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MEMORANDUM

TO: Members of the Investment Committee, CalPERS
FROM: Meketa Investment Group
DATE: September 15, 2025
RE: Real Estate Trust Level Review as of June 30, 2025

In our role as the Board Real Estate Consultant, Meketa Investment Group ("Meketa") conducted a 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 June 30, 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 70.7%. 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 underperformed the benchmark for the one- and ten-year time periods, and were in-line with 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 (34.6% versus the benchmark of 26.3%). 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.

Net Returns June 30, 2025	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)
Real Estate Returns	1.1	-5.0	2.0	4.0
Real Estate Policy Benchmark[3]	1.3	-5.0	2.0	4.7
Over (under) Performance	-0.2	0.0	0.0	-0.7

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[1] Real Assets Program Allocation, Characteristics, and Leverage Reports (pdf) and Datasheets (Excel), Period Ending March 31, 2025, and Real Assets Quarterly Performance Report, Partnership Financial Statements as of March 31, 2025.

[2] Per Wilshire's CalPERS Real Assets Performance Analysis Review for the period ended June 30, 2025 reported with a 1-quarter lag, so effectively as of March 31, 2025.

[3] 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.

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 current quarter and prior quarter. Nonetheless, Meketa continues to expect some near-term volatility in valuations, due to economic uncertainty and the forward trajectory of interest rates, inflation, and other economic indicators.

Performance Attribution

Rising interest rates and COVID market dislocations have created a very challenging return environment since 2022. The cumulative quarterly returns between September 2022 and the current quarter are weighing heavily on all time periods presented. However, despite the relative and absolute total returns being lower than what one would normally anticipate, the three- and five-year returns on an absolute basis were in-line with the benchmark. In addition, while the one-year return underperformed the benchmark by 20 basis points, the return turned positive this quarter. The ten-year return underperformed the benchmark by 70 basis points due to rising interest rates, CalPERS' higher use of leverage, somewhat less robust appreciation across property types, the office portfolio, and a higher retail allocation than the benchmark. 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. In addition, while the overweight to retail, and malls in particular, is a drag on the longer dated five- and ten-year returns, total retail returns have improved in recent quarters. 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 1.1% net return, consisting of 3.9% current income and negative appreciation of 2.8%. While the total net return underperformed the benchmark by 20 basis points, the overall data center, retail and multifamily portfolios each outperformed the benchmark by at least 350 basis points. The total core portfolio also outperformed the benchmark by 60 basis points 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 7.1%. 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 9.4% of the core portfolio, and which generated a negative 8.1% one-year return, in addition to negative returns for the three-, five-, and ten-year time periods. However, on an unlevered basis, the core office portfolio outperformed its peer set for the three- and five-year time periods. While CalPERS' underweight to office relative to the benchmark is a positive, and the return for the current quarter within CalPERS' portfolio and the benchmark turned positive, the overall sector is very challenged and further deterioration is possible.

Industrial and multifamily returns have moderated from recent highs. CalPERS' industrial portfolio, representing 33.5% of the core portfolio, posted returns for the one-year time period of negative 0.1%. CalPERS' multifamily portfolio, representing 26.5% of the core portfolio, posted returns for the one-year time period of 4.7%. 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 9.9% of the core portfolio, posted a total return of 6.1% for the one-year time period. The mall retail property type in general has evolved over the past ten years in response to a decrease in foot traffic and an increase in online shopping. However, more retailers are implementing an omnichannel retailing model which integrates the customer experience across online, mobile applications, and physical stores. Creating a seamless experience across channels with the added benefit of customers being able to pick up and/or return items purchased via another channel to a physical store is benefitting mall owners. Even digital native stores are now interested in a physical store location close to their customers. Mall owners have also increased the different types of retail concepts and experiences being added to properties in order to drive more foot traffic, although this has also increased renovation costs. Since inception, these investments have produced a 4.6% total net return.

The other portion of CalPERS' retail holdings, grocery-anchored shopping centers, which amount to 10.3% of the core portfolio, generated a return of 5.9% for the one-year time period. The portfolio also generated positive returns across the three-, five-, and ten-year time periods in addition to a since inception return of 8.9%. 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 87.7% of the Real Estate Portfolio, produced longer-term returns of 2.5% for the five-year period, and exceeded the Real Estate Policy benchmark returns by 50 basis points. The ten-year return of 5.2% exceeded the 4.7% benchmark return also by 50 basis points. 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 June 30, 2025[1]	**NAV ($B)**	**1 Year (%)**	**3 Year (%)**	**5 Year (%)**	**10 Year (%)**
Core	46.3	1.9	-4.7	2.5	5.2
Value Add	3.9	-4.4	-8.0	-2.0	1.0
Opportunistic	0.9	-6.2	-10.2	-2.9	-1.3
Real Estate Policy Benchmark	--	1.3	-5.0	2.0	4.7

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[1] Private Investment data are one quarter lagged, so effectively as of March 31, 2025.

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 6/30/2025 Exposure[1]
Risk Classification	**(%)**	**(%)[1]**
Core	75-100	87.7
Non-Core	0-25	12.3
Geographic Region	**(%)**	**(%)[2]**
United States	75-100	93.8
International Developed	0-25	3.8
International Developing	0-15	2.4
International Frontier	0-5	0.0
Manager Exposure[3]	**(%)**	**(%)**
Largest Partner Relationship	20 max	11.3
Investments with No External Manager	20 max	13.3
Leverage[4]		
Loan to Value	50% max	34.6%
Debt Service Coverage Ratio	1.5x min	2.5x

Implementation

The Real Estate Portfolio had a market value of $51.6 billion at the end of the current reporting period, representing 70.7% of the Real Assets program and 9.3% of the total portfolio. Including Forestland and Infrastructure, the Real Assets program currently comprises 13.1% 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 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

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[1] Real Assets Quarterly Performance Report as of March 31, 2025 and Real Assets March 31, 2025 Characteristics Report (PDF), based on asset-level risk.

[2] Real Assets Quarterly Performance Report as of March 31, 2025 and Real Assets March 31, 2025 Characteristics Report (PDF), based on asset-level geography.

[3] CalPERS Real Assets Portfolio Allocation Report (Excel), Period Ending March 31, 2025: 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 ($86.4 billion).

[4] CalPERS Real Assets Portfolio Leverage Report (PDF), Quarter Ending March 31, 2025.

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."

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.

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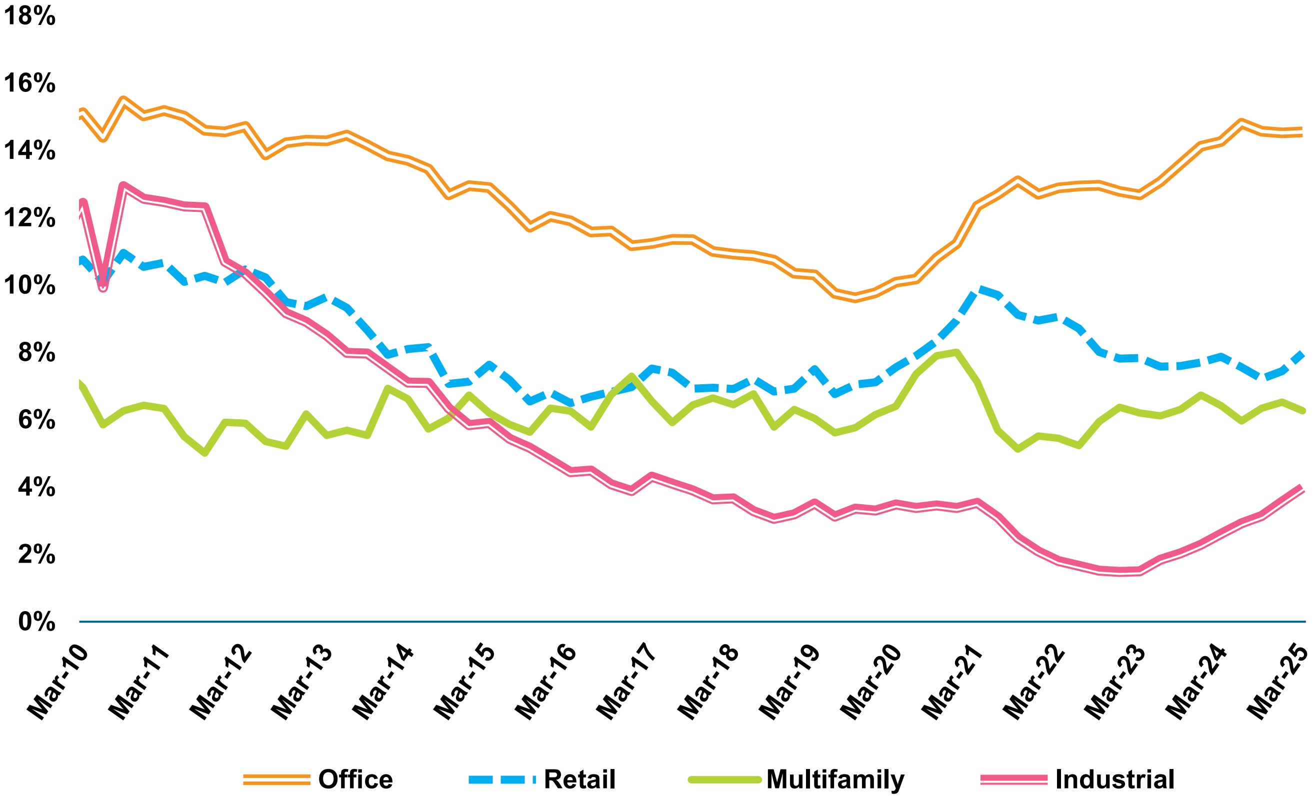
Attachment

Real Estate Market Views – Q1 2025

Vacancy by Property Type[1]



In the first quarter of 2025, the aggregate vacancy rate across all property types continued to trend upwards to 6.7%, the highest rate since March 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, although experiencing a slight uptick in its vacancy rate towards the end of 2024 and in the first quarter of 2025 as previously announced store closures of major retailers, such as Big Lots and Party City, began to take effect.

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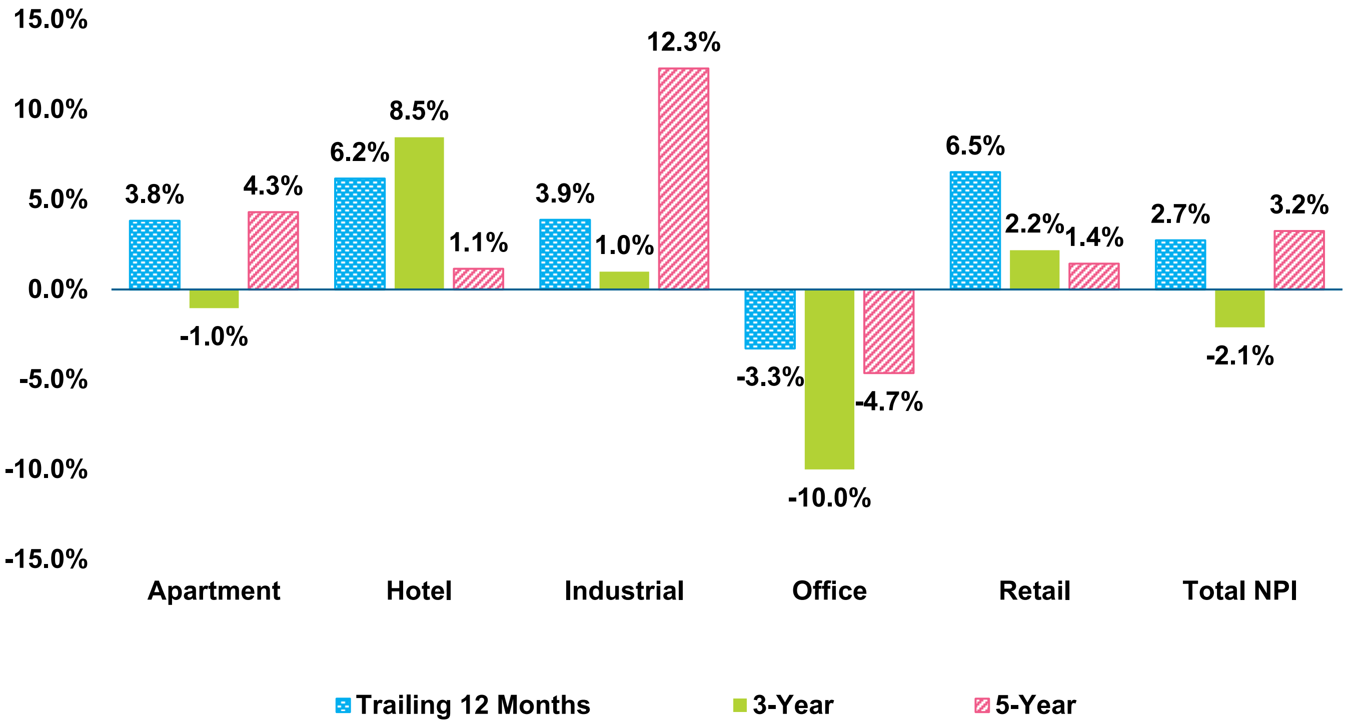
[1] Source: NCREIF.

NPI Returns by Property Type[1]



As of Q1 2025, the NCREIF Property Index ("NPI") generated a 2.7% trailing 12-month return, primarily diluted by continued underperformance in the office sector, which posted a -3.3% return over the same time period. Office is the only sector with negative property-level returns across any of the three presented time periods, with the exception of the three-year return for apartments which was also slightly negative given heightened deliveries during the respective time frame.

Over the one- and three-year time horizons, 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 12.3% return over the last five years, as of Q1 2025, with multifamily trailing in second place at only 4.3%.

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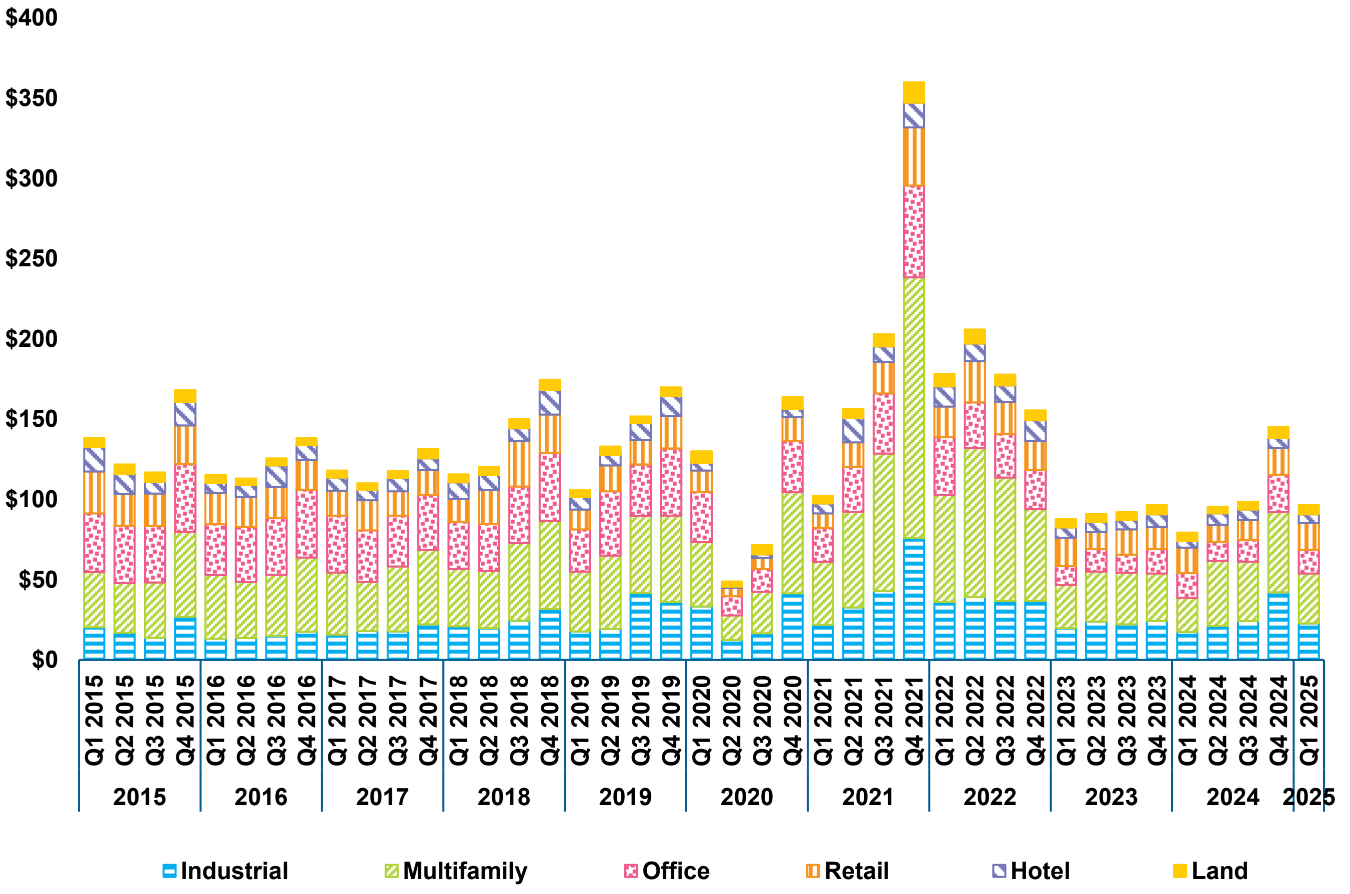
[1] Source: NCREIF.

Transaction Volume ($B)[1]



Private real estate transaction volume for properties valued over $2.5 million meaningfully decelerated in the first quarter of 2025 to $97 billion, representing a significant decrease of over $48 billion, or 33%, from the prior quarter.

Transaction volume declined across all sectors during the first quarter, with the exception of retail activity, which remained relatively stagnant. Multifamily and industrial saw the largest declines in transaction volume in Q1 2025, each dropping by $19 billion, but remaining the property types with the highest transaction activity overall.

While there is typically a drop off in closed transactions in the first quarter (following buyers/sellers trying to close deals before year-end), we can point to two other drivers of diminished activity in Q1 2025. First, interest rates dipped from August 2024 to October 2024, creating a window for higher offering prices. Second, investors may have been waiting for clarity on the new Administration's policies, particularly regarding tariffs. Importantly, real estate transactions often take 60-90 days from agreement to when they actually close, creating a modest lag effect in the transaction data presented above.

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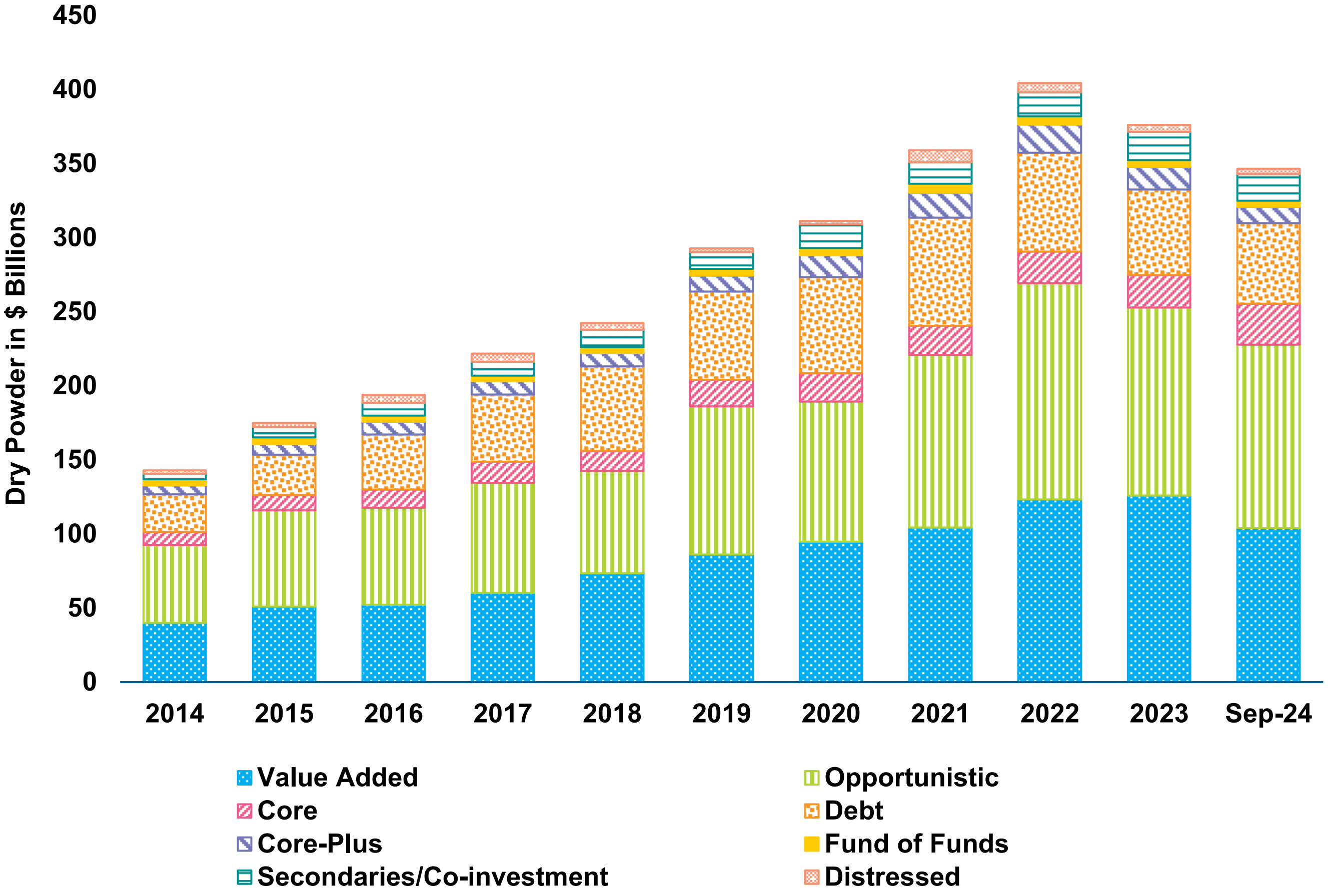
[1] Source: PREA.

Dry Powder for Real Estate Closed-end Funds ($B)[1,2]



“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).

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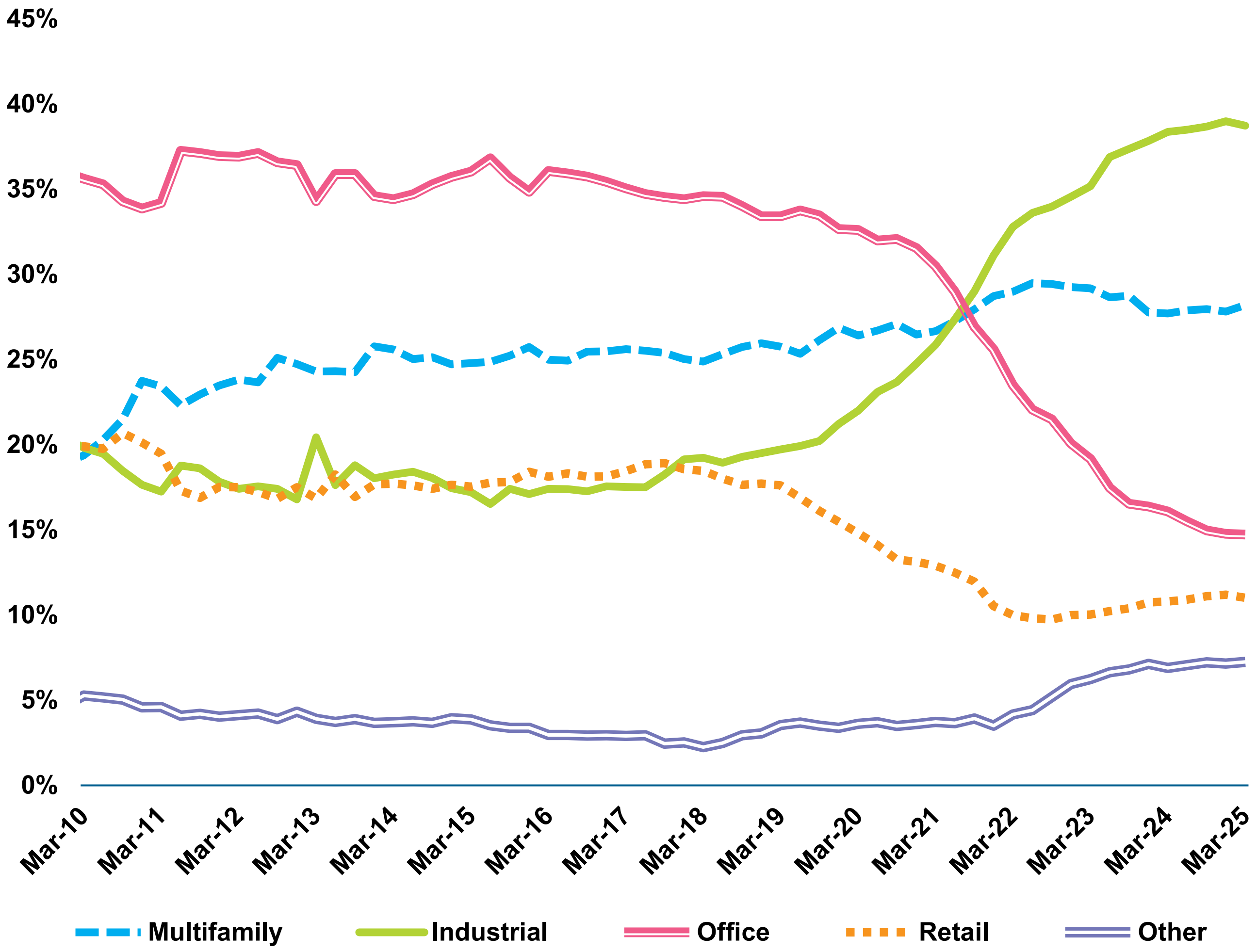
[1] Source: Preqin. Data pulled as of June 2025. North America Funds. Dry Powder is defined as the capital called amount, subtracted from the fund’s size/latest close size. If the capital called % metric is not reported for a given fund, a benchmark capital called % is used instead. For fundraising totals,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

[2] There is a significant lag in Preqin’s dry powder data with September 30, 2024 representing the latest figures, which were released in April 2025. More recent data was removed as Preqin updates its Dry Powder methodology. Until the rollout, Dry Powder data aligns with AUM availability.

ODCE Property Type Allocation[1]
(% of EW NAV)



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 Q1 2025.

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 which drastically dropped off in 2021 and 2022 and has continued its steady decline through present day. While retail similarly experienced an initial dip post-COVID, the sector has encountered a recent recovery 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. The Index’s single largest exposure within “Other” is currently self-storage, representing a 2.9% allocation as of Q1 2025.

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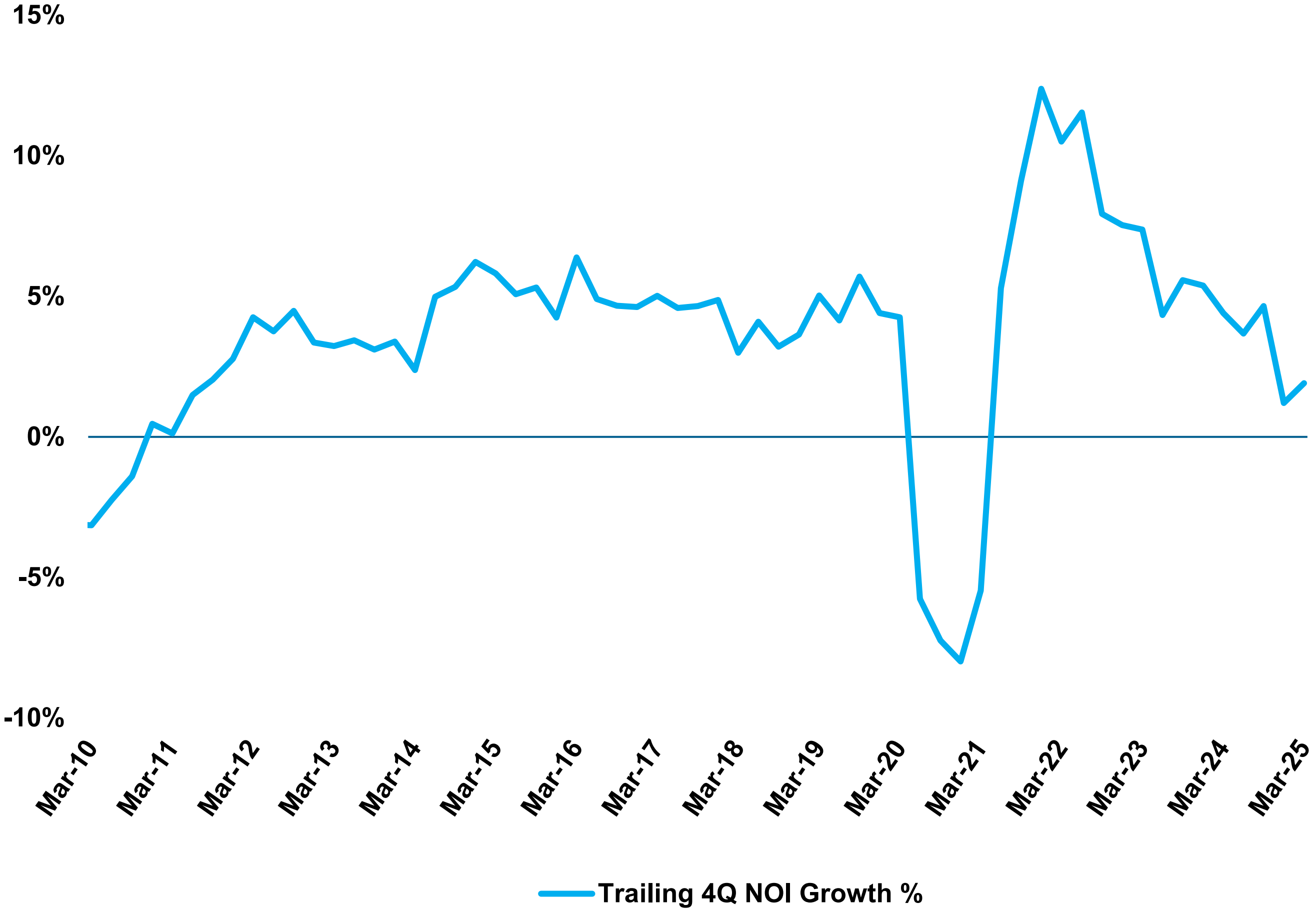
[1] Source: NCREIF.

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 two or three days in the office per week.

The overall trailing 12-month NOI growth rate accelerated in Q1 2025 to 1.9%, a 70 bps increase from the prior quarter. All sectors experienced an increase in respective year-over-year NOI growth rates, with the exception of office which decelerated to -7.5%, down over 300 bps from Q4 2024.

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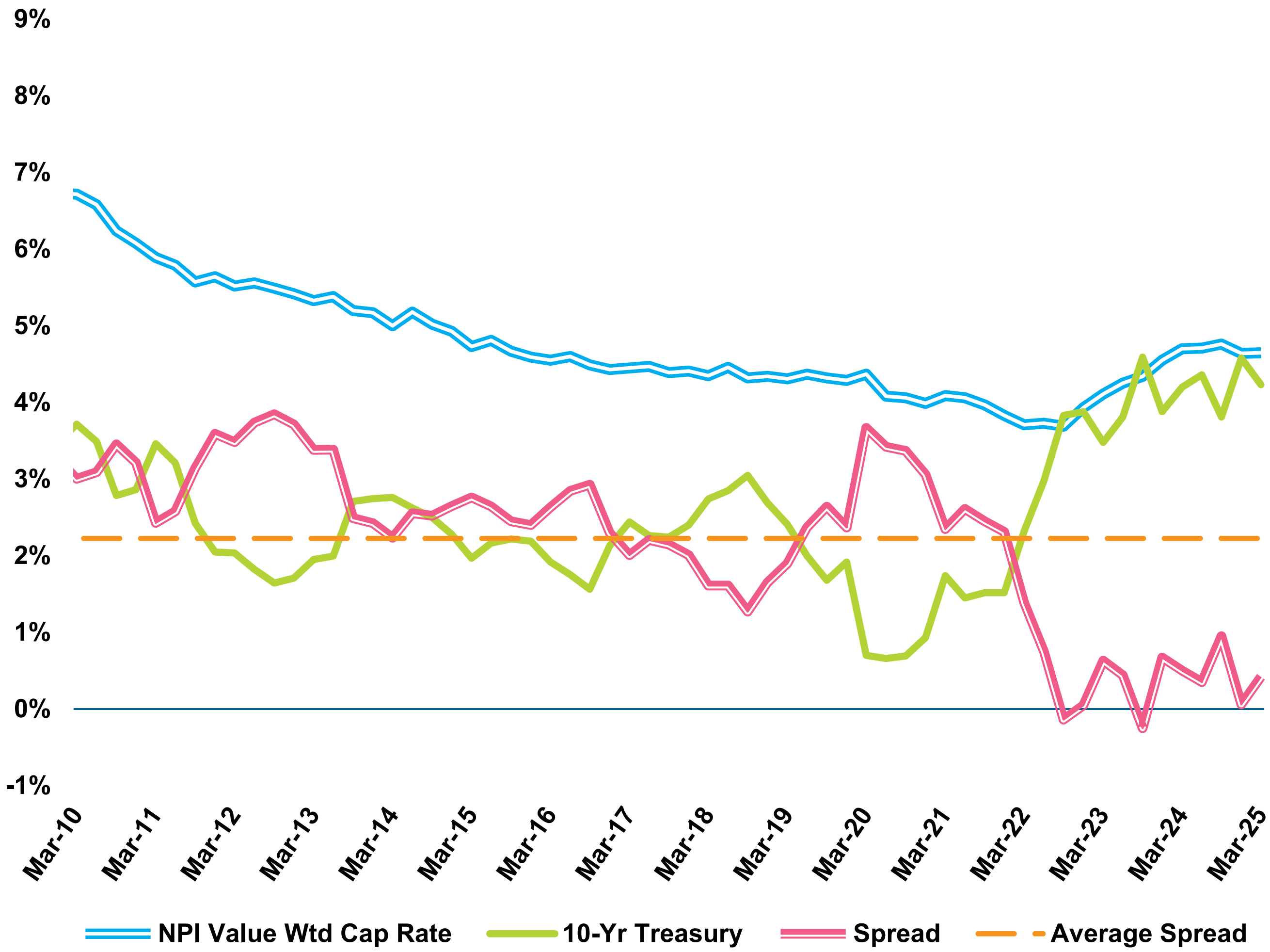
[1] Source: NCREIF.

Real Estate Capital Markets

Cap Rates vs. 10-Year Treasury[1]



The NPI Value Weighted Cap Rate remained stagnant over the first quarter at 4.65%, only increasing by a single basis point from Q4 2024.

The 10-year Treasury yield compressed during Q1 2025 as market concerns surrounding an economic slowdown heightened and demand for safer investments, including treasury bonds, increased. Despite a slight decline in the 10-year treasury yield, the cap rate spread as of Q1 2025 remained tight at 0.4%, well-below the historical average spread of 226 basis points over the last 15 years.

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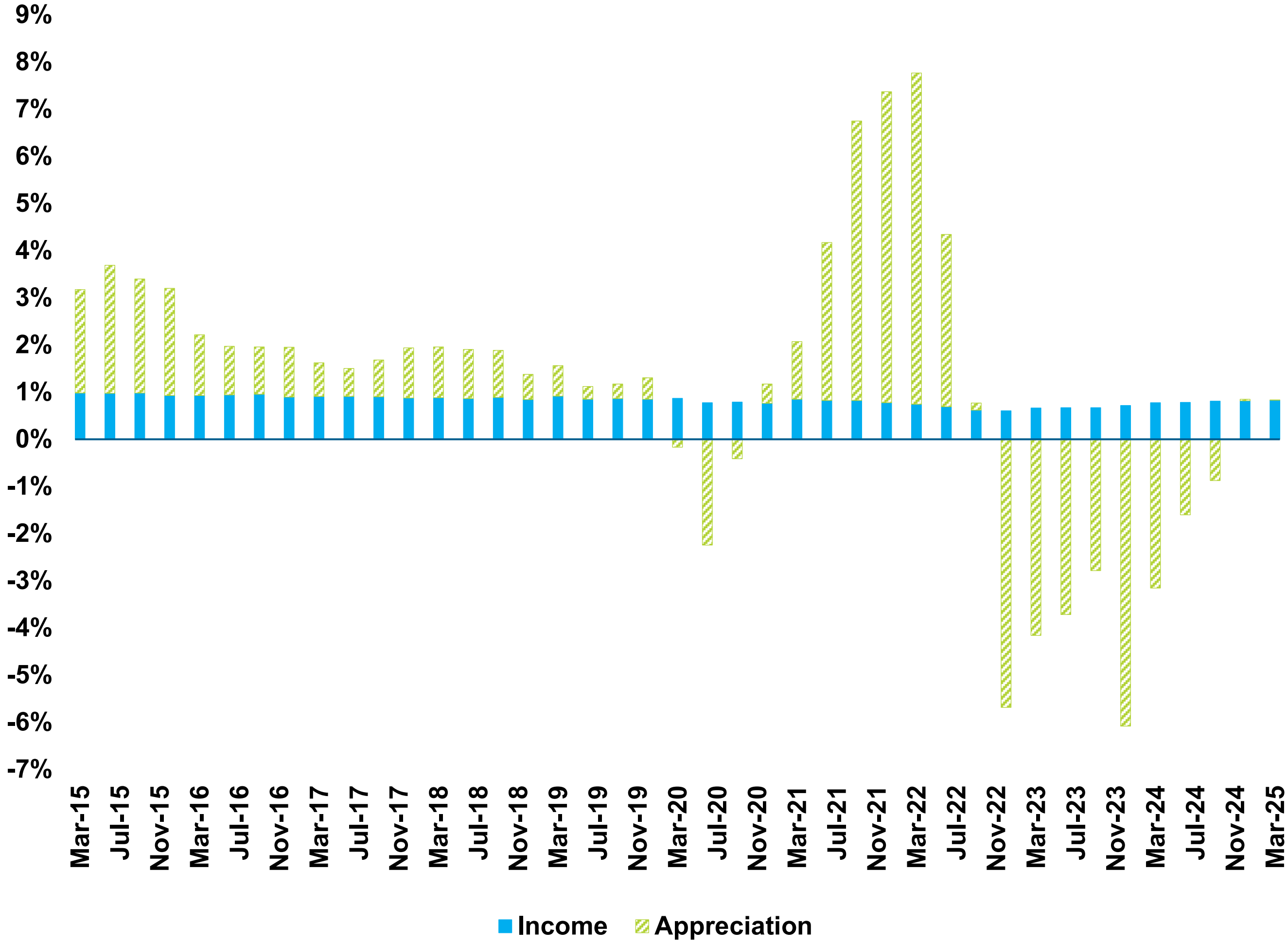
[1] Source: NCREIF and US Department of the Treasury.

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



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 first quarter of 2025, the NFI-ODCE EW Index reported a second consecutive positive net return. Appreciation was nominal at 0.01% for the quarter, while income remained steady at 0.83% during Q1 2025.

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[1] Source: NCREIF.

Trailing Period Returns[1]

As of March 31, 2025	Quarter (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)
NFI-ODCE (Equal Weight, net)	0.84	0.78	-5.24	2.26	5.00
NFI-ODCE (Value Weight, net)	0.85	1.17	-5.07	2.01	4.71
NCREIF Property Index	1.28	2.72	-2.11	3.25	5.42
NAREIT Equity REIT Index	2.75	9.23	-1.66	9.55	5.66

NFI-ODCE EW Index net returns were positive in the first quarter of 2025 and flat relative to previous quarter returns (0.85% in Q4 2024).

As a result of two consecutive quarters of positive returns, the NFI-ODCE performance over the 1-year time period turned positive as of Q1 2025, although the 3-year returns remained negative. Over the longer term, all ODCE Index returns are positive, closing the gap between public real estate returns over the 10-year time horizon.

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.

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[1] Source: NCREIF.

September 15, 2025

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