The CalPERS Private Equity Turnaround

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Private Equity

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Agenda

- Private Equity (PE) Overview
- CalPERS PE History: 1990 – 2022
- CalPERS PE Turnaround: 2022 – Present
- Glossary
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Private Equity Overview

PE and its characteristics

Definition: Ownership investments (shares) in companies not listed publicly on stock exchanges

Characteristics of PE as an asset class:

- **Active**: PE firms seek to add returns through operational improvements, opportunistic entry and exit, and/or optimizing capital structures (i.e., using debt at levels tailored to businesses)
- **Illiquid**: Life cycle of PE investments can be 10+ years, making it appropriate only for long-term investors
- **Smoothed (lower realized volatility)**: Because PE investments are not publicly traded, companies are marked at estimated market values per accounting standards, resulting in more valuation stability than with publicly traded stocks
- **Complex and less transparent**: PE investments have legal, operational, and regulatory burdens and less reporting than public companies
- **Expensive**: While PE has had higher net returns than public equity over the long term, PE has higher fees than public equity. PE's management fees are meant to support active management, and carried interest is meant to incentivize higher returns
- **Access constrained**: PE investments are generally limited to institutional investors or high-net-worth individuals, although recent regulatory shifts are widening access. However, some PE investments are oversubscribed and difficult to access regardless of regulations
- **Higher risk/reward**: PE has the highest expected return and volatility (i.e., capital market assumptions) of any other CalPERS asset class
    - The current CalPERS 20-year midpoint expected return for PE is 7.6%, 90bps higher than that for public equity (6.7%)
    - PE is one of only two asset classes with an expected return above the CalPERS 6.8% discount rate; the other is Infrastructure (6.9%)

Note: Capital market assumptions (CMAs) are based on the 3/31/2025 survey of 15 institutional providers and internally reviewed. CMAs are available in the Appendix

CalPERS invests in five asset classes, including PE

Asset Class	Target Allocation %	Range	NAV in $bn
Public Equity	37%	+/-7%	215
Fixed Income	28%	+/-6%	169
Private Equity	17%	+/-5%	98
Real Assets	15%	+/-5%	73
Private Debt	8%	+/-5%	21

Note: NAV is net asset value. NAVs are as of 6/30/25. Target allocations and ranges are provided in the Total Fund Investment Policy (https://www.calpers.ca.gov/documents/total-fund-investment-policy/download?inline). Real Assets includes Infrastructure and Real Estate

Major segments of PE

CalPERS Defines PE Broadly and Emphasizes Three Segments:

BUYOUT	GROWTH	VENTURE
Controlling stakes in mature companies using equity and debt	Minority stakes in fast-growing companies seeking to accelerate their growth with no or limited debt	Minority stakes in early-stage companies with high-growth potential and no or limited debt

Note: Private Debt investments were at one time part of the Private Equity asset class, but CalPERS launched Private Debt as a separate asset class in July 2022

Differences between public and private equity

Public Equity	Private Equity
Ownership of publicly listed companies	Ownership of privately held companies
Traded on stock exchanges	Traded via private transactions
Daily market pricing	Periodic, model-based valuations
Liquidity at the expense of more volatility	Lower volatility at the expense of illiquidity
Usually broad shareholder base	Few and concentrated shareholders
Asset manager does not control companies	Asset manager often controls companies
Lower risk, lower return potential	Higher risk, higher return potential

Key entities in PE investing

Private Equity Fund	A pool of capital bringing together a general partner (asset manager) and limited partners (e.g., pension plan); governed by a partnership agreement setting out participant responsibilities
Limited Partner (LP)	An investor providing capital to a fund with no direct involvement in the fund's selection or management of investments; exchanges control for reduced liability
General Partner (GP)	Manages the fund and is the intermediary between sources of capital (LPs) and investments (portfolio companies). The GP has investment discretion, often controls portfolio companies, and takes on liability
Portfolio Company	A company or entity in which a private equity fund invests

Differences between general and limited partners

General Partner (GP)	Limited Partner (LP)
Manages the PE fund	Provides capital
Selects and exits portfolio companies	Selects funds and co-investments
Active ownership and oversight	Passive investor; selects and monitors GPs
Earns fees and carried interest	Earns net investment returns
Unlimited liability and fiduciary duty	Limited liability

Life cycle of a PE fund

Fundraising	Investment Period	Harvesting Period	Wind-Down & Fund Termination
Pre-Investment	**1-5 Years**	**3-10 Years**	**10+ Years**
• GP seeks capital from qualified investors (LPs) • Negotiation of fund terms (fees, governance, etc.) • LPs make capital commitments to GPs	• GPs source and diligence investment opportunities • Call and deploy capital into selected portfolio companies • Implement operational improvements and growth strategies	• Continue to improve portfolio companies through value creation plans • Monitor and report fund performance/updates to LPs • Exit companies to realize returns and distribute proceeds to LPs	• Complete remaining portfolio exits and distribute final proceeds to LPs • Settle all fund expenses and obligations; prepare final reports and financials • Legally dissolve the fund in accordance with regulatory requirements

How CalPERS invests in PE

Common Investment Structures

Commingled Fund	CalPERS commits capital alongside other institutional investors and acts as an LP in the fund, which is managed by the GP
Co-Investment	CalPERS invests alongside the GP in a specific portfolio company, although the GP-LP roles and legal distinctions remain, including liability differences
Customized Investment Account	CalPERS partners with a GP as the only LP in the fund. In exchange, CalPERS receives advantageous economic or governance terms, although the GP-LP roles and legal distinctions remain, including liability differences
LP Secondary	CalPERS transacts GP-LP structures after closing. LP secondaries are transactions between incoming and exiting LPs, and governance and economic terms with the GP are already in place
Fund of Funds	CalPERS invests in a fund that in turn invests as an LP in other funds, which leads to a more diversified portfolio but also a higher fee structure. CalPERS deemphasizes this approach under its current strategy

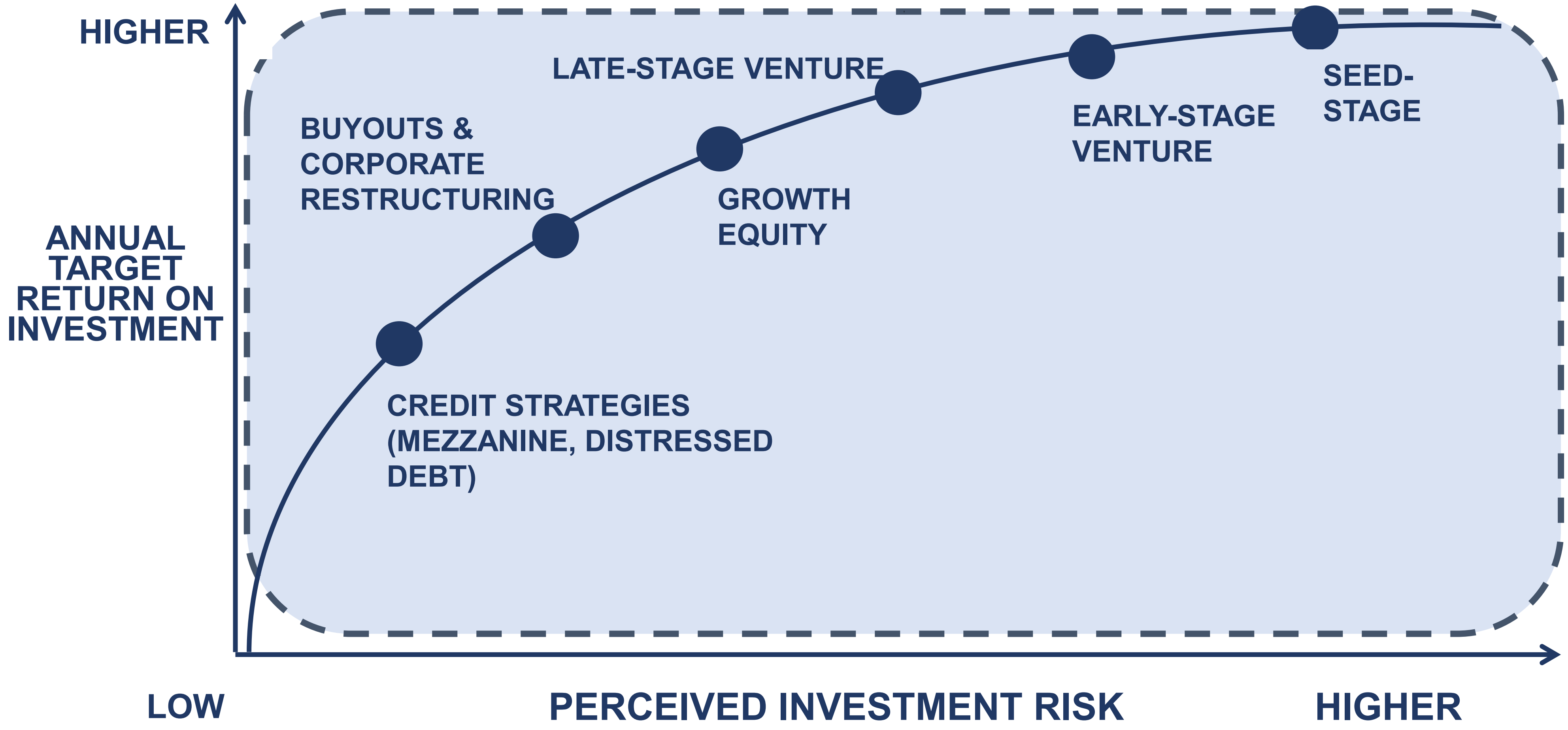
PE funds charge fees, which are reduced by co-invest

Assumptions for Fund Economics and Returns	
Committed	**$1,000,000,000**
Gross Multiple	**2.5x**
Management Fee	**1.25%**
Carry	**20%**
Fund Life	**10**

Resulting Co-invest Savings vs Fund Investments	
Management Fee	**$125,000,000**
Carry	**$275,000,000**
Total Savings from Co-investment	**$400,000,000**

- LPs make capital commitments to PE pools of capital (funds), which GPs invest on behalf of LPs
- Funds generate a gross return, which in this example is assumed to be 2.5x over a 10-year fund life
- LPs typically pay management fees on committed capital, and in this case the management fee is assumed to be 1.25% per year over each of the 10 years
- Although “2 and 20” is commonly used to describe PE’s fee structure, CalPERS usually pays management fees lower than 2% for PE funds
- GPs also receive a share of the profit (“carry”) from fund returns, which is usually 20%
- With co-investments, LPs typically do not pay management fees or carry, which leads to significant cost savings

PE strategies and their risk-return profiles



- Credit strategies are covered by the Private Debt asset class
- Venture includes seed-, early-, and late-stage investments

How private asset class holdings are valued

Valuation Framework

Valuation approaches with examples

Income Approach
- Discounted cash flows (DCF)

Market Approach
- Public comparables, past transactions

Asset Approach
- Liquidation value, replacement cost

Fair Value
(not a market price; assigned to an illiquid asset based on fundamental analysis to estimate a market exit price)

Governance & Oversight

GP Valuation Committees
- Assign fair value per accounting standards
- Validate assumptions
- Ensure consistency across portfolio

Independent Annual Audits
- Review methodology
- Confirm policy compliance
- Enhance transparency for LPs

CalPERS Internal Committees
- Review GP process and controls
- Assess adherence to legal agreements
- Mirror checks by other institutional LPs

Multiple valuation methods are applied and subject to layered governance, independent review, and CalPERS oversight

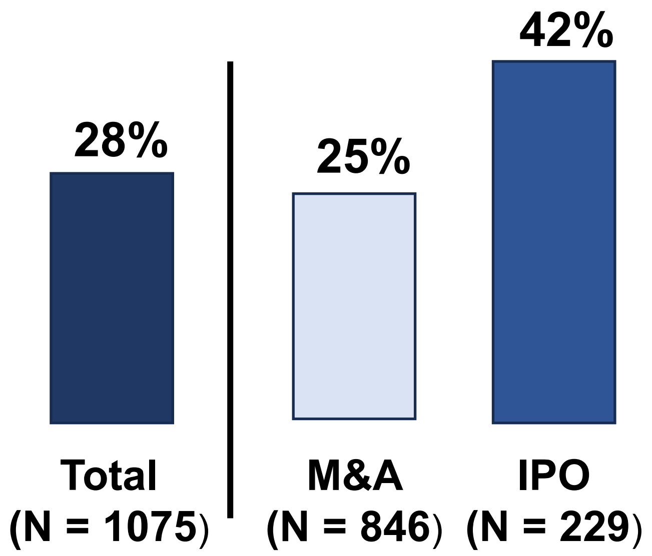
PE firms’ valuations are conservative on average

PE firms mark their investments at an estimated market exit (“fair value”) while holding them

To maximize return, PE firms opportunistically exit their holdings

“Uplift” occurs when a PE firm exits an investment above its prior mark

Private Equity Valuation Uplift at Exit 2005-2022 (vs two quarters prior)

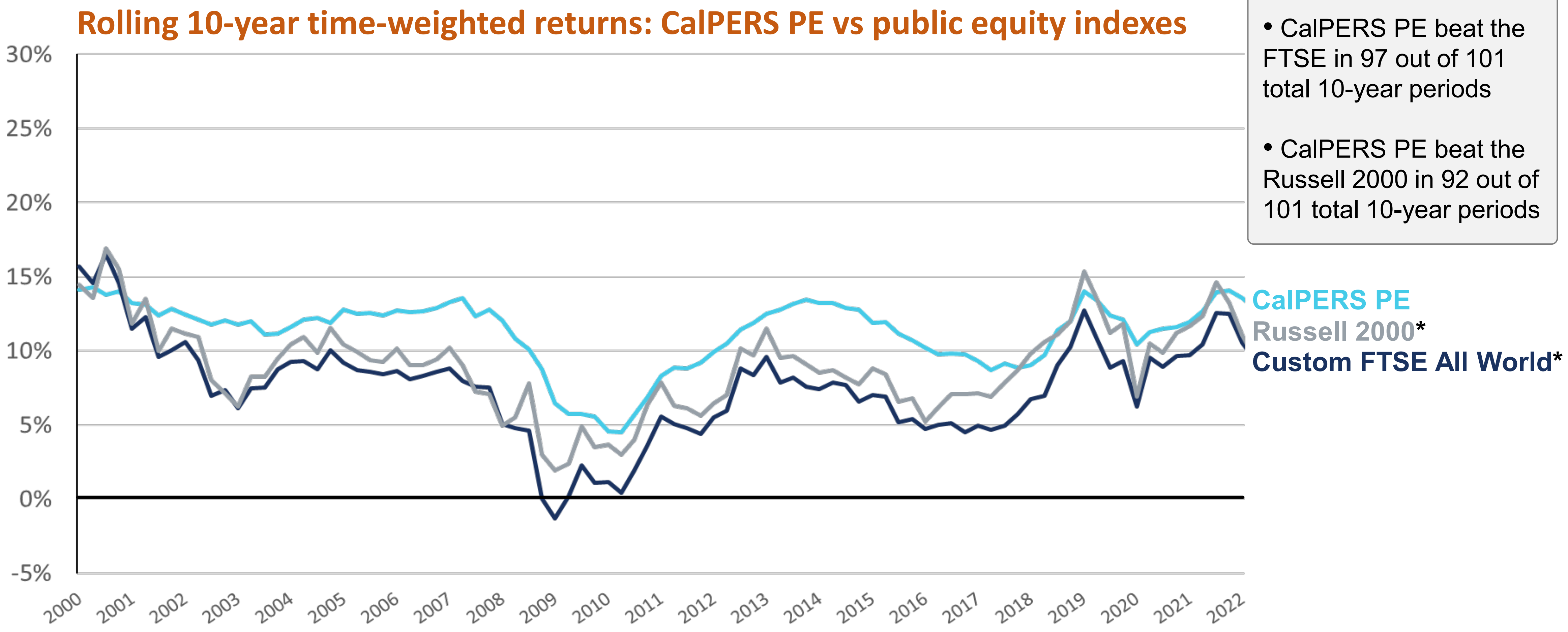


Industry data indicates PE exits on average achieve about a 28% uplift over a GP’s recent fair value estimate—suggesting systematic undervaluation two quarters before exit

Recreated from source: Dawson Whitepaper, *Coming to the Defense of Private Markets Valuations*, February 8, 2024

CalPERS PE History: 1990 - 2022

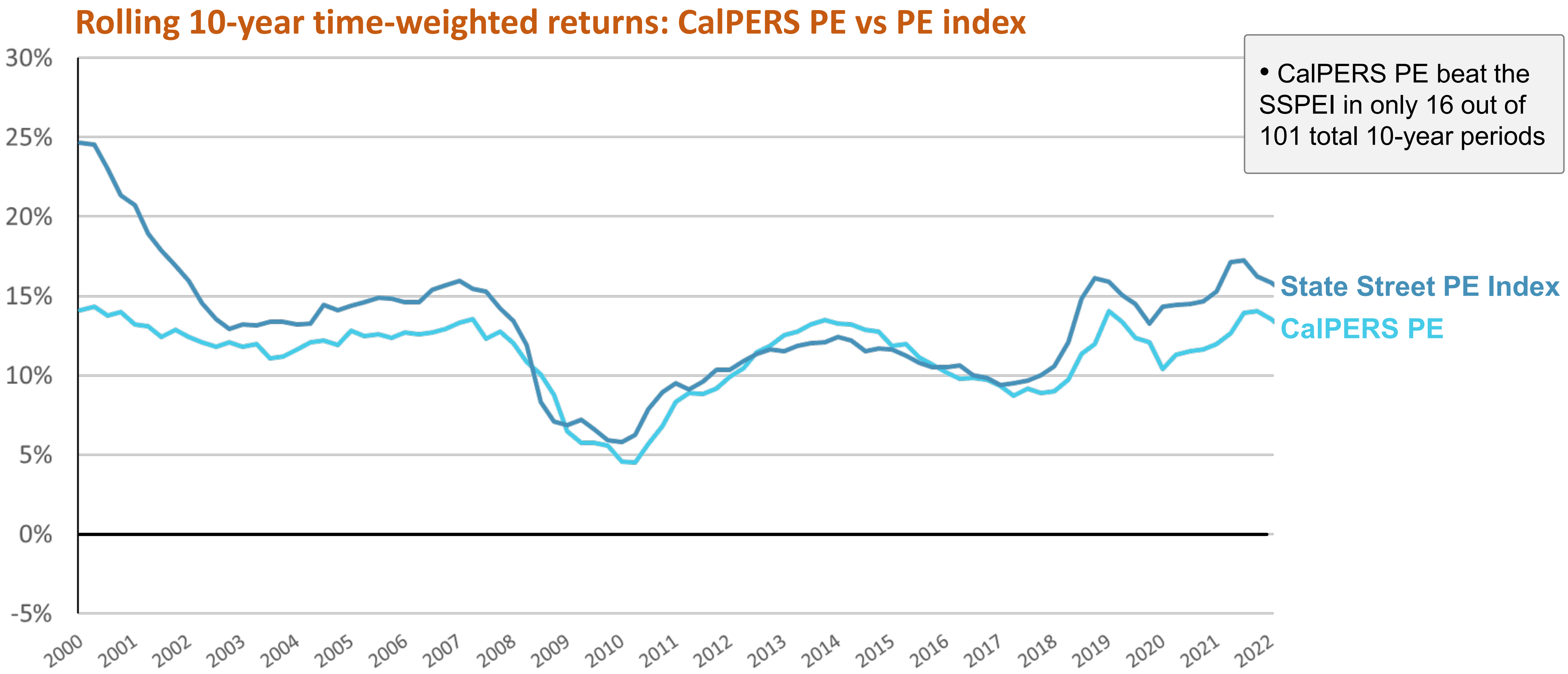
CalPERS PE historically outperformed public equity over the long term …



- CalPERS PE beat the FTSE in 97 out of 101 total 10-year periods
- CalPERS PE beat the Russell 2000 in 92 out of 101 total 10-year periods

Source: CalPERS data and public equity indexes
Note: Comparison does not include an illiquidity premium, which would compare PE returns to an uninvestable alternative
* One quarter lag. Descriptions of the FTSE All World and Russell 2000 are in the glossary

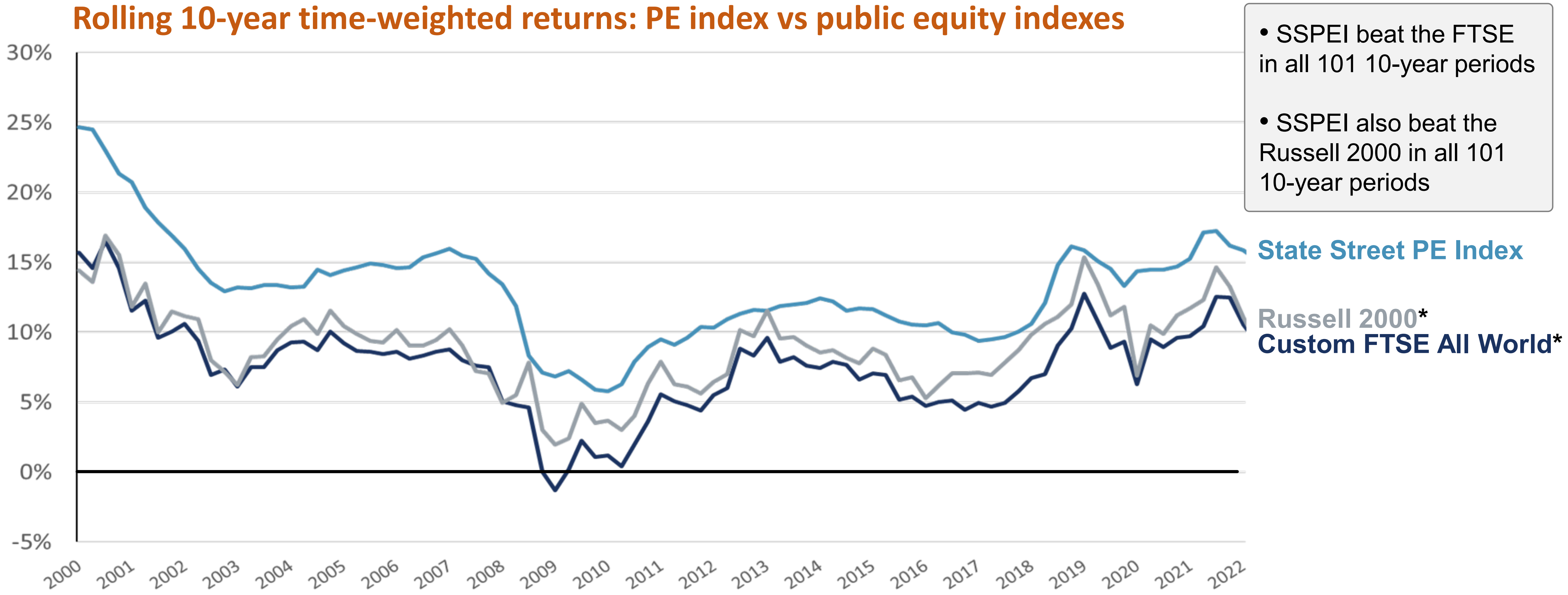
However, CalPERS underperformed the PE universe



- CalPERS PE beat the SSPEI in only 16 out of 101 total 10-year periods

Source: CalPERS data and the State Street PE Index (SSPEI)
Note: The SSPEI is uninvestable but does provide a measure of the performance of the PE opportunity set

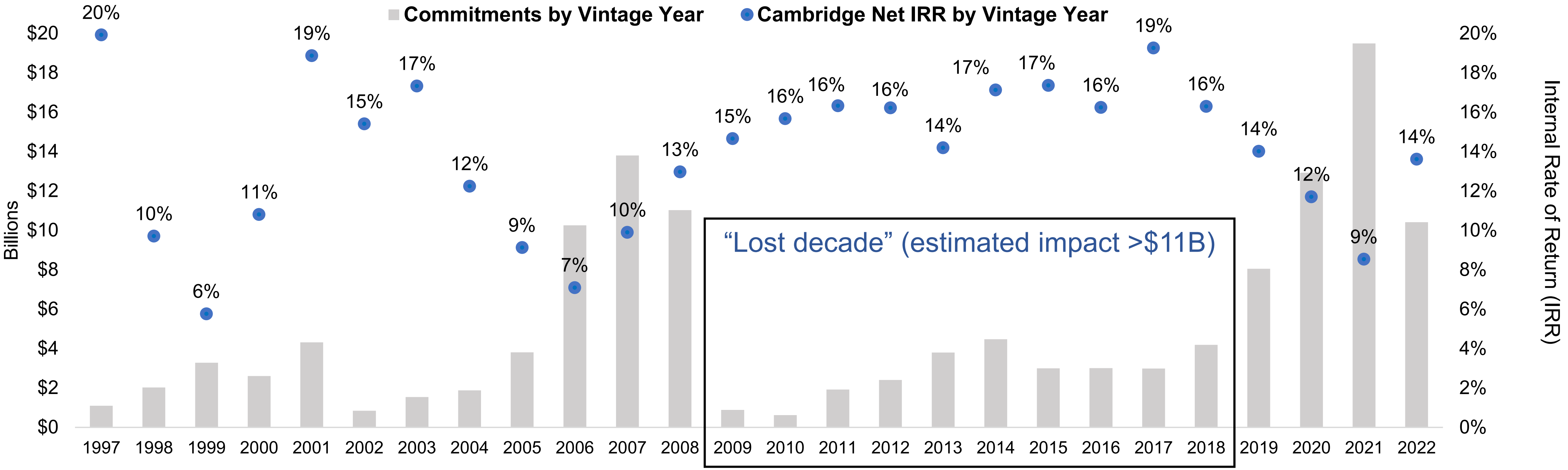
Outperforming the PE universe would have meant greater outperformance vs public equity indexes



- SSPEI beat the FTSE in all 101 10-year periods
- SSPEI also beat the Russell 2000 in all 101 10-year periods

Source: The State Street PE Index and public equity indexes
* One quarter lag. Descriptions of the FTSE All World and Russell 2000 are in the glossary

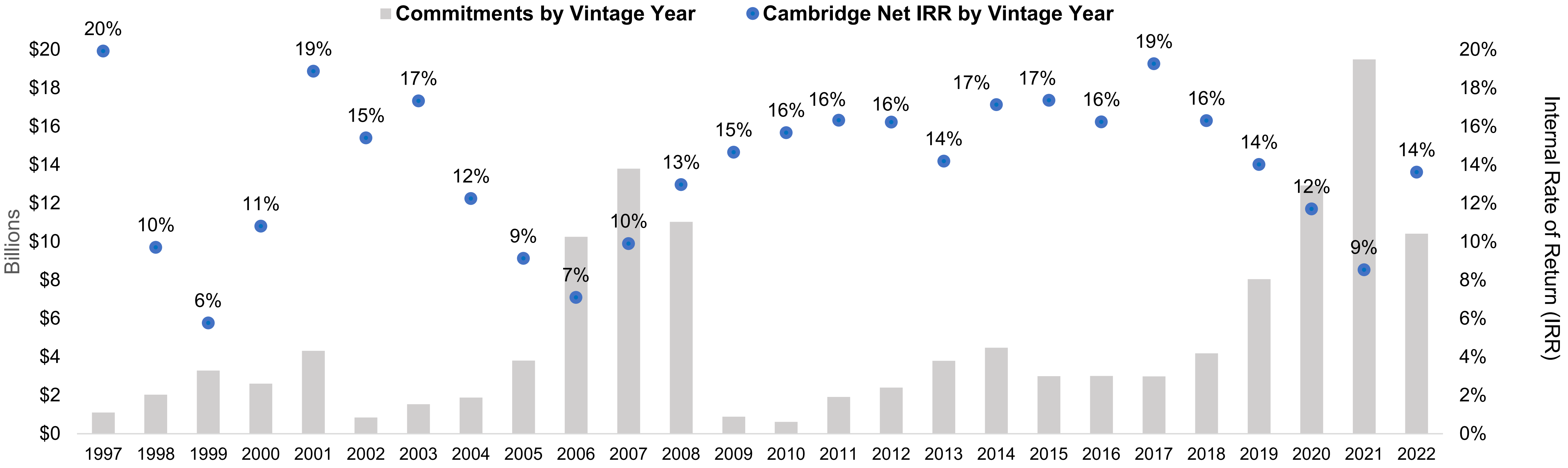
CalPERS suffered a “lost decade” from too little PE



- At current strategy’s launch in the first half of FY 2022-23, CalPERS PE experienced 25 years of inconsistent or subscale commitments
- While CalPERS PE outperformed public equity indexes in almost all 10-year rolling periods, small size meant it did not move the needle
- Under-allocation to PE cost the Total Fund in aggregate more than $11bn in returns during the “lost decade” (2009-18)*

Note: Cambridge PE & VC Index as of 6/30/2025
* Method of estimating the return impact of the “lost decade” is provided in the CalPERS Investment Committee materials dated September 19, 2022 (Agenda Item 5a, Attachment 1). The underweight to PE 2009-18 produced a -1.3% headwind to the 10-year return versus peers, the single-greatest source by far of underperformance from allocation during the decade for CalPERS

Market timing further eroded returns



- CalPERS inconsistently participated in PE with vintage year commitments fluctuating between $0.6bn and $19.5bn
- Inconsistency was procyclical (i.e., commitments were lower in better-performing vintages and higher in underperforming ones)
  - Going into the Global Financial Crisis (GFC), dramatically increased its commitments relative to prior years, making $24bn in commitments 2006-07
  - With valuations reset in the wake of the GFC, drastically cut back on commitments for a decade, a period of high PE returns
  - Committed $33bn in the two challenged vintages before the interest rate reset, including $20bn in 2021 alone, while the “lost decade” had $31bn

Source: CalPERS data and Cambridge PE & VC Index as of 6/30/2025

At current strategy launch, CalPERS had worst 3-yr return among peers

30 Largest US Public Pension PE Programs		
As of date	1-year returns	3-year returns
12/31/22	Rank: 18th of 30 Quartile: 3rd	Rank: 30th of 30 Quartile: 4th

California Public Peers		
As of date	1-year returns	3-year returns
12/31/22	Rank: 7th of 11 Quartile: 3rd	Rank: 11th of 11 Quartile: 4th

CalPERS PE Performance

- Worst-performer in 3-yr returns among the 30 largest pensions
- Also worst-performer in 3-yr among California peers
- Third quartile in 1-yr returns in both peer groups

	30 Largest PE Programs by 3-yr TWR	NAV ($bn)	1-yr	3-yr
1	Mass PRIM	16.2	-4.7%	26.0%
2	Alaska Permanent	10.8	-1.6%	25.6%
3	Tennessee Consolidated	8.3	-5.1%	24.6%
4	Florida SBA	17.3	-1.8%	23.5%
5	Texas Municipal	3.7	10.2%	23.3%
6	Los Angeles County Employees (LACERA)	12.7	5.6%	22.8%
6	Texas County	11.6	2.3%	22.8%
8	New York City Pensions	22.2	3.5%	21.8%
9	Maryland	13.5	1.2%	21.0%
10	San Francisco Employees (SFERS)	10.0	-10.5%	20.8%
11	Pennsylvania Public Schools	11.8	4.6%	20.5%
12	Virginia Retirement System	18.3	0.0%	20.4%
13	State of Michigan	22.4	-2.4%	20.1%
13	Texas ERS	6.3	6.0%	20.1%
15	Pennsylvania State Employees	6.5	-5.1%	19.8%
16	Illinois Municipal	5.1	4.0%	19.6%
17	CalSTRS	46.4	-0.5%	19.5%
18	South Carolina	5.9	6.1%	19.0%
19	Minnesota State Board	14.5	0.3%	18.9%
20	University of California Pension	8.8	-6.8%	18.5%
21	North Carolina Retirement Systems	6.2	-5.8%	18.3%
22	New York State Teachers	13.7	-4.6%	18.3%
23	Washington State Investment Board	42.1	-4.1%	18.1%
24	Arizona State Retirement System	6.3	9.6%	17.9%
25	Oregon Public Employees	24.4	1.2%	17.4%
26	Texas Teachers	31.3	-5.0%	17.3%
27	Ohio PERS	13.4	-4.8%	17.1%
28	New Jersey Division of Pensions	10.7	0.6%	16.5%
29	United Nations Pension	6.4	-4.6%	16.2%
30	CalPERS	50.3	-2.3%	15.3%

Note: Dataset includes the 30 largest domestic pensions that have publicly reported 12/31/22 and 6/30/25 PE time-weighted returns (TWR) and Net Asset Value (NAV), as collected by Nasdaq eVestment as of 12/29/25. NYC Pensions include Employees, Teachers, Police, Fire, and Education. NYC Comptroller reporting used when available, and Education's returns fill in gaps; Education has the highest 3-year returns of the five. California peers include pensions with at least $1bn in PE NAV as of 6/30/25 and that reported returns as of 12/31/22 and 6/30/25

CalPERS PE Turnaround:
2022 to Present

Key drivers of the CalPERS PE turnaround

Asset allocation and vintage year diversification:

- CEO and Board stopped decades of procyclicality by increasing PE's allocation to make possible consistent deployment by dollars

Culture:

- Current strategy empowered the team and focused resources on manager selection

Portfolio construction:

- Current model diversified the portfolio toward Middle Market Buyout, Growth, and Venture

Environmental, Social, and Governance (ESG) integration:

- Current strategy enhanced incorporation of sustainability into investment decisions and increased investments with emerging managers

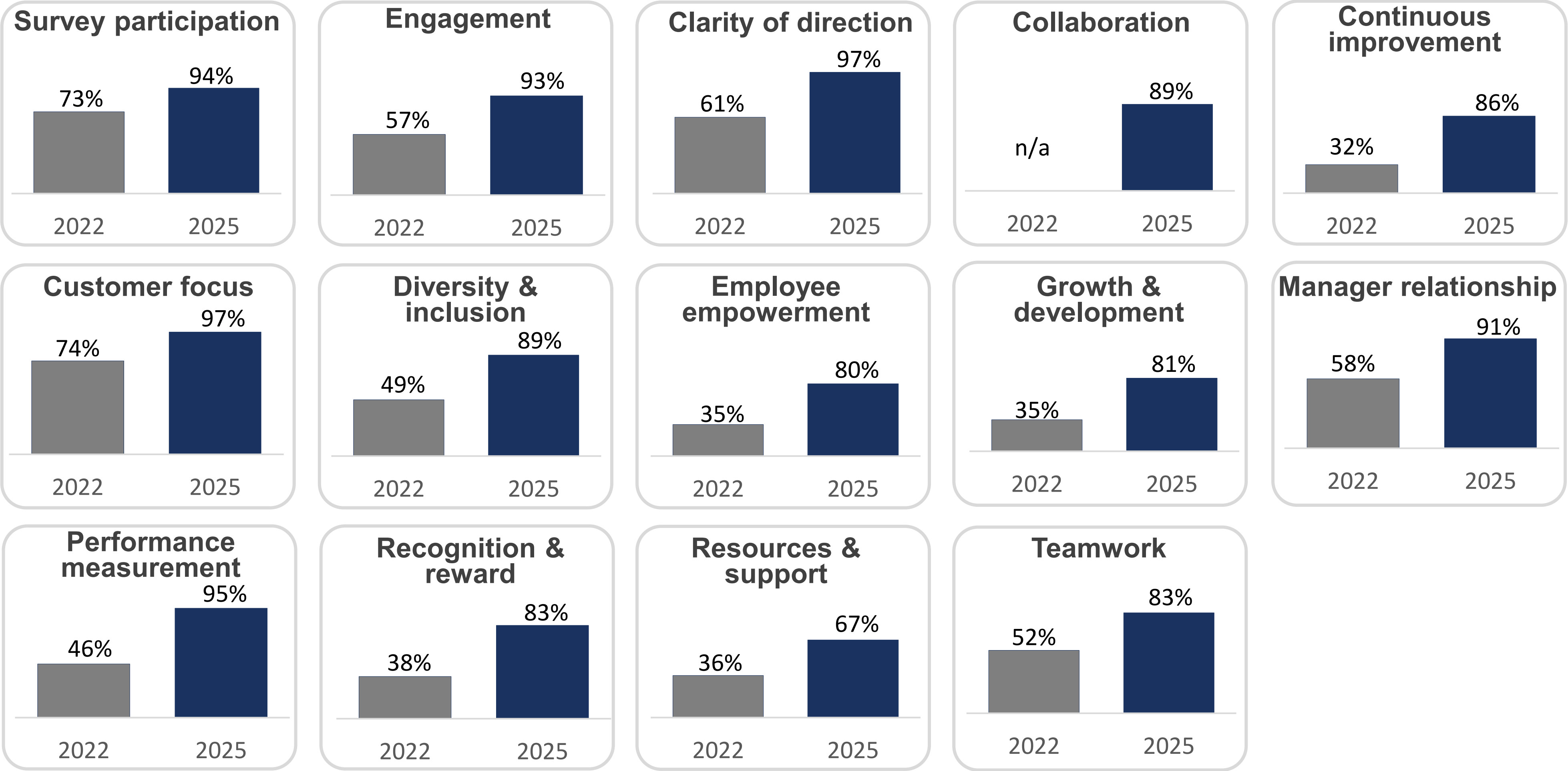
Structural alpha (outperformance):

- Current model used bespoke vehicles and co-invest to lower the cost of implementation and to compress the investment life cycle, delivering faster performance impact

Investment decision-making:

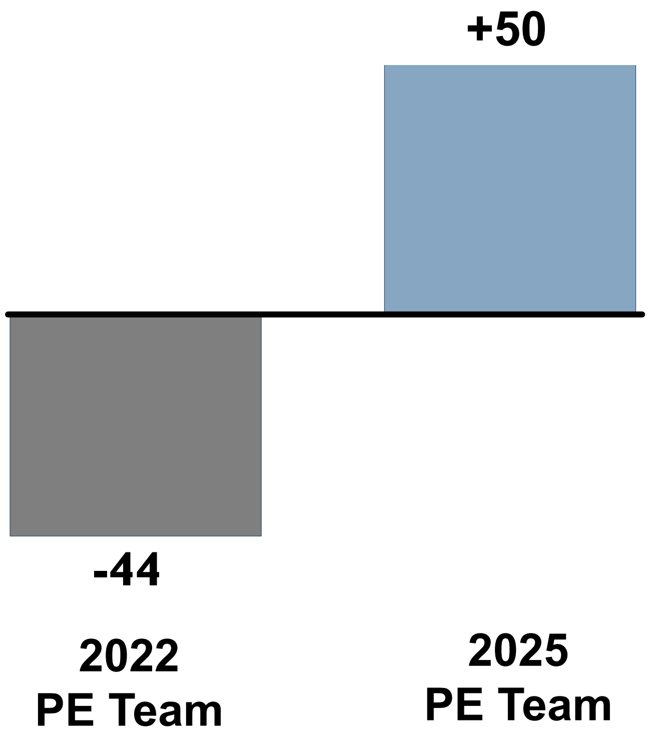
- Current strategy improved manager selection and co-investment deal selection

Current strategy improved PE's engagement scores

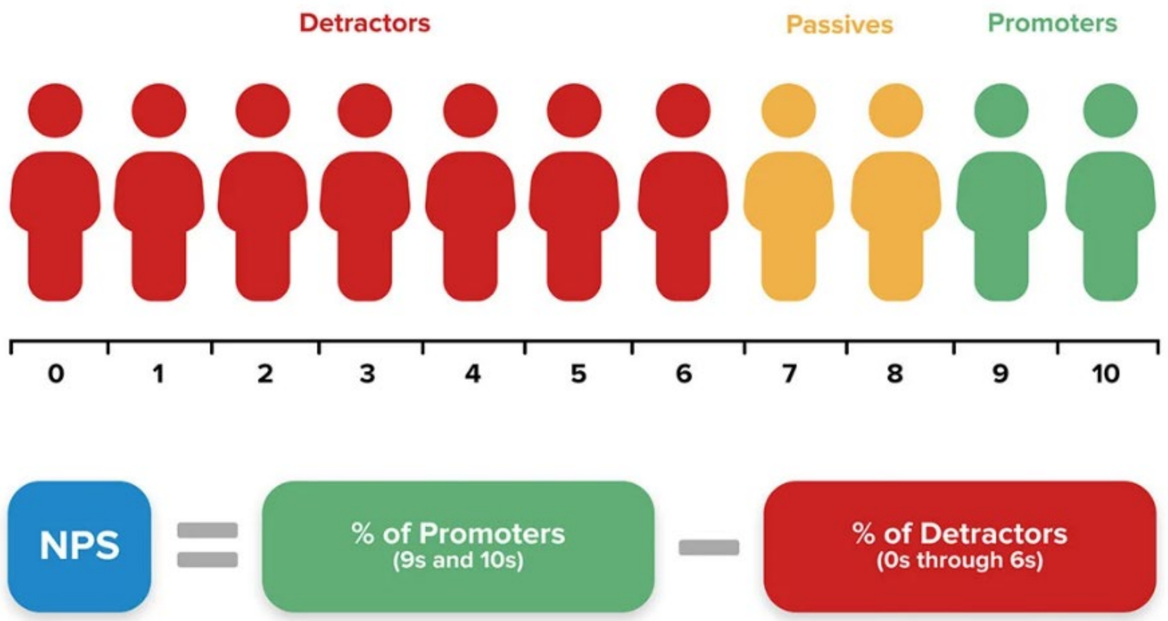


Note: CalPERS utilizes a third-party provider to conduct anonymous engagement surveys annually. The "Collaboration" topic and its sub-questions were not part of the 2022 Employee Engagement Survey

Current model improved PE's net promoter score



“From 0 – 10, how likely is it that you would recommend CalPERS as a place to work?”



Note: CalPERS utilizes a third-party provider to conduct anonymous employee engagement surveys annually. A supermajority of the PE team is the same between the two periods of comparison

PE returns have improved dramatically vs peers

30 Largest US Public Pension PE Programs		
As of date	**1-year returns**	**3-year returns**
12/31/22	Rank: 18th of 30 Quartile: 3rd	Rank: 30th of 30 Quartile: 4th
6/30/25	**Rank: 1st of 30** Quartile: 1st	**Rank: 1st of 30** Quartile: 1st

California Public Peers		
As of date	**1-year returns**	**3-year returns**
12/31/22	Rank: 7th of 11 Quartile: 3rd	Rank: 11th of 11 Quartile: 4th
6/30/25	**Rank: 1st of 11** Quartile: 1st	**Rank: 1st of 11** Quartile: 1st

CalPERS PE Performance
- Best-performer for the 1-year and 3-year returns as of 6/30/25
- From last to first for the 3-year return

CalPERS PE Scale*
- ~1.8x larger than the 2nd-largest PE program ($98bn vs $56bn)
- ~25x larger than the 30th-largest PE program ($98bn vs $4bn)

** Size is widely considered a headwind to returns*

	30 Largest PE Programs by 3-yr TWR	NAV ($bn)	1-yr	3-yr
1	CalPERS	98.3	14.3%	7.4%
2	Minnesota State Board	16.1	8.3%	6.5%
3	New York State Teachers	14.8	8.0%	6.1%
4	University of California Pension	10.2	9.2%	6.0%
5	Ohio Public Employees	16.1	8.2%	5.9%
6	CalSTRS	55.7	9.7%	5.7%
7	Texas Municipal	6.6	9.9%	5.6%
8	Arizona State Retirement System	7.8	5.9%	5.5%
9	South Carolina	6.7	11.4%	5.3%
9	Illinois Municipal	6.5	13.1%	5.3%
11	Washington State Investment Board	51.1	9.6%	4.9%
12	Texas ERS	7.0	6.4%	4.8%
13	United Nations Pension	8.4	3.9%	4.6%
14	New Jersey Division of Pensions	7.9	5.1%	4.2%
15	Texas Teachers	33.7	7.3%	4.0%
16	New York City Pensions	26.4	4.5%	3.9%
16	Maryland	15.1	6.4%	3.9%
18	Oregon Public Employees	26.1	6.9%	3.7%
19	Virginia Retirement System	19.6	5.7%	3.6%
20	Mass PRIM	19.2	7.3%	3.3%
21	Tennessee Consolidated	9.1	7.4%	3.2%
22	Texas County	13.9	6.9%	3.0%
23	Pennsylvania Public Schools	10.3	1.6%	2.9%
24	Pennsylvania State Employees	6.7	5.0%	2.8%
25	Alaska Permanent	11.1	7.1%	2.7%
26	Florida SBA	18.9	7.2%	2.6%
27	Los Angeles County Employees (LACERA)	13.4	3.2%	2.5%
28	State of Michigan	24.1	5.5%	2.0%
29	North Carolina Retirement Systems	6.2	4.8%	0.6%
30	San Francisco Employees (SFERS)	9.9	3.1%	-0.8%

Note: Dataset includes the 30 largest domestic pensions that have publicly reported 12/31/22 and 6/30/25 PE time-weighted returns (TWR) and Net Asset Value (NAV), as collected by Nasdaq eVestment as of 12/29/25. NYC Pensions include Employees, Teachers, Police, Fire, and Education. NYC Comptroller reporting used when available, and Education's returns fill in gaps; Education has the highest 3-year returns of the five. California peers include pensions with at least $1bn in PE NAV as of 6/30/25 and that reported returns as of 12/31/22 and 6/30/25

PE "a very strong driver" in delivering top-decile returns for the CalPERS Total Fund

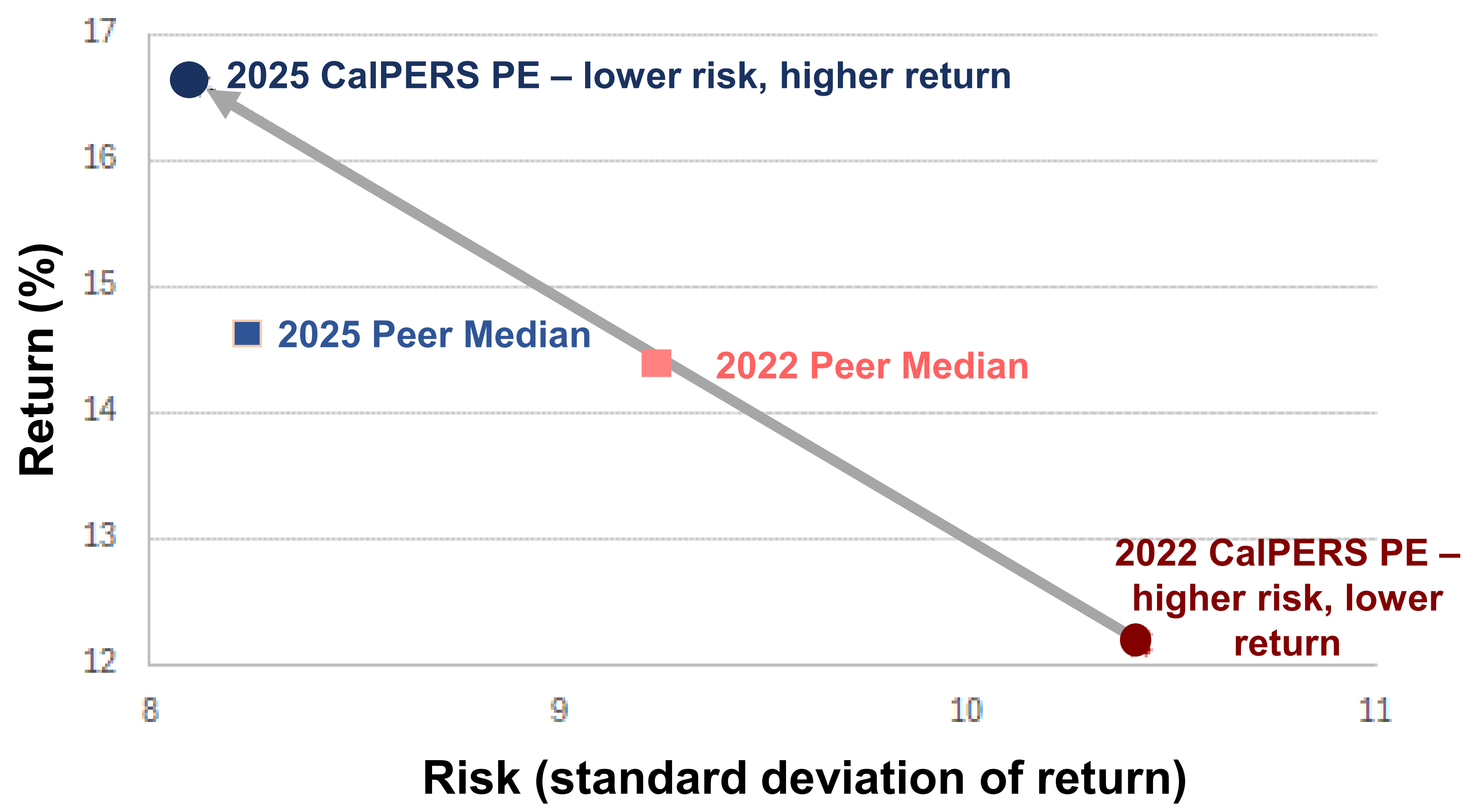
Wilshire universe percentiles for CalPERS PE as of:			
Time	**12/31/2022**		**6/30/2025**
1-Quarter	56th	→	1st
1-Year	58th	→	1st
2-Year	58th	→	1st
3-Year	58th	→	1st
4-Year	87th	→	1st
5-Year	66th	→	1st

"**<u>CalPERS Total Fund peer rankings have improved markedly over the 1- and 2-year periods, ranking in the top decile over the last year</u>** and around the top third of the universe for the 2-year period. Longer term returns do remain more challenged … but we are seeing positive momentum. **<u>And one of the big drivers of that momentum is PE</u>** … **<u>PE returns rank at the very top of the universe going back 5 years</u>** … a very strong driver of Total Fund returns."

-Wilshire's commentary during 9/15/25 CalPERS Board meeting

Note: Peer comparison based on the Wilshire Trust Universe Comparison Service (TUCS) for public asset owners with at least $50 billion in total assets under management. Time-weighted net returns reported by CalPERS with a one-quarter lag for PE

Current strategy transformed risk-return profile vs peers



- In 2.5 years under the current model, CalPERS PE has delivered the highest returns in its peer set with below-median risk relative to those peers over a 5-year window as of 2025
- The 5-year window as of 2022 produced a below-median risk-return profile
- Strategy segment and co-investment diversification drove risk reduction and enhanced returns

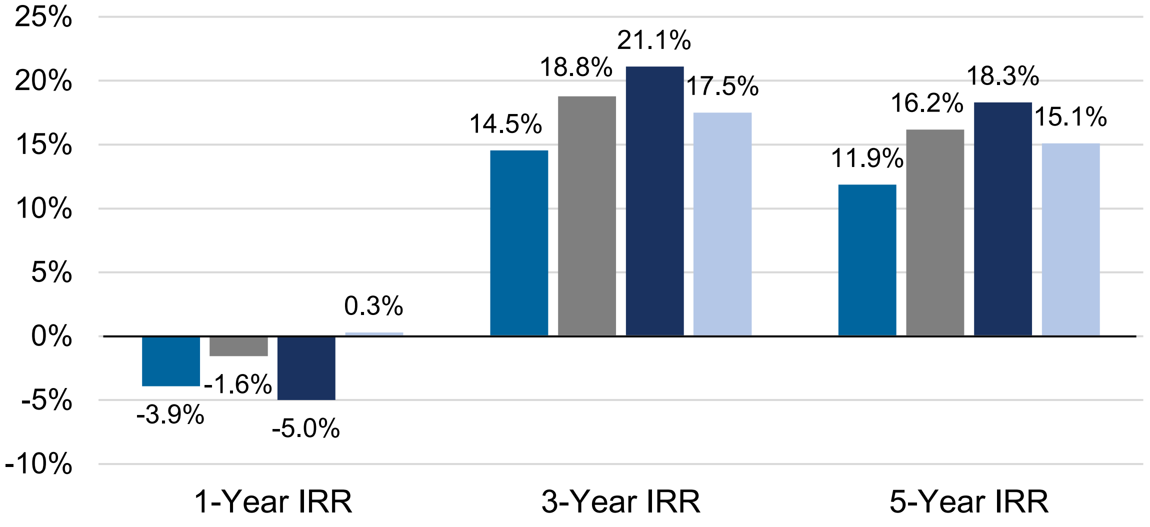
Note: Risk-return medians based on the Wilshire Trust Universe Comparison Service (TUCS) for public asset owners with at least $50 billion in total assets under management. Time-weighted returns with a one-quarter lag for PE. 2025 CalPERS PE risk-return figure for the 5-year period ending 6/30/25. 2022 CalPERS PE risk-return figure for the 5-year period ending 12/31/22

Launched in 1H 2022-23 FY, current model has already reversed underperformance vs the PE universe

Time-horizon internal rate of return (IRR) differences between CalPERS PE and PE indexes

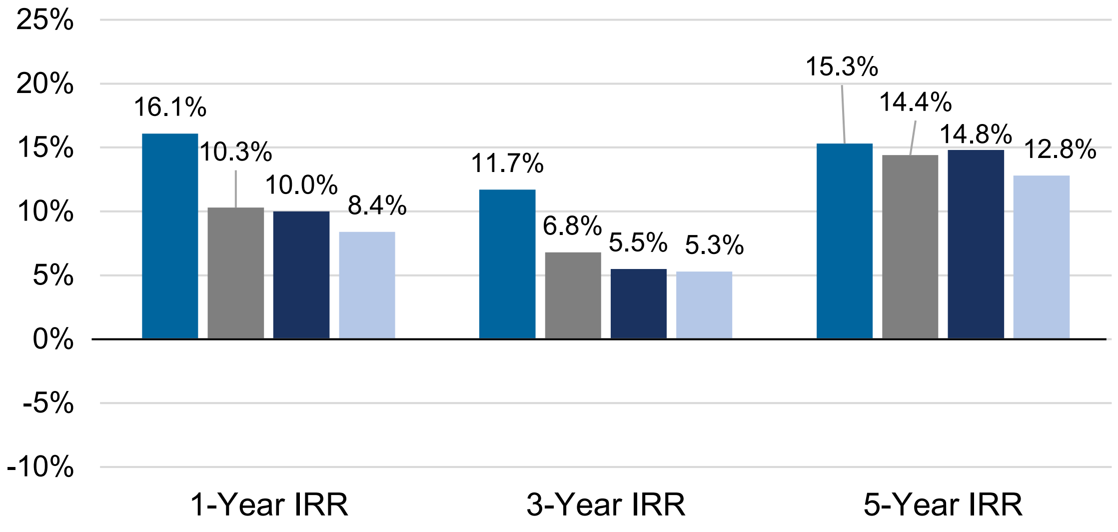
Prior Strategy

Results as of 9/30/2022



Current Strategy

Results as of 6/30/2025



CalPERS PE | SSPEI | Cambridge | MSCI-Burgiss

CalPERS | Board Education Day

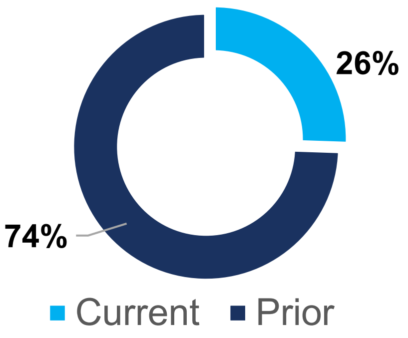
Note: Money-weighted net returns for the entire CalPERS PE portfolio as of 9/30/2022 (before the current strategy) and as of 6/30/2025 with no lag. For universe benchmarking, CalPERS internal rates of return (IRR) presented for comparison to the State Street PE Index IRR pooled, Cambridge PE & VC Index IRR, and MSCI-Burgiss Global PE Closed-End Fund Index IRR

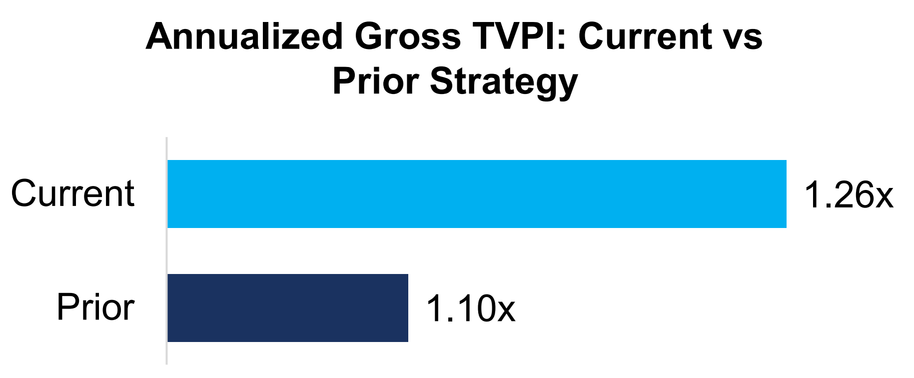
Current strategy driving improved returns in PE

Breakout of total PE portfolio between the current and prior strategies

Strategy	Deployed	TVPI (non-annualized)	Weighted-average hold
Current Strategy (~2023-25)	$38B	1.32x	1.20 years
Prior Strategy (~Pre-2023)	$112B	1.81x	6.13 years

Invested Capital by Strategy





- Current strategy's annualized gross multiple is meaningfully above that of the prior strategy (1.26x vs 1.10x, respectively)
- Current strategy accounts for about a quarter of the capital deployed on a cost basis. If the current model continues to outperform, the total PE portfolio should experience continued improvement in returns as the share of invested capital under the current strategy increases
- About 35% of the current strategy portfolio is marked at cost since the investments are recent, a headwind to returns
- Gross return comparison isolates the improved asset selection of the current model
- Since the multiples are gross, they do not consider the more cost-effective implementation of the current strategy, which further enhances net returns

Note: While CalPERS returns are net and include PE performance on a net basis, the focus of this exhibit is comparing the asset selection of the current strategy versus the prior one, both of which are presented on a gross basis. PE portfolio company gross multiples are as of 6/30/25 with no lag. TVPI is defined in the Glossary

Co-invest improves PE program's cost-effectiveness

Assumptions for Fund Economics and Returns	
Committed	**$1,000,000,000**
Gross Multiple	**2.5x**
Management Fee	**1.25%**
Carry	**20%**
Fund Life	**10**

Resulting Co-invest Savings vs Fund Investments	
Management Fee	**$125,000,000**
Carry	**$275,000,000**
Total Savings from Direct/Co-investment	**$400,000,000**

- Co-invest provides significant cost savings and helps LPs capture more of PE's returns
- Each $1bn in co-invest is expected to save about $400mm in management fees and carry over the life of PE investments under realistic assumptions
- Based on CalPERS annual deployment budget of $15.5bn and a co-invest ratio of 40%, fee savings would be approximately $2.5bn over a 10-year period for each year of commitments
    - Approximately $25bn of reduced costs for 10 years of commitments

Financial press noting success of PE's strategy overhaul

THE WALL STREET JOURNAL. June 7-8, 2025

Calpers Private-Equity Overhaul Bears Fruit

Pensions&Investments October 13, 2025

CalPERS tops U.S. public pension funds in private equity returns for fiscal year

Cumming, C. (2025, June 7-8). Calpers private-equity overhaul bears fruit. *The Wall Street Journal*, B11

Prete, R. (2025, October 13). CalPERS tops U.S. public pension funds in private equity returns for fiscal year. *Pensions & Investments.* https://www.pionline.com/institutional-investors/pension-funds/feature-10-13-pi-calpers-outperforming-pension-funds-private-equity/

Industry recognitions for CalPERS PE's current strategy

Award	Date	Description
Markets Group Constellation Award	Dec. 2025	"… recognize[s] teamwork that has made a transformative difference …"
New American Alliance (NAA) Transformation Trailblazer Award	Oct. 2025	"… for transformation of the CalPERS private equity portfolio …"
Institutional Investor Allocators' Award for Leadership and Vision	Sep. 2025	"... for a historic turnaround of CalPERS' $90 billion private equity program …"
Private Equity Women Investor Network (PEWIN) Ember Advancing Organization Award	July 2025	"Honors a firm or institution that has kept the flame burning for inclusion through policies, initiatives, or programs that actively support the success, inclusion, and progression of women …"
Private Equity International LP of the Year in North America 2024 PEI LP of the Year in North America Runner-up 2023 PEI LP of the Year in North America 2022 PEI LP of the Year in North America	 Mar. 2025 Mar. 2024 Mar. 2023	"… the US's biggest public pension plan delivered on its primary goals to increase co-investment, diversify its portfolio, and enhance returns by backing undercapitalised diverse and emerging managers …"

Glossary

Misc. terms and definitions (1/2)

- **Asset classes** are categories of financial investments that have similar characteristics, behave similarly in the capital markets, have comparable risk-return profiles, and are subject to similar rules
- **Capital market assumptions** are forward-looking projections for asset classes that estimate future returns, volatility (risk), and correlations between asset classes
- **Carry, or carried interest,** is a performance fee paid to managers (GPs) from the profits, after investors (LPs) get their initial capital back plus a preferred return
- **Committed capital** is the total amount of money contractually agreed to contribute to a PE investment fund over a specific period
- **Correlation** is a statistical measure showing how variables more together
- **Equity** is ownership capital entitling the holder to a company's profits; in contrast, debt provides the holder to contractual income
- **FTSE All World Index** measures the performance large- and mid-capitalization stocks covering Developed and Emerging Markets. The CalPERS Global Equity Index customized FTSE index excludes Board-directed divestments such as tobacco or stocks from certain countries
- **Internal rate of return (IRR)** is a metric used to estimate an investment's potential profitability. IRR is a discount rate that makes the net present value (NPV) of all cash flows equal to zero in a discounted cash flow analysis. IRR is more commonly used in measuring the performance of private market investments than time-weighted rate of return

Misc. terms and definitions (2/2)

- **Money-weighted rate of return** expresses investment performance, net of investment expenses, adjusted for the changing amounts invested. Money-weighted is a Governmental Accounting Standards Board requirement. IRR is a money-weighted rate of return metric

- **Multiple on invested capital (MOIC), or multiple**, is a performance metric measuring the total value relative to the original investment of capital and is expressed as a ratio

- **Procyclical** is investing in a way that follows and amplifies economic cycles. For example, buying high during a boom market, and selling low during a market downturn

- **Russell 2000** measures the performance of the small-capitalization segment of the US equity universe

- **Time-weighted rate of return (TWR)** measures the compounded growth rate over the period being measured, while eliminating the effects of inflows and outflows of cash. Time-weighted is the standard for investment performance generally, although IRR is more commonly used for private market investments

- **Total value to paid-in capital (TVPI)** shows a fund's total performance as a multiple of invested money, combining cash already returned (DPI) and current estimated value (RVPI). Simply, it shows how many times capital has or will grow in total, with any value over 1.0 indicating a positive return

- **Vintage year** refers to a specific calendar year in which a fund makes its first significant investment or capital call from investors. This grouping then allows for fund performance benchmarking, as returns are heavily influenced by prevailing macroeconomic conditions. A vintage year is often the first of a PE investment's multiple-year investment period

Appendix

Key drivers of CalPERS PE turnaround with detail (1/2)

Asset allocation and vintage year diversification

- CEO Marcie Frost and the Board acted decisively to stop CalPERS PE's long pattern of procyclicality by increasing PE's allocation from 13% to 17%
- Acting on this major leadership initiative, the PE Team was able to commit consistently at scale ($15.5bn +/- 15% in fiscal years 2022-23, 2023-24, and 2024-25)
- Scale commitments to the 2023, 2024, and 2025 vintages avoided an outsized exposure to the challenged 2020-21 vintages
- The PE Team also used the secondary market to decrease exposure to the 2020-21 vintages and increase other vintages for a more balanced portfolio

Culture

- The current strategy focused the PE Team on manager selection
- Emphasized professional development, team communication, and internal promotions to enhance the ~40-person PE Program's capabilities and culture

Portfolio construction

- The current model reduced allocation to Buyout from 91% of FY 2020-21 fund commitments to 58% in FY 2023-24
- Within Buyout, expanded allocation to the Middle Market, which grew from 40% of FY 2021-22 Buyout fund commitments to 57%in FY 2023-24
- Expanded allocation to Growth Equity from 9% of FY 2021-22 fund commitments to 31% in FY 2023-24
- Launched a Venture Capital program, which had no commitments in FY 2020-21 but made up 12% of FY 2023-24 fund commitments

Key drivers of CalPERS PE turnaround with detail (2/2)

Environmental, Social, and Governance (ESG) integration

- The current strategy incorporated expanded governance and sustainability considerations into due diligence in cooperation with Sustainable Investments
- Over the last three fiscal years under the current model, committed about $17bn to diverse and about $6bn to emerging managers, large increases that have enhanced returns
- Coordinated with Sustainable Investments to adopt Labor Principles, obtained attestations from investment partners, and instituted a stakeholder engagement process
- Scaled back or ended commitments to PE funds that were not aligning with CalPERS values on human capital
- Invested into the Climate thematic through specialized funds and co-investments, contributing to the $100bn CalPERS 2023 goal
- Encouraged expanded industry participation in the ESG Data Convergence Initiative (EDCI), which CalPERS co-founded

Structural alpha (outperformance)

- The current model used lower-cost structures, such as separately managed accounts and co-investments, to enhance net returns
- Achieved organizational priority of at least 40% of commitments in co-investment in fiscal years 2022-23, 2023-24, and 2024-25, a goal that had been missed in fiscal years 2019-20, 2020-21, and 2021-22
- Avoided the deployment delay after limited partner decision-making that characterizes traditional Private Equity fund investing
- Reduced the ratio of unfunded to NAV to enhance liquidity and positioning to be opportunistic

Investment decision-making

- The current strategy improved manager selection
- Enhanced co-investment deal selection

Capital market assumptions as of Q1 2025

Asset Class	Medium-Term Return Midpoint (5-year)	Range	Long-Term Return Midpoint (20-year)	Range	Volatility Midpoint (20-year)	Range
Global Equity – Cap Weighted	6.2%	4.7% - 7.3%	6.7%	4.7% - 8.5%	16.5%	14.2% - 17.3%
Global Equity – Non-Cap Weighted	6.7%	5.4% - 7.3%	6.6%	6.3% - 7.6%	12.0%	10.3% - 13.7%
Private Equity	8.1%	5.5% - 9.9%	7.6%	4.7% - 11.2%	22.0%	11.0% - 32.1%
U.S. Treasuries	4.4%	3.8% - 4.6%	4.2%	3.0% - 5.0%	4.5%	1.5% - 5.2%
Long U.S. Treasuries	4.8%	4.1% - 5.3%	4.8%	3.9% - 6.1%	10.2%	5.1% - 12.7%
Mortgage-Backed Securities	5.1%	4.7% - 5.4%	4.6%	3.0% - 5.5%	4.3%	3.4% - 6.5%
Investment Grade Corporates	5.6%	4.9% - 6.3%	5.8%	4.4% - 6.9%	9.0%	5.4% - 12.3%
Emerging Market Debt	6.2%	5.6% - 6.9%	6.2%	4.9% - 7.1%	9.9%	8.4% - 12.0%
High Yield	5.7%	5.1% - 6.1%	6.2%	5.3% - 6.7%	8.9%	6.6% - 10.3%
Private Debt	7.9%	6.6% - 9.0%	6.6%	6.2% - 8.2%	11.9%	9.5% - 15.0%
Real Estate	5.9%	1.0% - 8.1%	5.9%	3.5% - 7.8%	12.7%	10.9% - 19.9%
Infrastructure	6.5%	6.2% - 10.0%	6.9%	6.2% - 9.0%	15.0%	9.8% - 25.0%
Liquidity	3.4%	2.8% - 4.0%	3.3%	2.7% - 4.0%	0.7%	0.0% - 5.9%