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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 Real Estate Performance Review as of March 31, 2025

In our role as the Board Real Estate Consultant, Meketa Investment Group ("Meketa") conducted an annual program review, inclusive of the quarterly performance review, of the Real Estate Portfolio ("the Portfolio") based on data provided in Wilshire's California Public Employees' Retirement System ("CalPERS") Real Assets Performance Analysis Review for the period ended March 31, 2025, and selected CalPERS reports.[1] This memorandum provides the Portfolio performance data and information on key policy parameters, along with summary market commentary.

Performance[2]

Portfolio-Level Returns

CalPERS ("the System") assigns the goals of diversification from public securities, current income, and inflation protection to its Real Assets portfolios, of which real estate comprises 71.6%. The Portfolio's diversification is serving the System as different property sectors experience varying demand and supply dynamics. Similarly, CalPERS' focus on the highest quality locations and materials that attract credit worthy tenants provides defensive characteristics. Across real estate markets, no property type or geographic region necessarily outperforms over the long-term, so diversification is critical.

CalPERS' Real Estate Portfolio returns exceeded the benchmark for the one-year time period, were in-line with the benchmark for the ten-year period, and underperformed the benchmark for the three- and five-year time periods. While we anticipate near-term performance to continue to be challenging, the income return is generating reliable, positive cash flow to the System, fulfilling the role of the asset class in the broader CalPERS portfolio.

Measured by a percentage of Loan to Value ("LTV"), CalPERS has historically used more leverage than the benchmark (34.8% versus the benchmark of 26.5%). When property values are rising, this accelerates returns. When values decline, this detracts from performance. Measured by the 2.5x multiple of Net Operating Income to debt service, ("coverage ratio", or "DSCR"), and the strength of the tenancies, this is nevertheless deemed to be a prudent level of debt. Both LTV and DSCR are well within policy guidelines of <50% and >1.5x, respectively.

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[1] Real Assets Program Allocation, Characteristics, and Leverage Reports (pdf) and Datasheets (Excel), Period Ending December 31, 2024, and Real Assets Quarterly Performance Report, Partnership Financial Statements as of December 31, 2024.

[2] Per Wilshire's CalPERS Real Assets Performance Analysis Review for the period ended March 31, 2025 reported with a 1-quarter lag, so effectively as of December 31, 2024.

Net Returns March 31, 2025	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)
Real Estate Returns	-1.9	-3.7	1.6	4.9
Real Estate Policy Benchmark[1]	-2.1	-3.1	2.0	4.9
Over (under) Performance	0.2	-0.6	-0.4	0.0

Prior to 2022, institutional real estate benefitted from more than a decade of low interest rates and economic growth tailwinds. However, since early 2022, lower economic growth and higher interest rates have caused a re-pricing of the entire real estate sector, which has resulted in nine quarters of depreciation in CalPERS' private real estate benchmark. Industry participants believe that prices have reached an inflection point. Indeed, the benchmark has reported both a positive appreciation and net total return for the fourth quarter of 2024. Nonetheless, Meketa continues to expect some near-term volatility in valuations, particularly if rates rise further in response to pervasive inflation.

Performance Attribution

While the portfolio generated reasonable absolute returns over the last decade, rising interest rates and COVID market dislocations created a very challenging return environment since 2022. The one-year return, albeit negative, exceeded the benchmark by 20 basis points and the ten-year return was in-line with the benchmark. The three- and five-year returns trailed the benchmark by 60 and 40 basis points, respectively, largely as a result of somewhat less robust appreciation across property types, a higher retail allocation than the benchmark, and the office portfolio. It should be noted that while returns for CalPERS' office portfolio trail the benchmark for all time periods presented, CalPERS' office allocation is below that of the benchmark, which is beneficial to overall relative returns. Overall, the portfolio continues to generate consistent income with which CalPERS can pay its beneficiaries, and the income return exceeded that of the benchmark for all time periods presented.

For the one-year period, the portfolio posted a negative 1.9% net return, consisting of 3.8% current income and negative appreciation of 5.7%. While the total net return exceeded the benchmark by 20 basis points, led by outperformance of the core portfolio, the data center and retail portfolios were the only sectors to post a positive one-year total return. Within the portfolio, data center, retail, industrial, and multifamily properties outperformed the benchmark for the one-year time period.

The market continues to produce a remarkable dispersion of returns across property types and locations, with clear winners and losers from a space demand perspective. Even among core holdings, where we would expect to see less volatility in performance, there was a wide range of returns. Data center buildings, which represent 6.9% of the core portfolio, generated a one-year return of 5.5%. Data center buildings are benefiting from increased cloud computing, technological device usage, and artificial intelligence spending. At the other end of the spectrum were office buildings, which represent 9.5% of the core portfolio, and which generated a negative 12.7% one-year return, in addition to negative returns

[1] CalPERS Real Estate Policy Benchmark, with historical composition as follows: As of July 1, 2018 is the MSCI/PREA US ACOE Quarterly Property Fund Index (Unfrozen), Net of Fees. From July 1, 2011 through June 30, 2018, the Policy Benchmark was the NCREIF Fund Index Open-End Diversified Core Equity, Net of Fees. The. Policy Benchmark results are shown on a blended basis during the relevant trailing periods.

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for the three- and five-year time periods. While CalPERS' underweight to office relative to the benchmark is a positive, and the office portfolio has performed well relative to its office benchmark peer set, the overall sector is very challenged and further deterioration is expected.

Industrial and multifamily returns have moderated from recent highs; both sectors generated negative returns during the one-year period. CalPERS’ industrial portfolio, representing 33.5% of the core portfolio, posted returns for the one-year time period of negative 1.3%. CalPERS’ multifamily portfolio, representing 26.3% of the core portfolio, posted returns for the one-year time period of negative 0.5%. Both sectors are experiencing slowing rental rate growth, and industrial properties with longer leases at below market rents are getting penalized for the lost potential revenue (the “loss to lease”).

Longer-term performance for these property types is expected to be stronger, as both benefit from resilient demand drivers and moderating new supply. Industrial buildings continue to benefit from greater e-commerce volume and onshoring of manufacturing, while multifamily properties benefit from the shortage and lack of affordability of single-family homes.

Mall retail property investments, to which CalPERS has had a material overweight compared to the benchmark, and which account for 10.1% of the core portfolio, posted a total return of 3.0% for the one-year time period. Since inception, these investments have produced a 4.7% total net return.

The other portion of CalPERS’ retail holdings, grocery-anchored shopping centers, which amount to 10.2% of the core portfolio, generated a return of 5.7% for the one-year time period. Shorter average lease terms, relative to big box retailers, and little new development have given owners of grocery anchored shopping centers the ability to more proactively push rents, especially given historically low vacancy within the sector.

As of this reporting period, the core risk portfolio, comprised of completed, leased and cash flowing assets, and representing 87.5% of the Real Estate Portfolio, produced longer-term returns of 2.4% for the five-year period, and exceeded the Real Estate Policy benchmark returns by 40 basis points. Strong ten-year returns of 6.6% handily exceeded the 4.9% benchmark return. The majority of core properties are held directly in lower cost separate accounts (as opposed to investing in open -end commingled pools).

Net Returns As of March 31, 2025[1]	NAV ($B)	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)
Core	45.7	-0.9	-3.1	2.4	6.6
Value Add	3.8	-11.0	-9.1	-3.2	1.5
Opportunistic	1.1	-9.8	-8.5	-4.2	-0.8
Real Estate Policy Benchmark	--	-2.1	-3.1	2.0	4.9

[1] Private Investment data are one quarter lagged, so effectively as of December 31, 2024.

Key Policy Parameters

The Real Estate Portfolio is compliant with all key parameters related to diversification and other limits applicable at the Portfolio level, as demonstrated in the following table.

Key Portfolio Parameter	Policy Range/Limit	NAV 3/31/25 Exposure[1]
Risk Classification	**(%)**	**(%)[1]**
Core	75-100	87.5
Non-Core	0-25	12.5
Geographic Region	**(%)**	**(%)[2]**
United States	75-100	93.9
International Developed	0-25	3.7
International Emerging	0-15	2.3
International Frontier	0-5	0.0
Manager Exposure[3]	**(%)**	**(%)**
Largest Partner Relationship	20 max	11.0
Investments with No External Manager	20 max	13.3
Leverage[4]		
Loan to Value	50% max	34.8%
Debt Service Coverage Ratio	1.5x min	2.5x

Implementation

The Real Estate Portfolio had a market value of $50.4 billion at the end of the current reporting period, representing 71.6% of the Real Assets program and 9.6% of the total portfolio. Including Forestland and Infrastructure, the Real Assets program currently comprises 13.4% of the total portfolio against a long-term target allocation of 15.0%, within the policy range of 8% to 18%. CalPERS has a very small exposure to overseas properties, and almost no exposure to the hospitality industry in its private real estate holdings.

The CalPERS business model for real estate emphasizes control, transparency, alignment and governance. CalPERS' market advantages are its size, scale and ability to hold assets for longer periods. The implementation of this business model is primarily through direct investing with separately managed accounts, in which CalPERS has effectively complete control. Cancellable separate accounts are created with expert, aligned fiduciary managers/partners. These relationships are overseen by Staff with the

[1] Real Assets Quarterly Performance Report as of December 31, 2024 and Real Assets 2024.12.31 Characteristics Report (PDF), based on asset-level risk.
[2] Real Assets Quarterly Performance Report as of December 31, 2024 and Real Assets 2024.12.31 Characteristics Report (PDF), based on asset-level geography.
[3] CalPERS Real Assets Portfolio Allocation Report (Excel), Period Ending December 31, 2024: calculated based on manager- and account-level NAV. Percent calculated using relevant NAV plus total unfunded commitments for relationships/investments and same for the Real Assets Program ($87.4 billion).
[4] CalPERS Real Assets Portfolio Leverage Report (pdf), Quarter Ending December 31, 2024.

benefit of independent consultants' prudent person opinions and monitored on behalf of the Trustees by the Board Consultant. This provides a replicable, scalable model that can grow as the Total Fund size grows and invest within the strategic ranges based on market conditions and alternative investments available to the Total Fund. The Fund also uses closed end commingled funds to generate higher returns and to access differentiated strategies and management teams.

CalPERS continues to be an industry leader in creating and embracing Responsible Contractor Policies and ESG best practices at its properties. Additionally, during the last five years, the Staff has made progress harmonizing several of the private asset classes under the Real Assets Unit. This has improved continuity of research, decision-making, risk mitigation and reporting, as well as providing increased knowledge across INVO. This is consistent with a System wide, Total Fund approach rather than a collection of independent asset "silos."

Real Estate Portfolio Structure

The Portfolio invests via a number of different managers and investment vehicles, currently relying primarily on separate accounts and commingled funds.

Partners	Investment Vehicles	Investments	Countries
20	41	1,367	10+

Investment Vehicle Type	Count	% of NAV	% of NAV + Unfunded
Commingled Funds	8	7.1	6.5
Direct Investments	1	21.0	19.6
Fund Co-Investments	1	0.3	0.4
Separate Accounts	31	71.6	73.5
Total	**41**	**100.0%**	**100.0%**

Real Assets Program Staffing Update

The Real Assets Program is led by its Managing Investment Director ("MID"), along with three Investment Directors, who together oversee approximately 37 other Staff positions, as of May 1, 2025.

As the level of activity in infrastructure has increased over the last several years, and infrastructure investment has begun to scale in a meaningful way, Real Assets' staff have begun to specialize in either real estate or infrastructure activities. Additionally, whereas there used to be a separation of new investment underwriting from ongoing portfolio management, most team members currently work across all phases of the investment program, including sourcing and diligencing new investments, as well as managing existing investments and manager relationships.

The Program is recruiting an Associate Investment Manager ("AIM") and an Investment Officer ("IO") I, both specifically for real estate. Staffing movements among professionals supporting the Real Estate

Portfolio over the prior fiscal year are as follows: one IO II promoted to an IO III, one IO III promoted to an AIM, one AIM promoted to an Investment Manager (“IM”), one IO II was promoted to an IO III and moved to a group outside of real estate, two new IO II hires, and one IO I departure.

Overall, we have observed the Real Assets team as stable, engaged, and collaboratively working together in a rigorous investment sourcing, diligencing, decision-making, and post-commitment and post-acquisition management process. Their rigor and focus has been important to increasing the infrastructure portfolio’s scale and diversification in a thoughtful, strategic, and prudent manner.

Conclusion

CalPERS’ continued discipline, long-term investment horizon in this illiquid asset class, and focus on the role of the asset class should continue to serve the needs of the System. Adhering to the Strategic Plan, particularly in times of market uncertainty and disruption, will ensure the real estate program continues to scale in an appropriate manner and contribute to achieving CalPERS’ investment objectives.

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

CF/KR/SPM/jls

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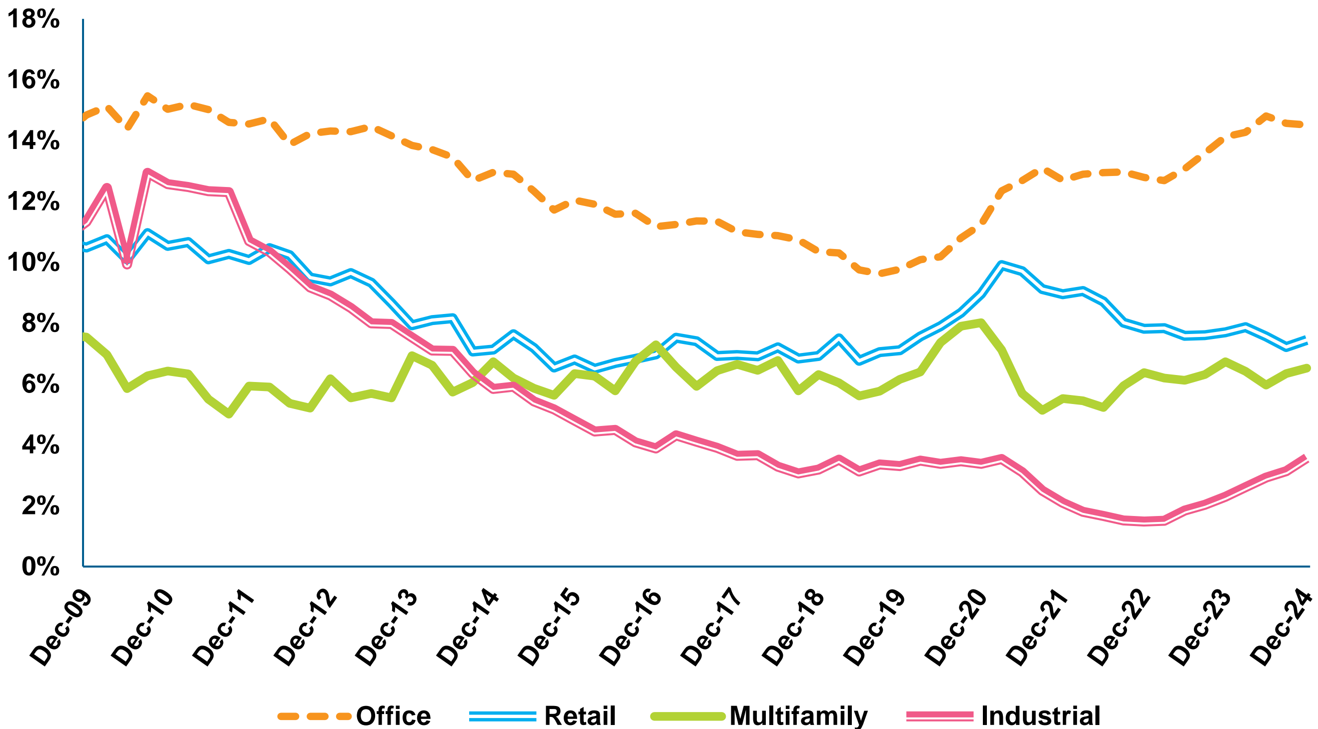
Attachment

Real Estate Market Views – Q4 2024

Vacancy by Property Type[1]



- In the fourth quarter of 2024, the aggregate vacancy rate across all property types continued to trend upwards to 6.5%, the highest rate since June 2021. Increasing vacancies are primarily attributed to the office and industrial sectors, which have seen the steadiest rises in vacancy rates over the past few years. Since the onset of COVID, office vacancies have generally continued to rise, primarily related to lower demand, and remain at their highest point since early 2012. Industrial vacancies have risen after achieving record lows in 2022, as normalized growth in tenant demand catches up to a wave of new supply fueled by the combination of a surge in tenant demand in 2021 and low construction financing costs.
- The multifamily sector has similarly been affected by oversupply issues; however, vacancies have remained relatively stagnant year-over-year. Over the long term, multifamily real estate demonstrates the most stable vacancy trends across the four main property types, largely rooted in the necessity of housing and growing population that continue to drive strong fundamentals of the sector.
- Retail is the sole property type to have experienced a steady decline in vacancies post-COVID, nearly reaching its average 2019 levels as of Q4 2024.

[1] Source: NCREIF.

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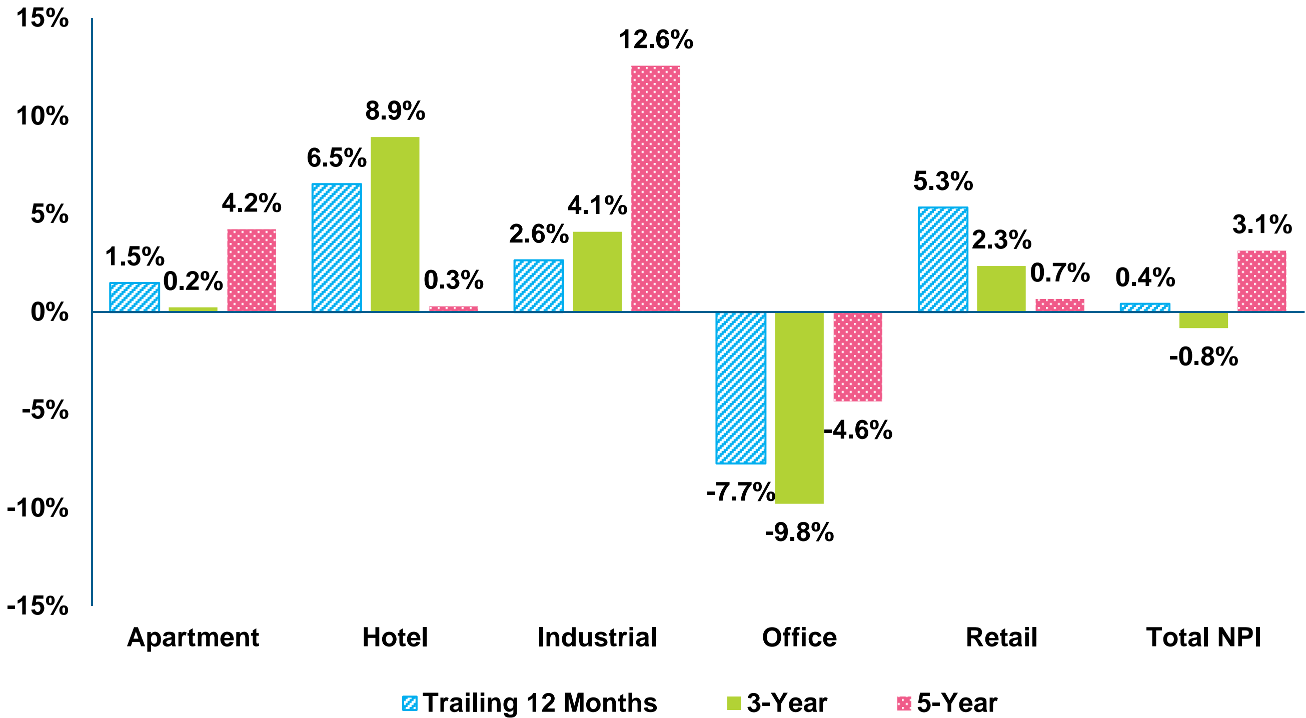

→ As of Q4 2024, the NCREIF Property Index ("NPI") generated a 0.4% trailing 12-month return, primarily diluted by the meaningful underperformance in the office sector, which posted a -7.7% return over the same time period. Office is the only sector with negative property-level returns across any of the three presented time periods.

→ Over the past few years, the hotel and retail sectors have exhibited outsized returns relative to their counterparts, demonstrating positive post-COVID rebounds as consumers return to travel and storefronts.

→ Over the longer-term, the industrial sector is a pronounced outperformer, having generated a 12.6% return over the last five years, as of Q4 2024, with multifamily trailing in second place at 4.2%.

[1] Source: NCREIF.

Transaction Volume ($B)[1]

$400
$350
$300
$250
$200
$150
$100
$50
$0

Q1 2013 Q3 2013 Q1 2014 Q3 2014 Q1 2015 Q3 2015 Q1 2016 Q3 2016 Q1 2017 Q3 2017 Q1 2018 Q3 2018 Q1 2019 Q3 2019 Q1 2020 Q3 2020 Q1 2021 Q3 2021 Q1 2022 Q3 2022 Q1 2023 Q3 2023 Q1 2024 Q3 2024

2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 2023 2024

Industrial Multifamily Office Retail Hotel Land

- Private real estate transaction volume for properties valued over $2.5 million accelerated considerably in the fourth quarter of 2024 to $145.5 billion, representing a significant increase of over $47 billion from the prior quarter and the highest quarterly transaction volume total since the fourth quarter of 2022.
- Transaction volume increased across all sectors during the fourth quarter, with the exception of hotel activity, which remained relatively stagnant. Multifamily and industrial saw the largest increases in transaction volume in Q4 2024 and continue to constitute the property types with the highest activity overall, representing $50.1 billion and $42.0 billion, respectively, of transaction volume in the fourth quarter.
- The fourth quarter upsurge in transaction volume corresponds with the multiple rate cuts that occurred from September through December of 2024, making financing for real estate transactions both more attractive and readily available.

[1] Source: PREA.

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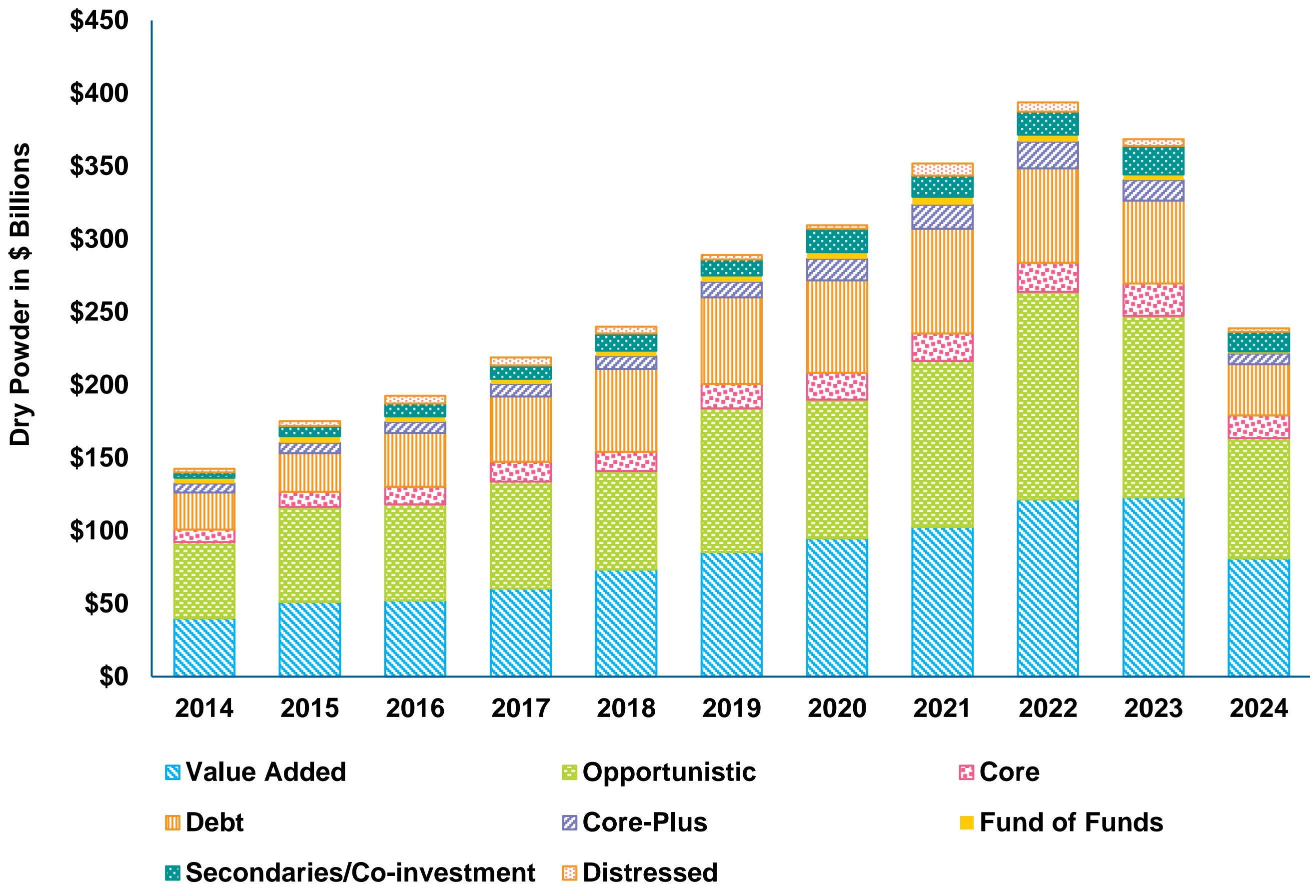
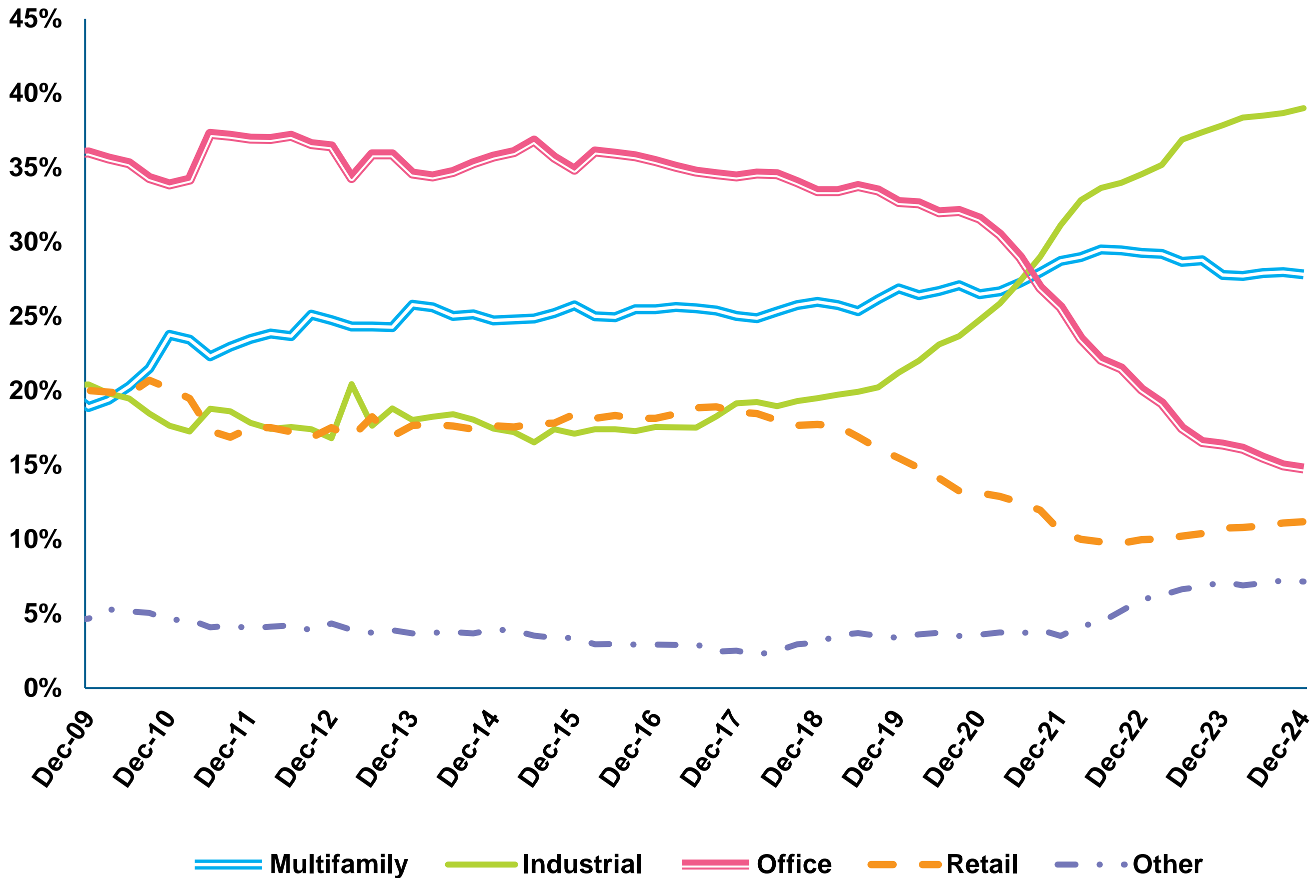


- "Dry powder", or committed but uncalled capital, for real estate closed-end funds in North America has generally trended upwards over time, reaching peak levels in 2022 as an influx of capital flowed to the asset class due to strong performance. In turn, commercial real estate sustained significant cap rate compression ahead of the pandemic in 2020, resulting in frothy market conditions and a large rise in dry powder in 2019 as managers struggled to achieve price points to viably reach target returns.
- Post-COVID, the overhang of dry powder was initially exacerbated by market uncertainty and a halt in transactions, which eventually dissipated and turned into a highly active fundraising market resulting from the low interest rate environment and pent-up demand, further increasing dry powder in 2021 and 2022.
- In recent years, the amount of real estate capital to deploy within North America has declined as fundraising has slowed amidst the higher rate environment, the subsequent valuation decline, and the slower pace of deployment (delaying the launch of many new closed-end funds).

[1] Source: Preqin. Data as of March 2025. North America Funds. Dry Powder is defined as the capital called amount, subtracted from the fund's size/latest close size. If the capital called % metric is not reported for a given fund, a benchmark capital called % is used instead. For fundraising totals, Preqin only uses final close sizes and does not account for each close – calculations only count in the year of the final close.



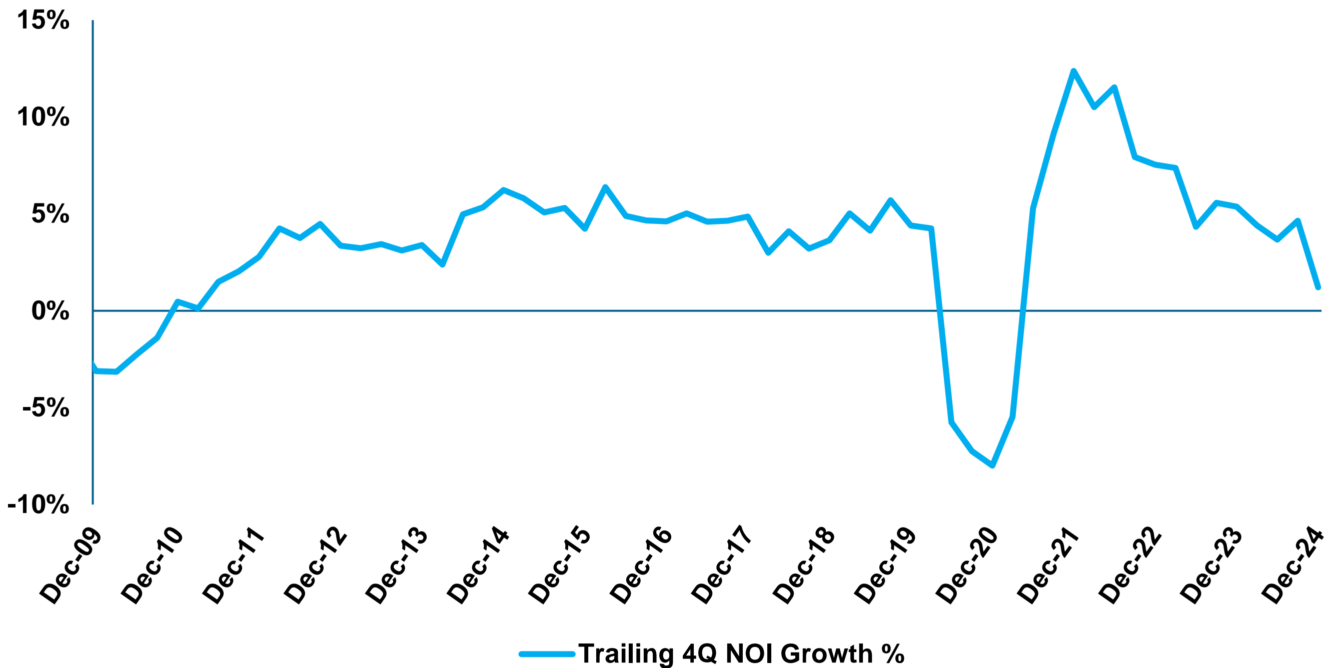
→ The NFI-ODCE Equal Weight Index currently comprises 28% multifamily, 39% industrial, 15% office, 11% retail, and 7% in other property types, based on its net asset value ("NAV") as of Q4 2024.

→ Capital flows and values began to favor the industrial sector starting around 2017, at the expense of office and retail properties. The onset of the pandemic in 2020 further accelerated the decline in office and retail exposure, although the retail sector has experienced a recovery post-COVID given its strong fundamentals of low supply, high demand, and strong rent growth, particularly in neighborhood and community centers.

→ Other property types, including self-storage, healthcare, and senior housing, have continued to gain traction over the last several years as managers seek to re-allocate office dollars and diversify their portfolios beyond traditional multifamily and industrial.

[1] Source: NCREIF.

NOI Growth[1]



- → Following the GFC, annual income growth rates were relatively steady, hovering in the 2% to 5% range leading up to the COVID pandemic.
- → NOI Growth turned negative in early 2020, driven by dramatic declines in in-store shopping and a surge in remote office work. Many jurisdictions also established apartment eviction moratoriums, which led some renters to remain in place without making monthly payments.
- → NOI Growth bounced back in 2021 as shoppers returned to stores, eviction moratoriums were lifted, and in-office mandates were reinstated, for most, to at least 2 or 3 days in the office per week.
- → The overall trailing twelve-month NOI growth rate decelerated in Q4 2024, but remained positive at 1.2%. Generally, vacancies have increased and rent growth has slowed. Office continues to be the sole sector with a negative year-over-year NOI growth rate.

[1] Source: NCREIF.

Real Estate Capital Markets
Cap Rates vs. 10-Year Treasury[1]

9%
8%
7%
6%
5%
4%
3%
2%
1%
0%
-1%

Dec-09 Dec-10 Dec-11 Dec-12 Dec-13 Dec-14 Dec-15 Dec-16 Dec-17 Dec-18 Dec-19 Dec-20 Dec-21 Dec-22 Dec-23 Dec-24

NPI Value Wtd Cap Rate | 10-Yr Treasury | Spread | Average Spread

- The NPI Value Weighted Cap Rate decreased marginally by 12 basis points from 4.64% over the fourth quarter but has remained relatively stable over the past year.
- Despite rate cuts by the Fed in the last few months of 2024, the 10-year Treasury yield continued to rise throughout the fourth quarter to 4.58% as of year-end. As a result, the cap rate spread nearly reached zero but remained positive. The spread as of Q4 2024 was well-below the historical average spread of 226 basis points over the last 15 years.

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[1] Source: NCREIF and US Department of the Treasury.

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ODCE Return Components[1]
(Equal Weight, Net)

9%
8%
7%
6%
5%
4%
3%
2%
1%
0%
-1%
-2%
-3%
-4%
-5%
-6%
-7%

Dec-13 Jun-14 Dec-14 Jun-15 Dec-15 Jun-16 Dec-16 Jun-17 Dec-17 Jun-18 Dec-18 Jun-19 Dec-19 Jun-20 Dec-20 Jun-21 Dec-21 Jun-22 Dec-22 Jun-23 Dec-23 Jun-24 Dec-24

Income Appreciation

- Quarterly income returns have been consistently positioned in the 0.75% to 1.00% range over the last ten years.
- Appreciation returns demonstrate greater volatility over time, spiking in 2021 and early 2022, primarily driven by the availability of inexpensive debt.
- Appreciation returns reversed in late 2022 through the third quarter of 2024 in response to rising rates, waning demand for office, and pockets of oversupply.
- In the fourth quarter of 2024, the NFI-ODCE EW Index reported its first positive net return in nine consecutive quarters. Appreciation was nominal at 0.03% for the quarter.

[1] Source: NCREIF.

Trailing Period Returns[1]

As of December 31, 2024	Quarter	1 Year	3 Years	5 Years	10 Years
NFI-ODCE (Equal Weight, net)	0.85	-2.43	-3.11	2.24	5.25
NFI-ODCE (Value Weight, net)	0.96	-2.27	-3.14	1.99	4.94
NCREIF Property Index	0.90	0.43	-0.82	3.13	5.66
NAREIT Equity REIT Index	-8.15	4.92	-4.28	3.29	5.79

→ NFI-ODCE EW Index net returns were positive in the fourth quarter of 2024, following eight consecutive quarters of decline.

→ As a result of two years of negative quarterly returns, the NFI-ODCE performance over the 1- and 3-year time periods remains negative. Over the longer term, returns are positive and near public real estate returns over the 10-year time horizon, as of Q4 2024.

→ Public real estate returns are generally more volatile – both up and down – than private market returns. Private real estate returns usually time-lag the public markets. The time lag in private real estate returns is due in part to valuations being heavily influenced by comparable sales appraisals. Institutional real estate is largely valued based on the sale price of similar properties. When transactions decrease significantly, appraisers have difficulty accurately estimating the values at which other properties would trade if placed for sale.

[1] Source: NCREIF.

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