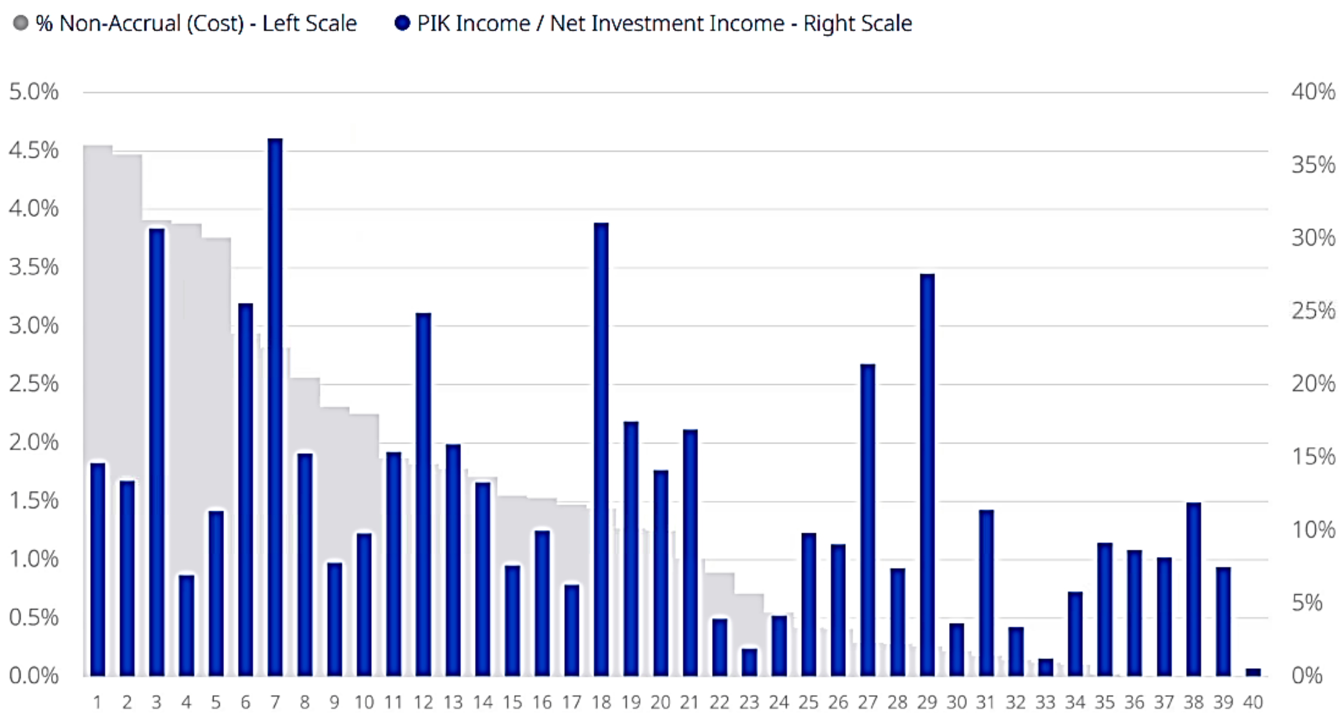
Please do not hesitate to contact us if you have questions or require additional information.

MB/JM/SPM/jls

Attachments

Private Debt Market Commentary – Q4 2024

US Senior Direct Lending: BDC Exposure to Non-Accruing Loans and PIK Varies[1]



→ In aggregate, fundamentals in private credit appear relatively robust, but on a look through basis to data collected on BDCs there is significant dispersion. Specifically, exposure to non-accruing loans and the percentage of income derived from payment-in-kind (PIK) versus cash interest reveals some loan portfolios are showing signs of stress. The above graph shows the non-accruals and PIK for 40 BDCs. and highlight that the percentage in non-accruing loans ranges from 0%-4.5%, and PIK income ranges from less than 0.5% to ~35.0%.

[1] Antares 2025 Asset Management Outlook.

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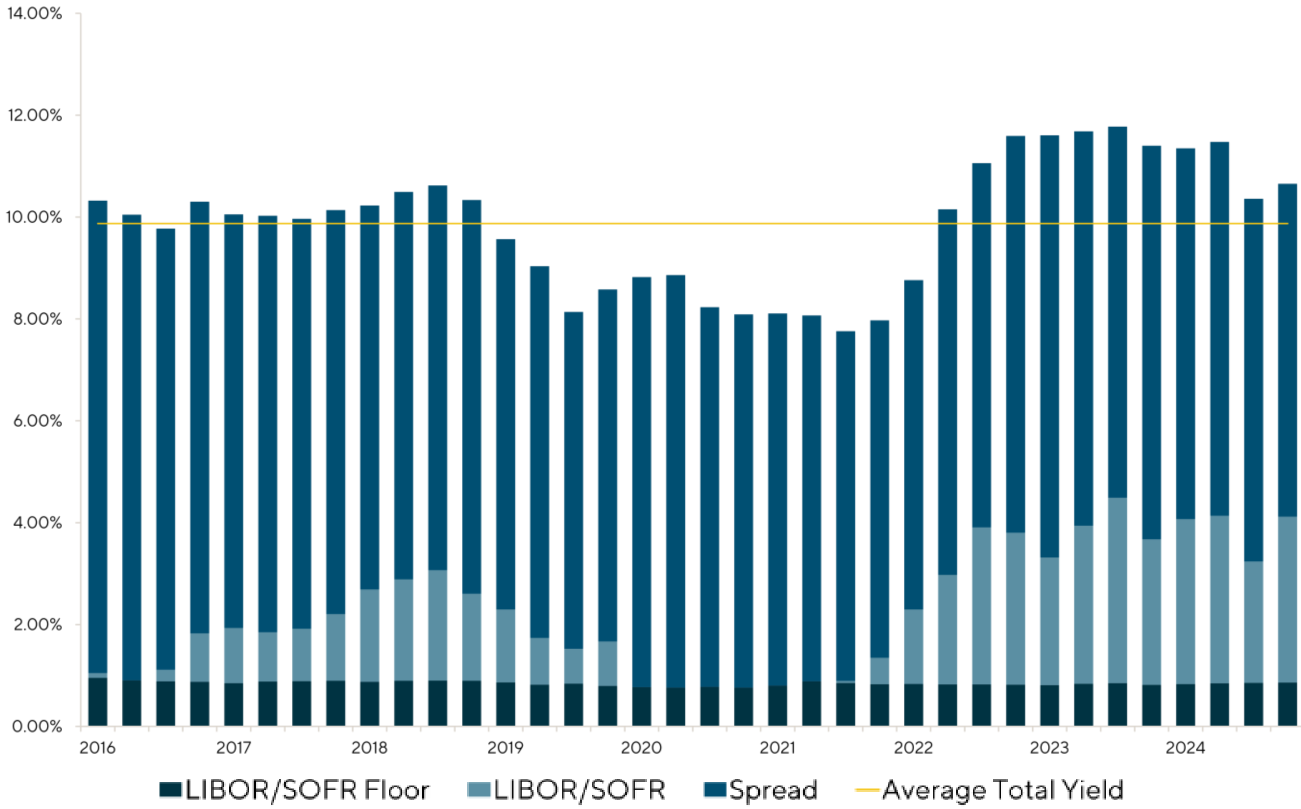
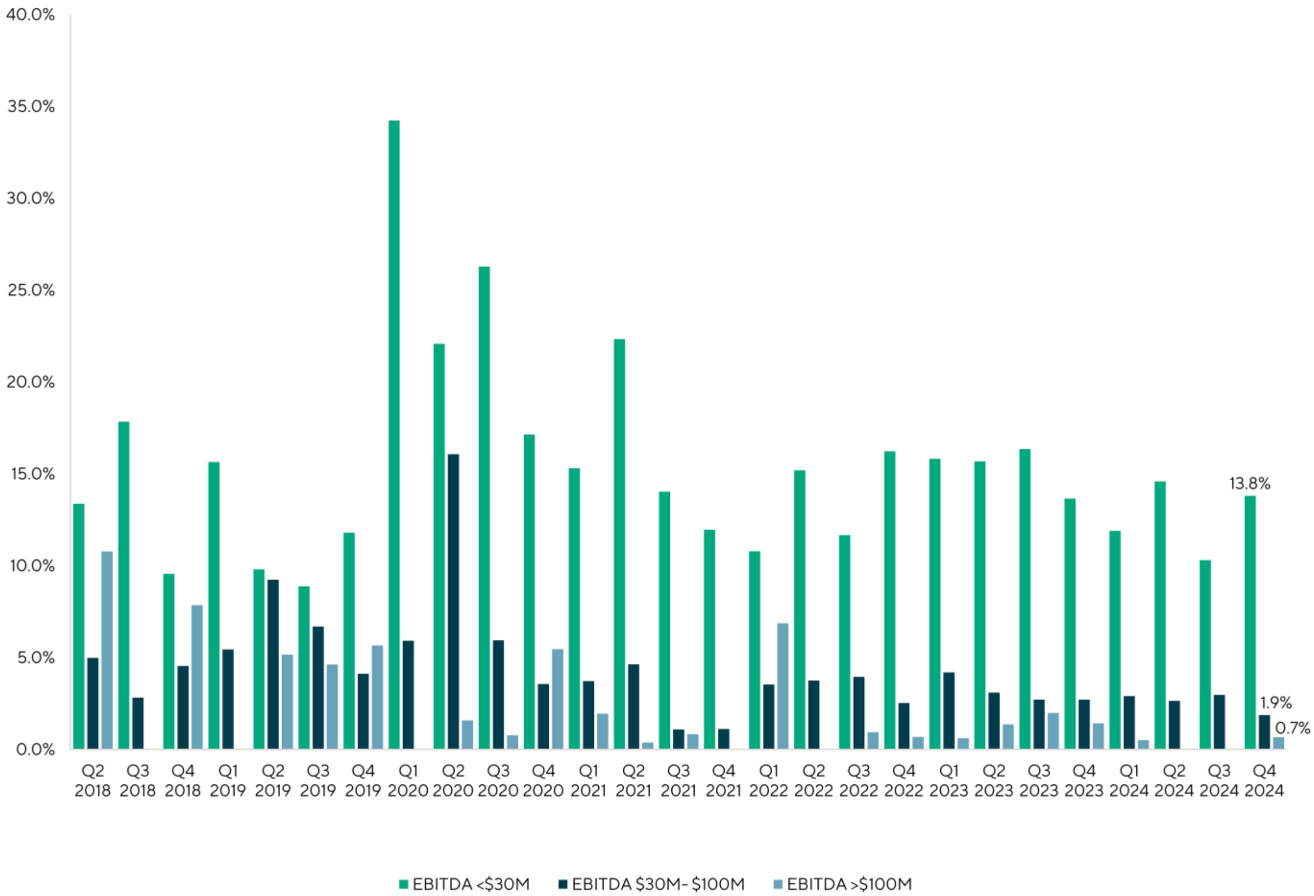
US Senior Direct Lending: Direct Lending Yields and Spreads[1]



→ While overall yields in direct lending remain attractive, the composition of yield reveals a notable decline in spreads since 2022, largely attributable to increased competition. Spreads over the base rate in the Lincoln Senior Debt Index reached their second lowest levels since the inception of the index in 2014.

[1] Q4 2024 Lincoln Senior Debt Index, Quarterly Overview (February, 2025).

US Senior Direct Lending: Direct Lending Default Rate by Company Size[1]



→ Default rates when viewed by size of enterprise also shows bifurcation between large (EBITDA $100 million or more) and small companies (EBITDA $30 million or less), which highlights the challenge higher rates have posed to liquidity profiles. The comparative default rates were 0.7%, and 13.8%, respectively.

[1] Q4 2024 Lincoln Senior Debt Index, Quarterly Overview (February, 2025).

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Leveraged Finance Market Environment (Q4-24)

Chart 1: LBO Total Equity Contribution for Middle Market Loans[1]

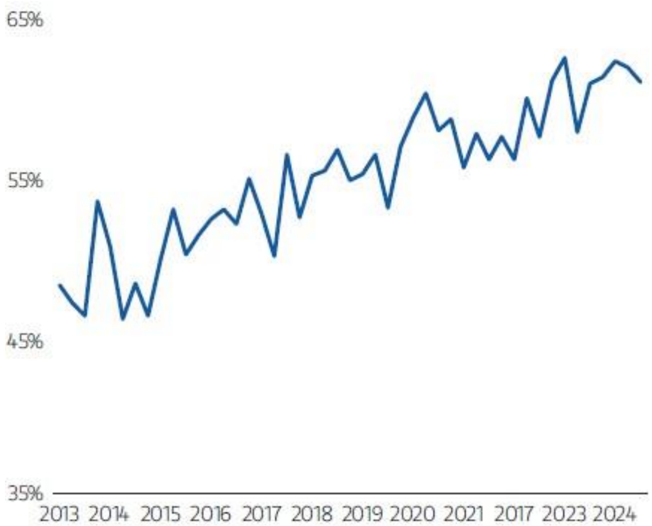
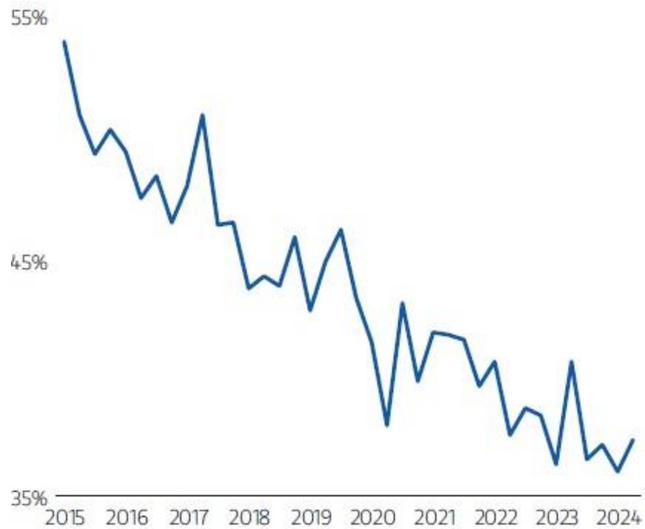


Chart 2: LBO Loan to Value for Middle Market Loans[2]



- For the full year in 2024, leveraged loans posted a positive return of 9.05% (S&P UBS Leveraged Loan Index), outperforming High Yield with a return of 8.2% (ICE BofA U.S. High Yield Index), but below the 14.4% return of a direct lending proxy (Cliffwater BDC Index).
- January 2025 saw high leveraged loan issuance volumes only to see a strong pull back in transactions for the remainder of the quarter likely due to increasing uncertainty around potential economic outcomes associated with tariffs and broader market volatility.
- Overall across leveraged finance and direct lending, leverage levels remain muted, which should support resiliency in more challenging economic environments. A positive trend is higher equity contributions by private equity sponsors to finance leveraged buyouts, with the average equity check reaching ~55% in recent transactions. From a lender's perspective, this has resulted in declining loan to value (LTVs) for transactions, and overall increased alignment with deal sponsors. The increased cost of borrowing has also forced sponsors to take a more conservative approach to debt incurrence. (Chart 1, Chart 2)

[1] Source: Morgan Stanley, *Evolution of Private Credit 2025.*
[2] Source: Morgan Stanley, *Evolution of Private Credit 2025.*

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