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MEMORANDUM

TO: Members of the Investment Committee, CalPERS
FROM: Meketa Investment Group
DATE: March 16, 2026
RE: Private Debt Trust Level Review, as of December 31, 2025

In our role as the Board Private Debt Consultant for California Public Employees' Retirement System (CalPERS), Meketa Investment Group (Meketa) conducted a quarterly performance review of the Private Debt Portfolio (the Portfolio) for the period ended December 31, 2025[1] based on data provided from Staff. This memorandum provides the Portfolio performance data and information on key policy parameters, along with observations on staff activities and resources during the aforementioned time period.

Key highlights include the following:

1. Performance remained strong on an absolute and relative basis, outpacing the Policy Benchmark over all trailing periods.
2. Staff committed $12.4 billion across 22 investments over the trailing 12 months, bringing the total Private Debt program to 4.0% of the Total Fund. (The current target is 8%).
3. Direct lending continues to represent the majority of the Private Debt program (81.3%).

Performance

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

Private Debt Performance as of December 31, 2025[2]

	FYTD (%)	1 Year (%)	3 Year (%)	Since Inception[3] (%)
CalPERS PD Portfolio[4]	5.7	12.4	13.4	10.9
Policy Benchmark[5]	*5.5*	*9.2*	*11.7*	*8.2*
Excess vs. Policy Benchmark	▲ 0.2	▲ 3.1	▲ 1.7	▲ 2.7

Of note, private debt performance is reported with a delay compared to publicly traded assets. As such, the Portfolio and the Policy Benchmark performance as of December 31, 2025 are each reported with a one-quarter lag (i.e., values through September 30, 2025).

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

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As of December 31, 2025, the Portfolio consisted of 75 underlying investments totaling $60.6 billion of committed capital with an aggregate net asset value (NAV) of $24.2 billion, an increase of $2.5 billion (net of cash flows) compared to the December 31, 2024 value of $19.0 billion. (The increase in the NAV is largely attributable to the yield rather than capital appreciation). The current NAV represents 4.0% of the Total Fund, compared to the 8% long-term target. As we noted above, the Portfolio's NAV is calculated based upon September 30, 2025 values, while the overall CalPERS portfolio includes publicly traded assets valued as of December 31, 2025.

Performance by Strategy[1]

	NAV ($M)	Percent of Total NAV (%)	FYTD (%)	1 Year (%)	3 Year (%)	Since Inception (%)
Direct Lending	19,685	81.3	5.7	12.5	14.1	11.7
Specialty Lending	3,344	13.8	5.1	10.0	10.0	9.0
Real Estate Financing	1,191	4.9	7.5	16.6	12.7	9.7
CalPERS PD Portfolio	**24,220**	**100.0**	**5.7**	**12.4**	**13.4**	**10.9**

The table above highlights that Direct Lending strategies continue to make up the majority of the Portfolio, which is consistent with policy guidelines and expectations. In aggregate, CalPERS has completed 48 commitments, or 64% of the total number of commitments, to Direct Lending strategies. The Portfolio also includes 21 commitments to Specialty Lending and six to Real Estate Financing. Direct Lending strategies have generated attractive returns overall and the strongest returns over the three-year and since inception time periods relative to the other two strategies. Real Estate Financing produced the highest absolute returns over the trailing one-year period. Across the Portfolio, the average fund-level leverage is 1.2x (debt-to-equity). Real Estate Financing sits at 2.5x followed by Direct Lending and Specialty Lending at 1.2x and 0.8x, respectively.

Performance by Structure[2]

	NAV ($M)	Percent of Total NAV (%)	FYTD (%)	1 Year (%)	3 Year (%)	Since Inception (%)
Customized Investment Account	16,756	69.2	5.4	12.4	13.9	10.5
Fund	7,288	30.1	6.5	12.5	12.6	12.0
Co-Investment	176	0.7	5.0	10.4	14.2	12.8
CalPERS PD Portfolio	**24,220**	**100.0**	**5.7**	**12.4**	**13.4**	**10.9**

The Portfolio has exposure to three discrete investment structures, including customized investment accounts (CIAs), funds, and co-investments. CIAs represent the majority of current exposure, totaling over two-thirds of NAV across 55 commitments. Of note, CIAs include a number of co-investment funds (no management fee, no incentive fees), which account for most of the Portfolio's co-investment exposure. Nineteen fund commitments aggregate to approximately 30% of the Portfolio's NAV. CIAs have produced returns in line with Funds over the one-year time period and higher returns than Funds over the three-year period.

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

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Performance by Geography[1]

	NAV ($M)	Percent of Total NAV (%)	FYTD (%)	1 Year (%)	3 Year (%)	Since Inception (%)
United States	11,369	46.9	5.2	11.2	14.9	11.2
Global	9,712	40.1	6.3	14.1	12.4	10.8
Europe	3,139	13.0	5.6	11.7	11.9	10.2
CalPERS PD Portfolio	**24,220**	**100.0**	**5.7**	**12.4**	**13.4**	**10.9**

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

Implementation

For the trailing 12 months ending December 31, 2025, Staff completed an aggregate of $12.4 billion of new commitments, which includes $7.8 billion across 13 customized investment accounts and $4.6 billion across nine fund commitments. Overall, during the 12 months ending December 31, 2025, Staff deployed approximately 63% of the capital in CIAs. From a strategy perspective, Staff has continued to add exposure to Direct Lending and Specialty Lending, which accounted for 64% and 28% of committed capital, respectively, over the last 12 months. Geographically, approximately 69% of committed capital was allocated to Global strategies during the past year, with the balance to United States (28%) and Europe (3%) strategies.

Key Policy Parameters

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

Strategy	NAV[2] ($M)	Percent of Total NAV (%)	Target Range (%)
Direct Lending	19,685	81.3	20 – 100
Specialty Lending	3,344	13.8	0 – 40
Real Estate Financing	1,191	4.9	0 – 40
Residential Mortgages	0	0.0	0 – 40
Total Portfolio	**24,220**	**4.0**[3]	**8**[4]

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

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Conclusion

The Portfolio continues to show strong performance, outpacing the Policy Benchmark over all trailing periods. Additionally, the Portfolio, as a percentage of CalPERS' total portfolio, continues to approach CalPERS' long-term target of 8% and is approximately 0.4% higher compared to December 31, 2024.

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

→ Increasing capital deployment – Over the year ending December 31, 2025, Staff committed $12.4 billion in private debt, including both initial commitments (73% of total) and upsizes to existing commitments (27% of total). (Co-investment commitments in an existing strategy are considered initial commitments).

→ Increasing cost efficiency – CIAs and co-investments, which offer preferential terms, are an important and growing portion of the Portfolio. In the last 12 months, 63% of investment capital has been allocated to CIAs.

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

The Appendix includes some data and commentary on the private debt asset class for the third quarter of 2025.

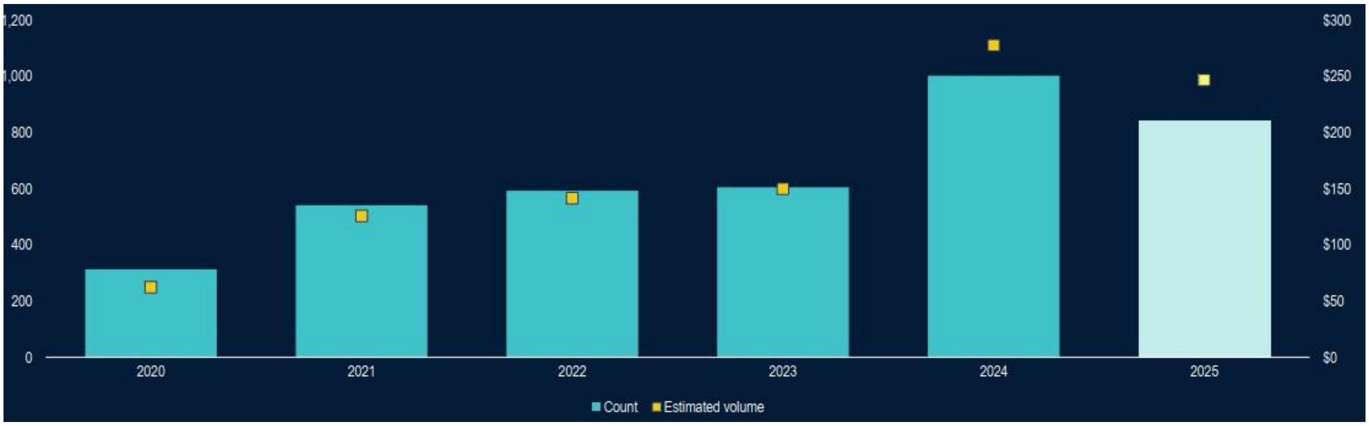
Please do not hesitate to contact us if you have questions or require additional information.

MB/JM/SPM/jls

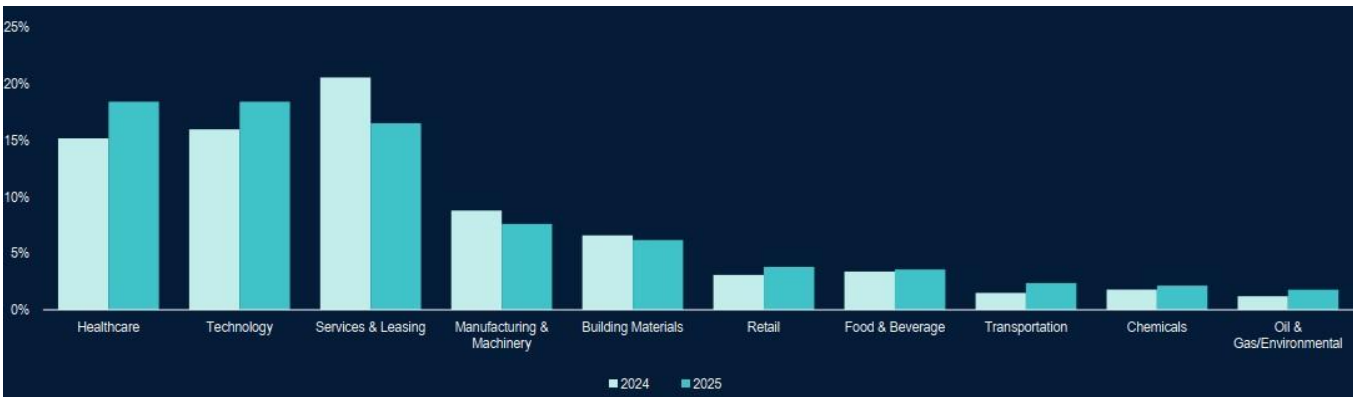
Attachments

Private Debt Market Commentary – Q3 2025

Direct Lending Deal Volume and Count[1]



Top 10 Sectors in New Issue Direct Lending[2]



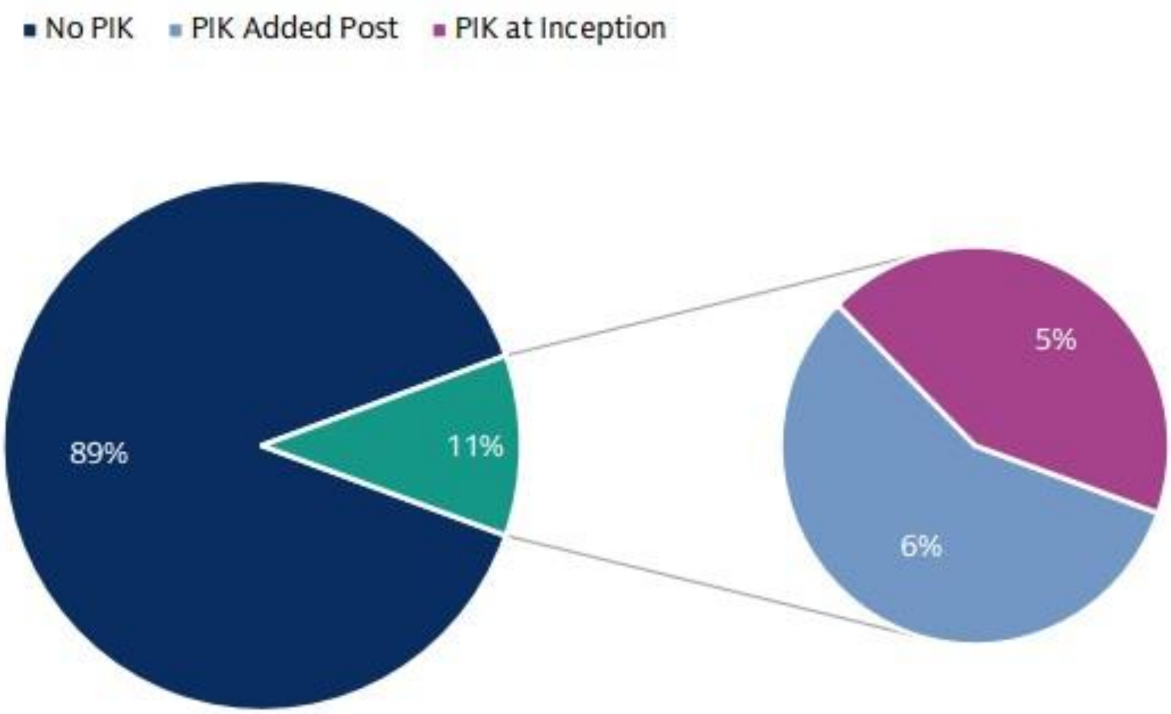
Direct Lending activity remained robust in 2025, at least comparatively when looking back over the past 5-years. In comparison to the prior year, however, totals by volume and count were down, by 11% and 16%, respectively.

Credit spreads have compressed, but remained stable, over the quarter at S+475 basis points for new issue acquisition-related transactions, which is the most competitive segment of the direct lending market.

New issue sector exposures have historically been dominated by Healthcare, Technology and Services. That generally continued to be the case in 2025, although Services saw a pullback from the prior year.

[1] Source: Pitchbook|CD, US Private Credit Monitor (December 2025).
[2] Source: Pitchbook|CD, US Private Credit Monitor (December 2025).

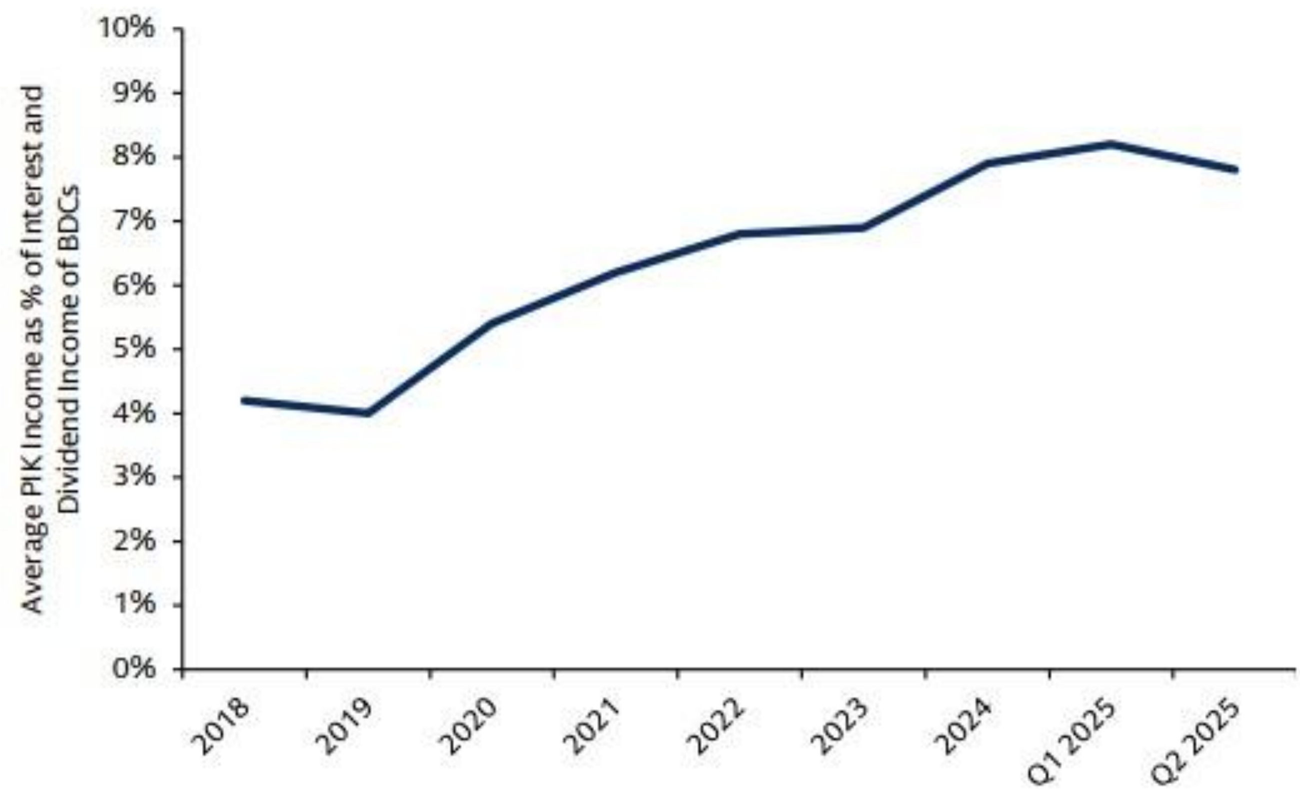
PIK Percentage in New Issuance[1]



Payment-in-Kind (PIK) features in private credit have drawn attention from investors worried about it as a possible indication of coming distress among corporate borrowers. These concerns often overlook the distinction between PIK present at inception of a deal, versus PIK added afterwards when a borrower requires modified terms to deal with declining liquidity. PIK can be used at inception to provide flexibility to borrowers with specific needs or those experiencing strong growth.

[1] Source: Goldman Sachs, Private Credit Market Recap & Outlook (Q4 2025).

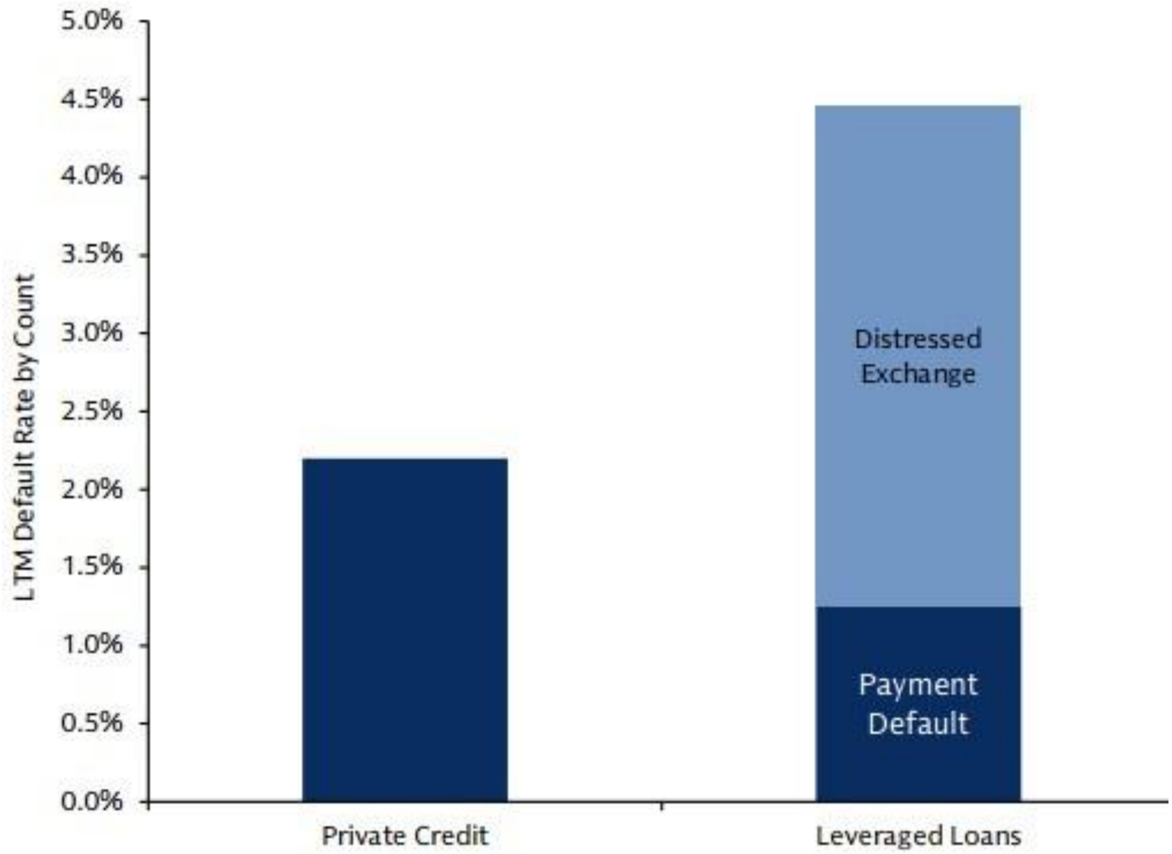
PIK as Percentage of Interest and Dividends[1]



Still, the increased usage of PIK as a percentage of total interest and dividend income is indicative of borrowers experiencing diminished liquidity and supports a cautious view regarding some borrowers' ability to pay.

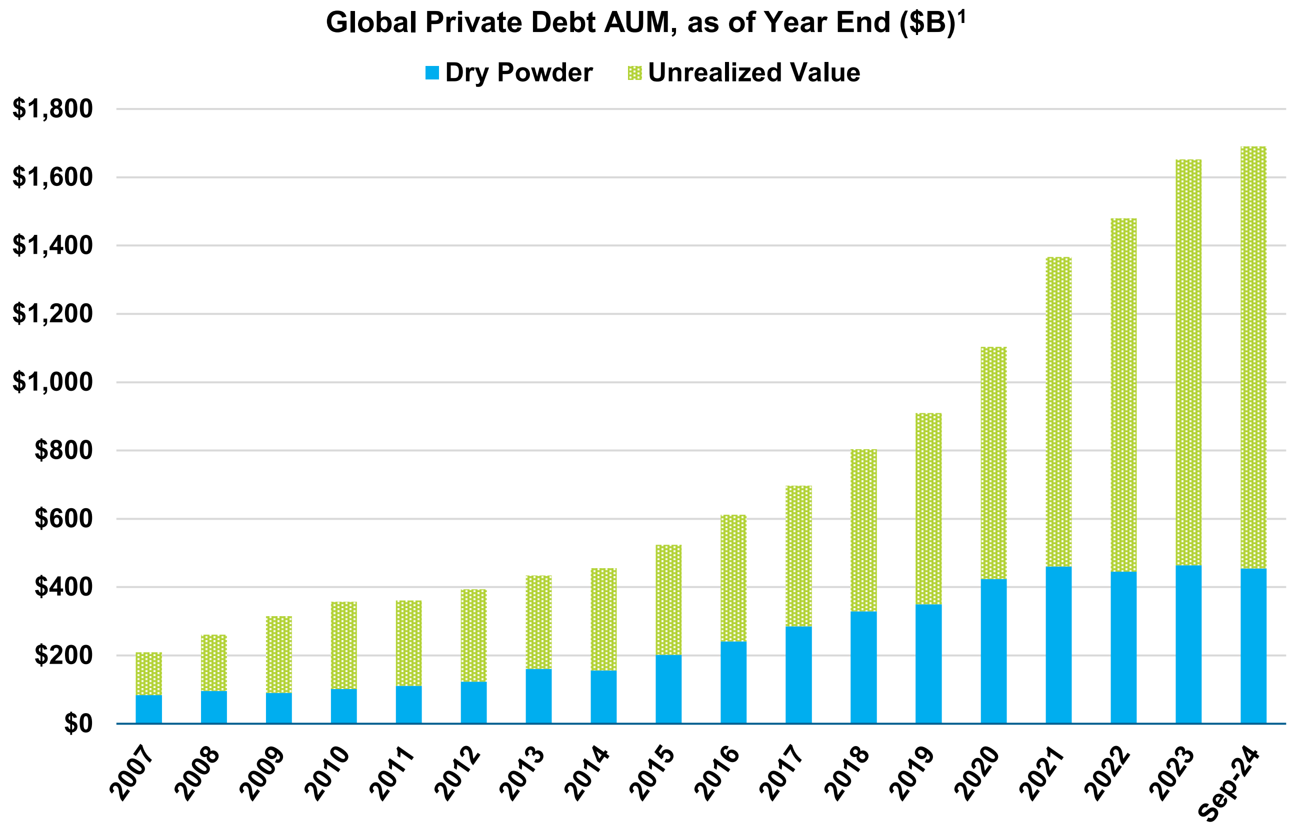
[1] Source: Goldman Sachs, Private Credit Market Recap & Outlook (Q4 2025).

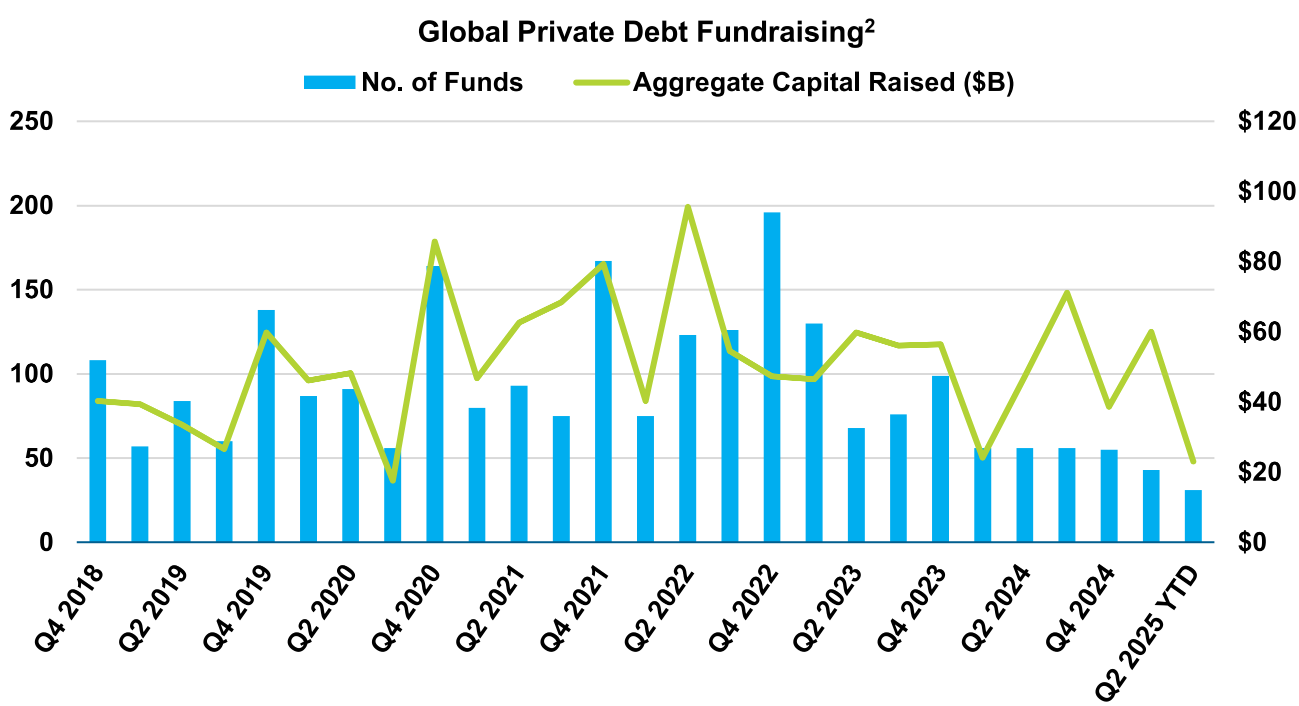
Default Rates Inclusive of Default Exchanges[1]



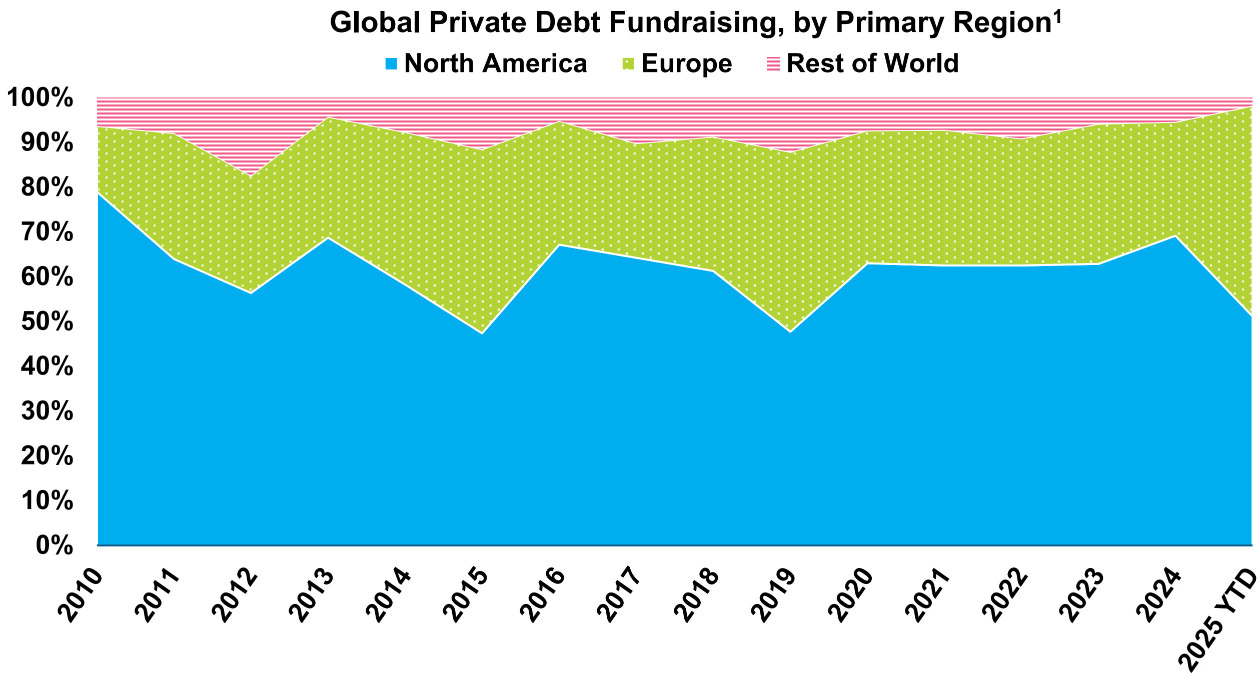
Default rates in private credit remain subdued and lower than those in the syndicated loan market, when distressed exchanges are included. Default rates can appear somewhat higher in private credit as covenant breaches are included in default rates, whereas syndicated loans often lack covenants that aim to protect lenders due to their "cov-lite" structure.

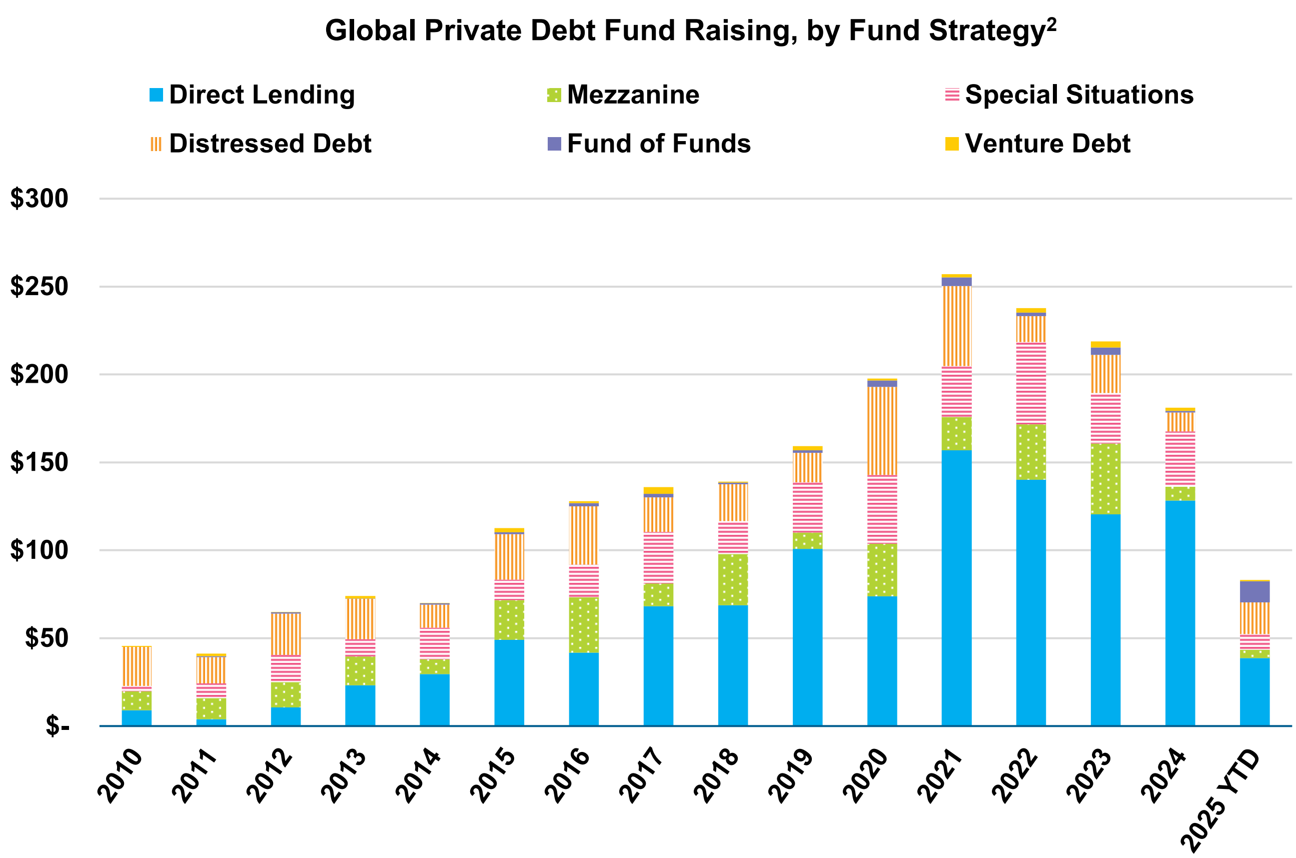
[1] Source: Goldman Sachs, Private Credit Market Recap & Outlook (Q4 2025).





[1] Source: Meketa Investment Group.
[2] Source: Meketa Investment Group.





[1] Source: Meketa Investment Group.
[2] Source: Meketa Investment Group.

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