

Real Estate Annual Program Review

As of Quarter Ending on March 31, 2025

Sarah Corr, Managing Investment Director

Edward Yrure, Investment Director

Jane Delfendahl, Investment Director

Real Assets

June 16, 2025

Contents



Program Overview



Market Environment



Portfolio Performance and Risk Analysis



Key Initiatives



Program Overview

Role

- Provide stable and predictable cash yield, diversification of equity risk, and inflation protection
- Returns predominantly derived from income
- Real Estate provides stable cash yield under long term leases with good credit tenants

Key Metrics

- NAV: \$50.4 billion*
- 20 Partners and 41 Partnerships

Investment Beliefs

- A long investment horizon is a responsibility and an advantage (IB 2)
- CalPERS will take risk only where we have a strong belief that we will be rewarded for it (IB 7)
- Costs matter and need to be effectively managed (IB 8)
- Strong processes, teamwork and deep resources are needed to achieve CalPERS goals and objectives (IB 10)



Strategy and Portfolio Positioning

Positioning

- Balance Core and Non-Core strategies selectively across sectors and geographies
- Core emphasis provides downside protection and allows for diversification into Non-Core strategies
- Enhance returns through expansion of Non-Core strategies

Strategies

- Increase allocations to Non-Core strategies utilizing cost-efficient structures
- Take advantage of pricing resets and misaligned capital structures
- Utilize Separate Accounts with best-in-class sector specialists in cost-efficient structures
- Maintain disciplined leverage strategy
- Increase focus on sustainable investment opportunities consistent with the Sustainable Investments (SI) 2030 Plan
- Continue to exit non-strategic assets



Market Environment

Current Concerns

- Transaction volumes remain low
- Refinancing risk and elevated financing costs persist
- Lack of liquidity in certain Real Estate sectors
- Uncertainty surrounding tariff policy decisions

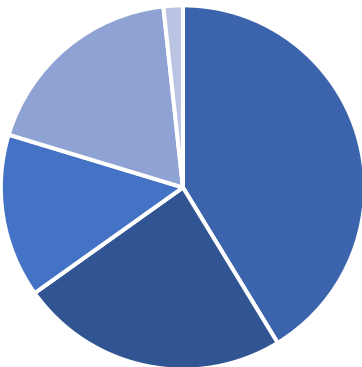
Deployment Themes

- Repricing of real estate assets should result in higher yields, fueling investor appetite
- Market participants continue to favor Industrial, Multifamily, select Retail, and niche property types
- Investors adapting to higher interest rates given favorable Net Operating Income growth outlook
- Distressed capital structures present attractive opportunities for well-capitalized investors



Portfolio Performance | Real Estate

Property Type



- Industrial | 41%
- Apartment | 24%
- Office | 15%
- Retail | 19%
- Other | 2%

Key Metrics

Unfunded Commitments*

\$1.6B

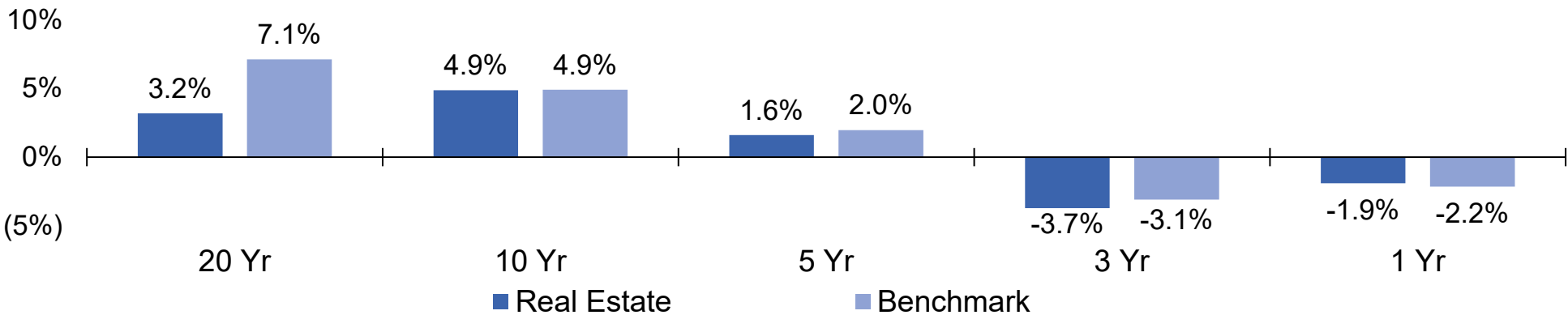
TVPI**

1.2

Forecasted Volatility

13.3%

Total Return

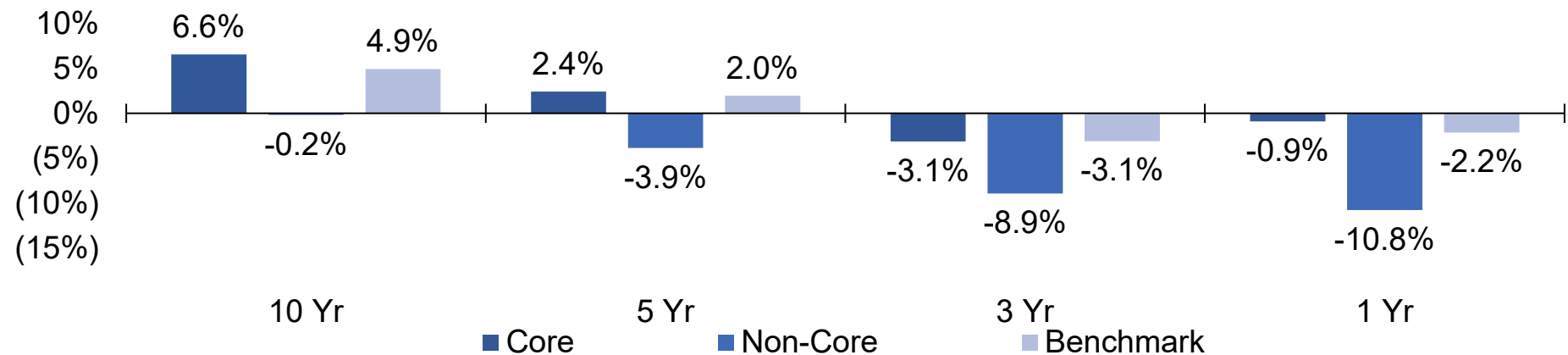


*Contractual unfunded commitment as of 12/31/24
**TVPI is defined as Total Value to Paid-In Capital

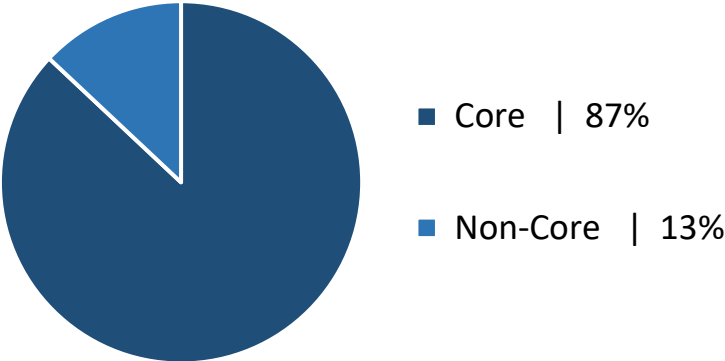


Performance and Allocation Analysis | Real Estate

Total Return



Exposure by Risk

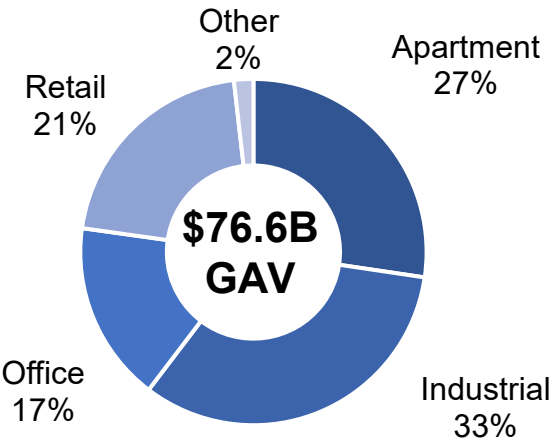
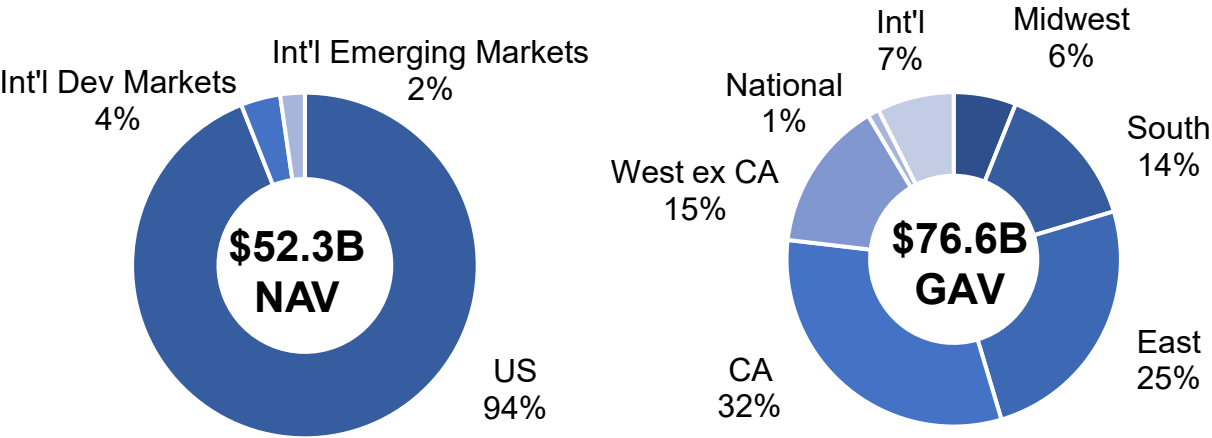




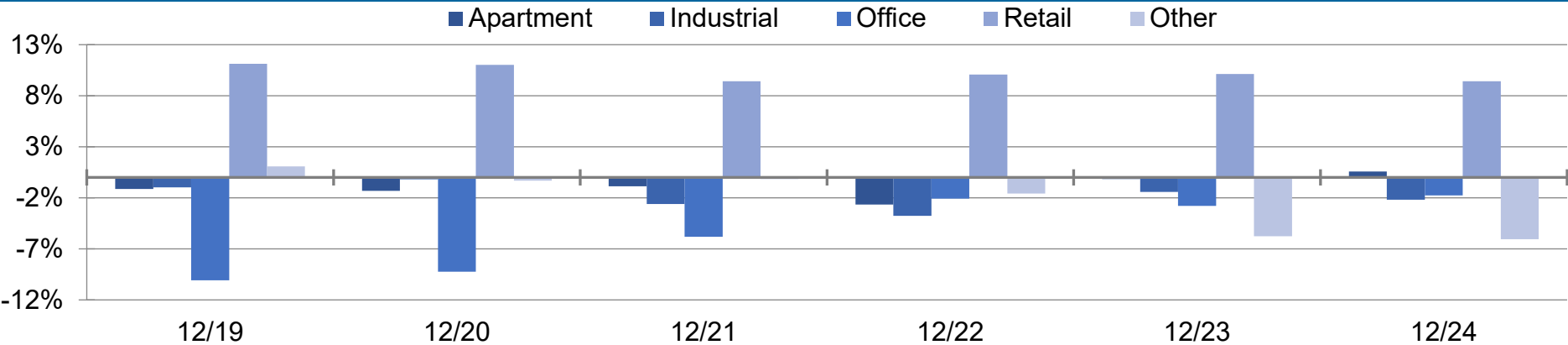
Exposures | Real Estate

Geography

Property Type



Difference versus Property Type Benchmarks*





Business Updates and Key Initiatives | Evaluation

- Core Real Estate outperformed the policy benchmark over the 1, 5, and 10-year periods while matching the benchmark over 3 years
- Real Estate recent performance challenged by higher interest rates and corresponding capital market adjustments
- Deepening relationships with strategic partners
- Progress being made towards SI 2030 Plan goals
- Current outlook is favorable with property fundamentals in equilibrium and valuations rebounding



Key Initiatives

- Increase allocation to Non-Core strategies
- Structure relationships with best-in-class managers leveraging CalPERS' competitive advantages
- Grow sustainable investment exposure consistent with the SI 2030 Plan
- Continue liquidation of Non-Strategic assets
- Implement Data and Technology Initiative / AREIS replacement



Key Initiatives | Integration of Governance and Sustainability

SI Activities	Description / Status
Energy Optimization (EO) Initiative for Real Estate	<ul style="list-style-type: none">• Ongoing identification of accretive EO opportunities, reducing carbon intensity and generating cost savings over time
Governance	<ul style="list-style-type: none">• Worked with SI in developing a governance framework around Climate Investing (approved in OAC in Q1 2025)
ESG Integration	<ul style="list-style-type: none">• Ongoing collaboration with SI to develop an ESG Integration plan across Real Estate, enhancing ESG due-diligence and monitoring
Climate Risk & Energy Transition Research	<ul style="list-style-type: none">• First year of implementation of the 2030 SI Business Plan for Real Estate• Initiated roll out of MSCI's Climate Value-at-Risk tool