

MEMORANDUM

TO: Members of the Investment Committee, CalPERS
FROM: Meketa Investment Group
DATE: June 15, 2026
RE: Annual Program Review, inclusive of Quarterly Private Debt Performance Review, as of March 31, 2026

In our role as the Board Private Debt Consultant for California Public Employees' Retirement System (CalPERS), Meketa Investment Group (Meketa) conducted a performance review of the Private Debt Portfolio (the Portfolio) for the period ended March 31, 2026¹ 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 \$13.7 billion across 24 investments over the trailing 12 months, bringing the total Private Debt program to 4.2% of the Total Fund. (The current target is 8%).
3. Direct lending continues to represent the majority of the Private Debt program (80.5% of NAV).

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. Similar to the prior report, Private Debt continued to deliver strong performance through March 31, 2026, with the Portfolio outpacing the Policy Benchmark over each time period below.

Private Debt Performance as of March 31, 2026¹

	FYTD (%)	1 Year (%)	3 Year (%)	5 Year (%)	Since Inception ² (%)
CalPERS PD Portfolio ³	8.3	13.2	13.8	12.1	10.8
<i>Policy Benchmark⁴</i>	7.7	8.6	11.0	8.4	8.2
Excess vs. Policy Benchmark	↑ 0.5	↑ 4.7	↑ 2.8	↑ 3.7	↑ 2.6

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 March 31, 2026 are each reported with a one-quarter lag (i.e., values through December 31, 2025).

¹ CalPERS Private Debt performance analysis for the period ended March 31, 2026, reported with a 1-quarter lag. Since Inception, 5-Year, and 3-Year 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 Inception date is July 1, 2020.

³ Source: CalPERS. CalPERS returns are reported as time-weighted.

⁴ 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.



As of March 31, 2026, the Portfolio consisted of 79 underlying investments totaling \$64.0 billion of committed capital with an aggregate net asset value (NAV) of \$25.4 billion, an increase of \$2.0 billion (net of cash flows) compared to the March 31, 2025 value of \$19.4 billion. (The increase in the NAV is largely attributable to the yield rather than capital appreciation.) The current NAV represents 4.2% of the Total Fund, compared to the 8% long-term target. As we noted above, the Portfolio's NAV is calculated based upon December 31, 2025 values, while the overall CalPERS portfolio includes publicly traded assets valued as of March 31, 2026.

Performance by Strategy¹

	NAV (\$M)	Percent of Total NAV (%)	FYTD (%)	1 Year (%)	3 Year (%)	5 Year (%)	Since Inception (%)
Direct Lending	20,426	80.5	8.6	13.6	14.5	12.9	11.7
Specialty Lending	3,705	14.6	6.6	10.4	10.2	9.5	8.9
Real Estate Financing	1,232	4.9	8.0	14.9	12.8	9.9	9.3
CalPERS PD Portfolio	25,363	100.0	8.3	13.2	13.8	12.1	10.8

The table above highlights that Direct Lending strategies make up the majority of the Portfolio, which is consistent with policy guidelines and expectations. Direct Lending includes sub-strategies of Senior Direct Lending, Mezzanine, and Special Situations (mostly Senior Direct Lending with some Special Situations and one Mezzanine mandate). The Direct Lending portfolio is 81% senior debt, 10% junior debt, and 9% preferred equity and equity. Across the Direct Lending Portfolio, the average fund-level leverage is 1.3x (debt-to-equity) with an average spread and OID of 680 basis points and 170 basis points, respectively.

In aggregate, CalPERS has completed 52 commitments, or 66% 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, five-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 2.0x followed by Direct Lending and Specialty Lending at 1.3x and 0.6x, respectively.

Performance by Structure²

	NAV (\$M)	Percent of Total NAV (%)	FYTD (%)	1 Year (%)	3 Year (%)	5 Year (%)	Since Inception (%)
Customized Investment Account	17,615	69.5	7.9	12.7	14.1	11.8	10.5
Fund	7,577	29.9	9.2	14.6	13.4	13.1	12.0
Co-investment	171	0.7	5.6	7.1	14.0	NA	12.2
CalPERS PD Portfolio	25,363	100.0	8.3	13.2	13.8	12.1	10.8

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

¹ Source: CalPERS.

² Source: CalPERS.



(no management fee, no incentive fees), which account for most of the Portfolio's co-investment exposure. Twenty-three fund commitments aggregate to nearly 30% of the Portfolio's NAV. Funds have produced returns higher than CIAs over the one-year, five-year, and since inception time periods, and CIAs outperformed over the trailing three-year time period.

Performance by Geography¹

	NAV (\$M)	Percent of Total NAV (%)	FYTD (%)	1 Year (%)	3 Year (%)	5 Year (%)	Since Inception (%)
United States	11,600	45.7	7.2	10.7	14.7	11.2	11.0
Global	10,520	41.5	9.7	16.8	13.3	12.2	10.9
Europe	3,244	12.8	8.1	12.2	12.5	10.2	10.2
CalPERS PD Portfolio	25,363	100.0	8.3	13.2	13.8	12.1	10.8

As of March 31, 2026, approximately 46% 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 have outpaced US- and Europe-specific strategies over the trailing one-year and five-year periods, while US-focused strategies have outpaced the other geographies over the trailing three-year and since inception time periods.

Implementation

For the trailing 12 months ending March 31, 2026, Staff completed an aggregate of \$13.7 billion of new commitments, which includes \$8.5 billion across 15 customized investment accounts and \$5.2 billion across nine fund commitments. Overall, during the 12 months ending March 31, 2026, Staff deployed approximately 62% of the capital in CIAs. From a strategy perspective, Staff has continued to add exposure to Direct Lending and Specialty Lending, which accounted for 74% and 18% of committed capital, respectively, over the last 12 months. Geographically, approximately 71% of committed capital was allocated to Global strategies during the past year, with the balance to United States (25%) and Europe (4%) 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	20,426	80.5	20 – 100
Specialty Lending	3,705	14.6	0 – 40
Real Estate Financing	1,232	4.9	0 – 40
Residential Mortgages	0	0.0	0 – 40
Total Portfolio	25,363	4.2³	8⁴

¹ Source: CalPERS.

² Source: CalPERS.

³ PD portfolio NAV as a percent of total CalPERS portfolio as of March 31, 2026.

⁴ In March 2024, the Board approved an 8% long-term target allocation for the Portfolio, an increase from 5%.



Staffing and Resources

As of May 13, 2026, the Private Debt group comprised 13 staff, a slight increase from 12 people one year prior. Mascha Canio started on October 1, 2025 as the new Managing Investment Director (MID) of Private Debt. The remainder of the team includes one Investment Director (ID), four Investment Managers (IMs), two Associate Investment Managers (AIMs), three Investment Officers (IOs), one Staff Services Assistant (SSA), and one Student Assistant (leaving in mid-May 2026). There are four more approved positions, which are currently vacant, and the group is actively recruiting to fill these roles. These include an additional ID, IM, AIM, and IO. Since May 2025, the Private Debt group has made one promotion (AIM to IM), and two professionals (one ID and one SSA) have left the team.

While we believe the staffing levels are sufficient to execute the current investment strategy, we note there are several open positions currently across seniority levels. We would further note that as the portfolio continues to grow and evolve that the Program will likely need further additions to Staff (in addition to the current open positions) as well as an expansion of skills to identify, execute, and monitor an increasingly complex portfolio.

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 0.5% higher compared to March 31, 2025.

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

- Increasing capital deployment – Over the year ending March 31, 2026, Staff committed approximately \$13.7 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, 62% 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 fourth quarter of 2025.

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

MB/JM/SPM/jls



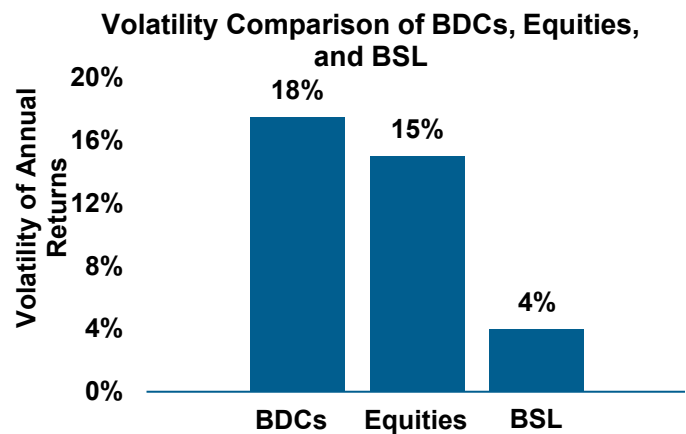
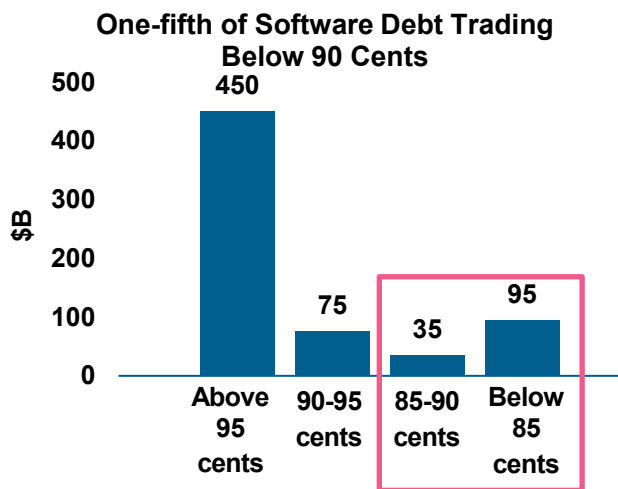
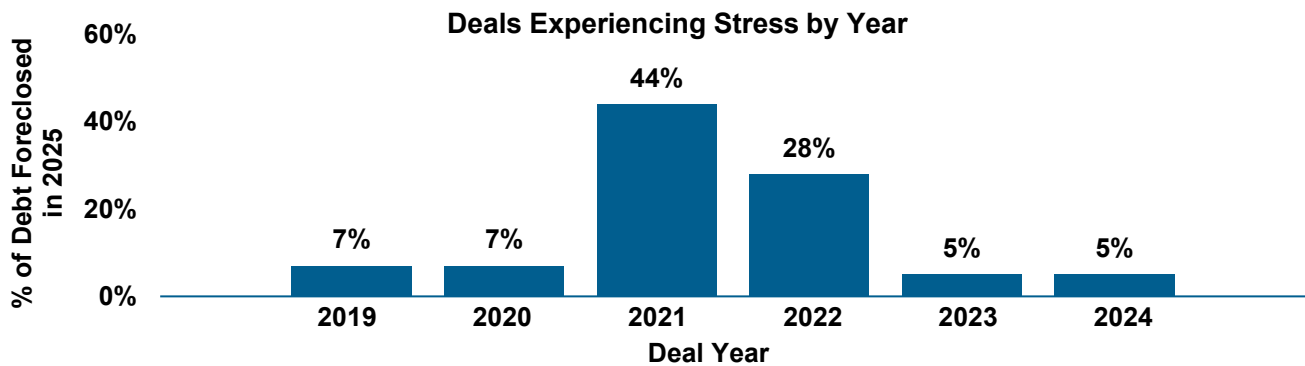
Attachments

Private Debt Market Commentary – Q4 2025

Market Environment Headlines

Negative private credit headlines during the first quarter garnered significant attention with most relating to retail flows in vehicles focused on the mass affluent and/or software.

Vintage year differences are pronounced with deals in 2021 and early 2022 experiencing more stress compared to other recent vintages. Businesses in these cohorts have been the most impacted by the change in interest rates with limited time for EBITDA growth.¹



Roughly one-fifth of software acquisitions-related loans trade below 90 cents.²

Publicly traded BDCs have experienced significant recent volatility, with most trading below book value. Long-term public BDC have a higher volatility than equities and the BSL market and generally are a better proxy for financial stocks than direct lending.³

¹ Source: Lincoln as of Q3 2025.

² Source: S&P Global Market Intelligence Data set includes broadly syndicated loans issued by companies with industry classification Software and Services.

³ Sources: S&P Global (BDCs), MSCI World (Equities), LSTA (BSL). Volatility of annual returns 2016-2025.



Direct Lending

As measured by the Lincoln Senior Debt Index, which tracks the fair market value of 1,600+ middle market, direct lending credit investments across the US and Europe, quarterly returns have averaged 2.1% (8.4% annualized) since 2019. In 2025, quarterly returns ranged from 2.1% to 2.5%.

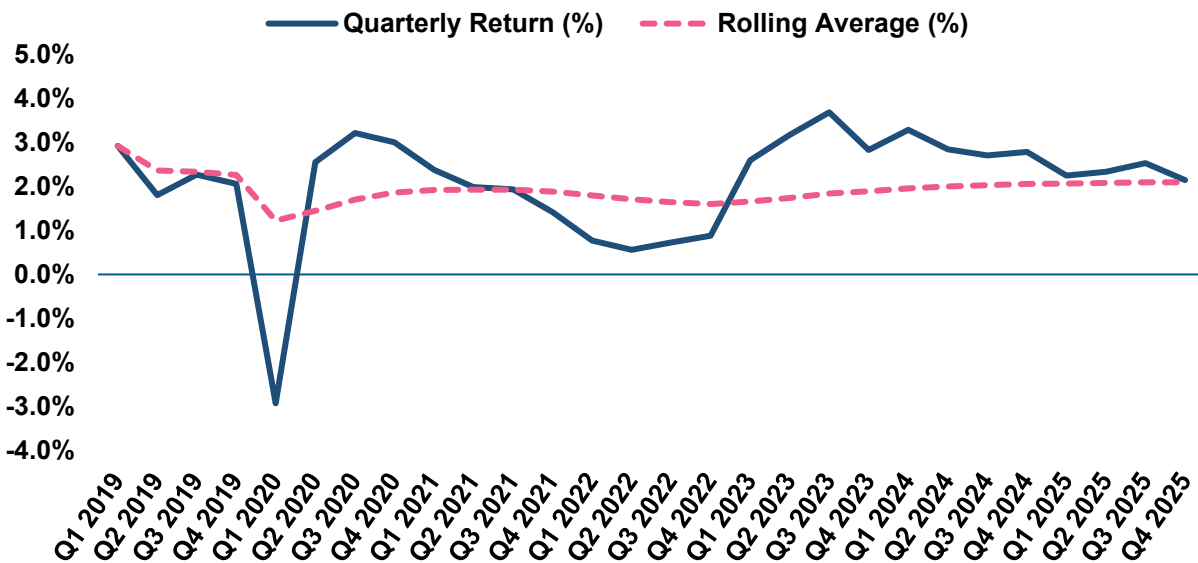
Leverage levels and loan-to-value (LTV) ratios have declined, suggesting overall balance sheet health; however, interest coverage ratios are lower due to higher interest rates.^{1,2}

Core middle market direct lending spreads in today’s market typically range from 500 to 600 basis points over SOFR, a modest widening of 50 to 100 basis points since late 2025.

Indicative Financing Terms – US Private Debt Market³

	Q4 2021	Q4 2022	April 2026
Leverage	7.0x to 7.5x	4.75x to 5.75x	5.0x-6.5x
3M SOFR	0.1%	4.1%	3.7%
Floor	1.0%	1.0%	1.0%
Spread	5.0-5.75%	6.0-7.0%	5.0-6.0%
OID	1-2%	2-3%	1.5-2%
Market Indicative Return	6.3-7.4%	10.8-12.1%	9.2-10.4%

Lincoln Senior Debt Index – Quarterly Returns⁴



¹ Source: Pitchbook LCD Leveraged Buyout Debt Report.

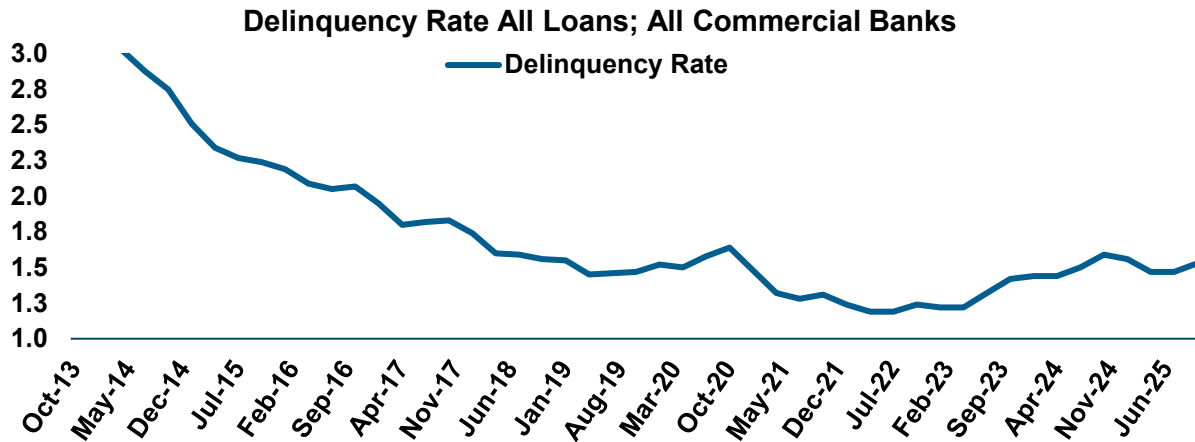
² Source: LSEG Data and Analytics.

³ Source: Lincoln International

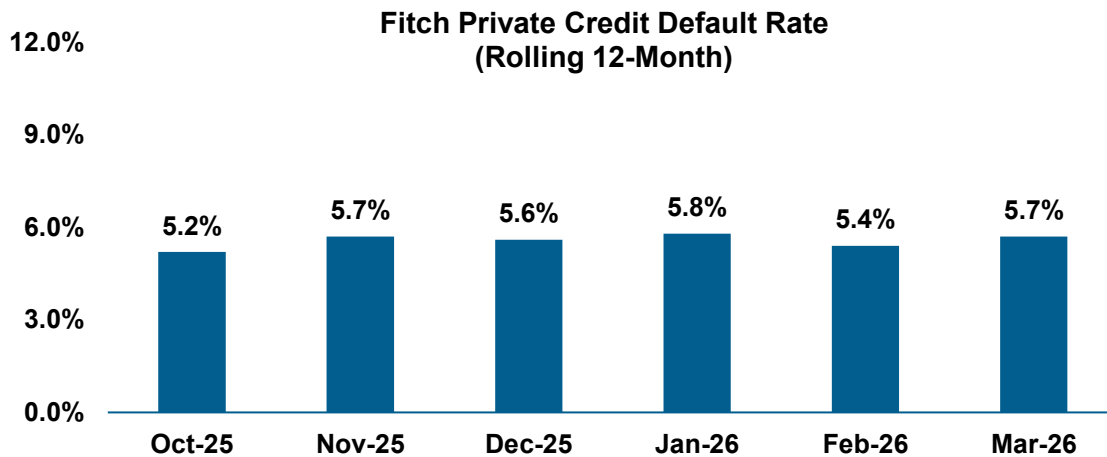
⁴ Lincoln Senior Debt Index, Quarterly Returns through December 31, 2025.



Special Situations



The Fed’s Senior Loan Officer survey revealed generally tighter lending standards for commercial and industrial loans (C&I). Forward-looking statements around loan quality indicated expectations that loans to mid and large firms would be largely unchanged while those to smaller firms may see deterioration. A modest number of banks reported easing standards for commercial real estate (CRE) loans to multi-family assets while other categories remained largely unchanged.¹



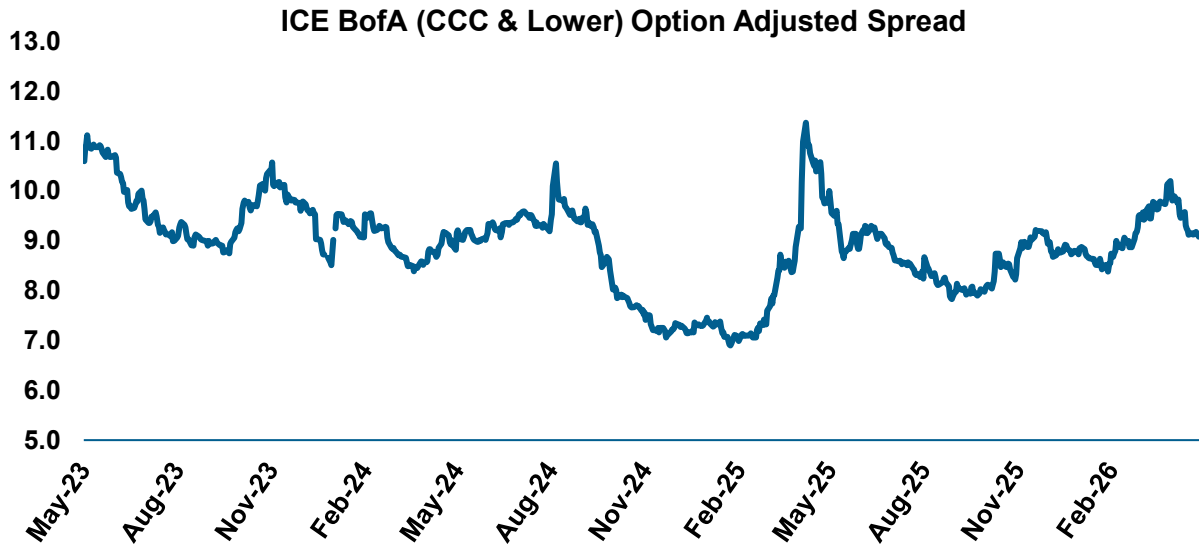
Private Credit defaults as captured by the Fitch Private Credit Default Rate (PCDR) remained elevated with a modest increase between the fourth quarter and Q1 2026. Consumer and healthcare focused issuers were highlighted as sectors with the highest number of unique defaulters. PCDR includes distressed exchanges and PIK toggles, this makes it a “harder” measure than many bank published indicators of default rates.²

¹ Federal Reserve System, Senior Loan Officer Opinion Survey on Bank Lending (January 2026).

² Fitch Ratings, Non-Rating Action Commentary (April 30, 2026).



Special Situations (continued)



Credit spreads for the lowest quality borrowers (CCC and below) widened over the fourth quarter and continued to widen in Q1 2026, although not to levels seen during the tariff announcements of “Liberation Day” in early 2025.¹

¹ Federal Reserve Bank of St. Louis (FRED), ICE BofA CCC & Lower US High Yield Index Option-Adjusted Spread (BAMLH0A3HYC).



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