

# Global Public Equity Active Management Process

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July 13, 2026

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# Objective

## **Provide an overview on active strategies in Global Public Equity**

- Provide a foundational explanation of what Active investing means for public equities
- Share research that shows how hard it is to beat the passive index (benchmark)
- Explain why we do Active and how we have performed



# Index Fund Management – What is it?

**Index fund management**, representing 60%<sup>1</sup> of CalPERS' public equity portfolio, involves tracking a market index with minimal buying and selling, aiming to replicate its performance rather than beat it.

## Key Features:

- **Process-Driven:** Managers use robust, repeatable processes and intelligent trading to match benchmark performance with minimal transaction costs.
- **Infrequent Trading:** Portfolios are periodically adjusted to match changes in the market.
- **Lower Fees:** Index fund management requires fewer resources and associated costs, averaging around 15 basis points (0.15%).
- **Caveat:** The market index assumes no fees or trading costs, so to even match its performance we need to add value with our portfolio management and execution.



## The Market Index – weight calculation (example)

Price x Shares Outstanding x Investable Weight = Market Capitalization					
Security ID	Price (\$US) (column B)	X Common Shares Outstanding (column C)	X Investable Weight <sup>1</sup> (column D)	= Total Market Capitalization (B * C * D) (\$ million)	Weight in Index
stock A	315	2,782,996,294	99%	869,062	14.04%
stock B	503	1,339,905,639	90%	606,262	9.79%
stock C	763	947,989,151	95%	687,150	11.10%
stock D	341	1,710,985,048	85%	496,482	8.02%
stock E	85	9,203,372,666	85%	666,619	10.77%
stock F	1,199	425,571,266	95%	484,715	7.83%
stock G	113	4,325,293,654	99%	482,800	7.80%
stock H	281	2,804,234,000	90%	709,796	11.47%
stock I	569	901,346,420	95%	487,060	7.87%
stock J	103	8,000,886,911	85%	700,886	11.32%
				6,190,831 <sup>2</sup>	<b>100.0%</b>



# Active Management – What is it?

**Active equity management** is an investment strategy where portfolio managers make specific decisions about which stocks to own and at what proportion in an attempt to outperform a benchmark.

## Key Features:

- **Research-Driven:** Managers use research, analysis, and forecasts to select stocks they believe will perform better than the market or their peers.
- **Frequent Trading:** Portfolios are adjusted regularly based on market conditions, company performance, and economic outlook.
- **Higher Fees:** Active management involves higher management fees due to the resources required for research and trading, averaging around 60 basis points (0.60%).

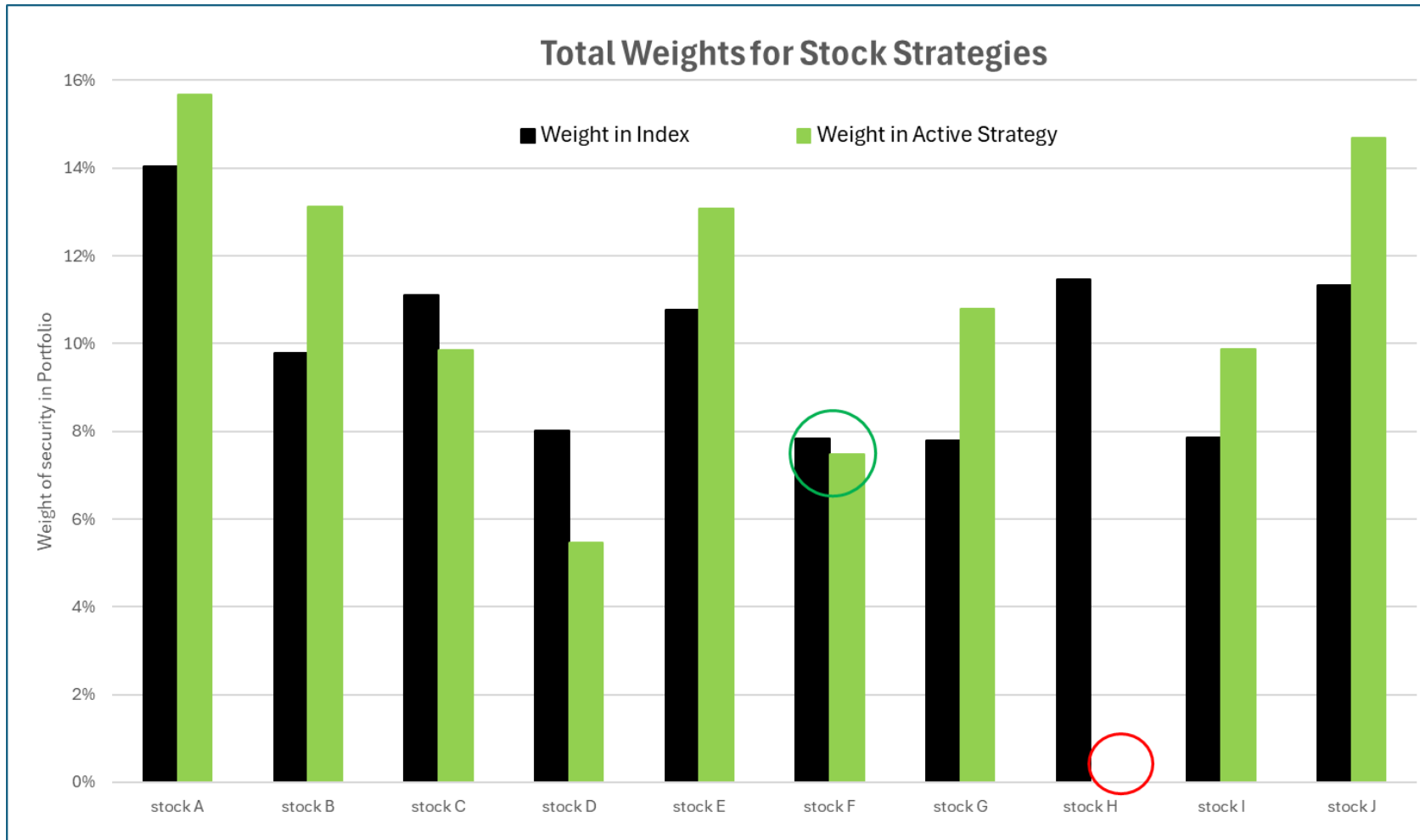


## Active Management – weights (example)

Security ID	Price (\$US) (column B)	X	Common Shares Outstanding (column C)	X	Investable Weight = (column D)	=	Total Market Capitalization (B * C * D) (\$ million)	Weight in Index (column E)	Weight in Active Strategy (column F)	Active Weight in Active Strategy (F - E)
stock A	315		2,782,996,294		99%		869,062	14.04%	15.67%	1.63%
stock B	503		1,339,905,639		90%		606,262	9.79%	13.12%	3.33%
stock C	763		947,989,151		95%		687,150	11.10%	9.85%	-1.25%
stock D	341		1,710,985,048		85%		496,482	8.02%	5.46%	-2.56%
stock E	85		9,203,372,666		85%		666,619	10.77%	13.08%	2.31%
stock F	1,199		425,571,266		95%		484,715	7.83%	7.47%	-0.36%
stock G	113		4,325,293,654		99%		482,800	7.80%	10.79%	3.00%
stock H	281		2,804,234,000		90%		709,796	11.47%	0%	-11.47%
stock I	569		901,346,420		95%		487,060	7.87%	9.88%	2.01%
stock J	103		8,000,886,911		85%		700,886	11.32%	14.69%	3.36%
							6,190,831	100.0%	100.0%	0.0%



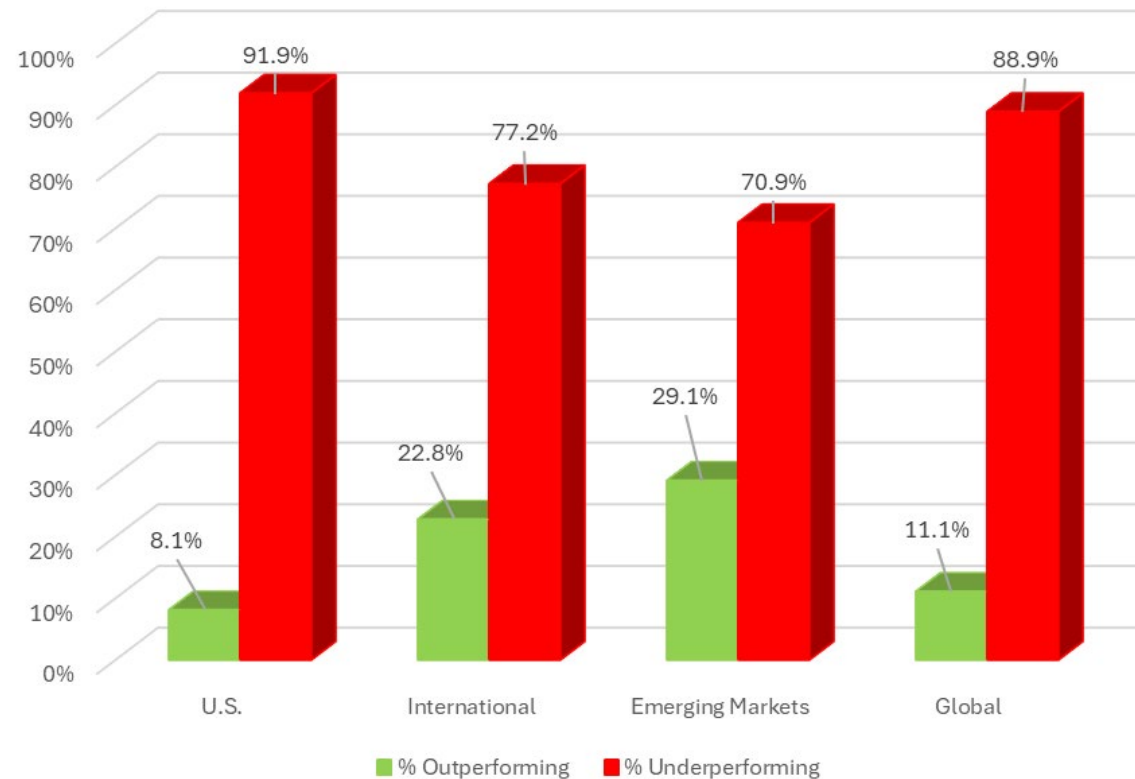
# Active Management – total weights (example)





# Beating the index is difficult!

**% of Funds Outperforming Benchmark**  
(10 years as of Dec. 31, 2025; gross-of-fees)





# Why so difficult to beat the Index?

## **Active performance across all investors is zero (before fees)**

- Markets are efficient; most information is quickly reflected in prices
- Implementation costs are higher for active managers
- Very few managers outperform consistently through market cycles

## **Fees and Expenses:** Active management fees erode returns

- Data and technology requirements are more substantial
- Higher business costs for distribution, personnel, regulatory compliance, etc.
- Active fees (~0.60%) are substantially higher than Passive fees (~0.15%).

# Why so difficult to beat the Index?

## History of Market Leaders

### U.S. 1926 – 2025 (covering ~30,000 stocks)<sup>1</sup>

- 51% of stocks had **negative** buy-&-hold returns
- 59% of stocks provided returns **lower** than Treasury Bills
- 50% of wealth was created by **just 46 firms**

### Global 1990 – 2020 (~64,000 stocks)<sup>2</sup>

- Majority of stocks (55% of U.S. & 57% of non-US) had **negative** buy-&-hold returns
- **5 stocks** account for over **10% of wealth creation** in U.S.

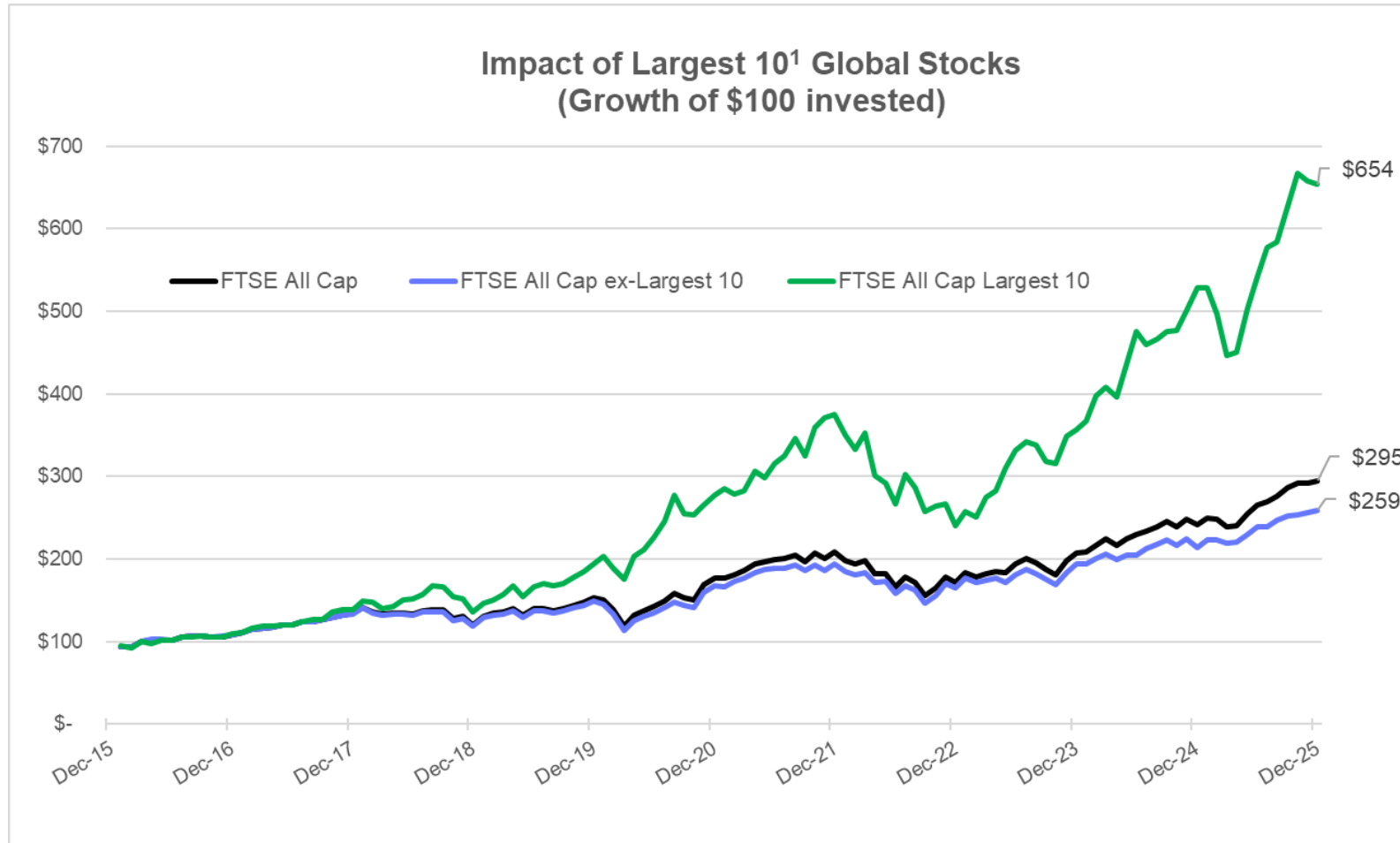
## Today's Concentration

### Global 2006-2025<sup>3</sup>

- Annualized compound return: 8.23%
- ex Largest10 annualized compound return: 7.59%
- **Largest 10** stocks total return: 11.94%



# Why so difficult to beat the Index?





# CalPERS GPE Active Strategy has beaten the Index

**Prior GPE active strategy (pre FY 2022-23) beat the index**

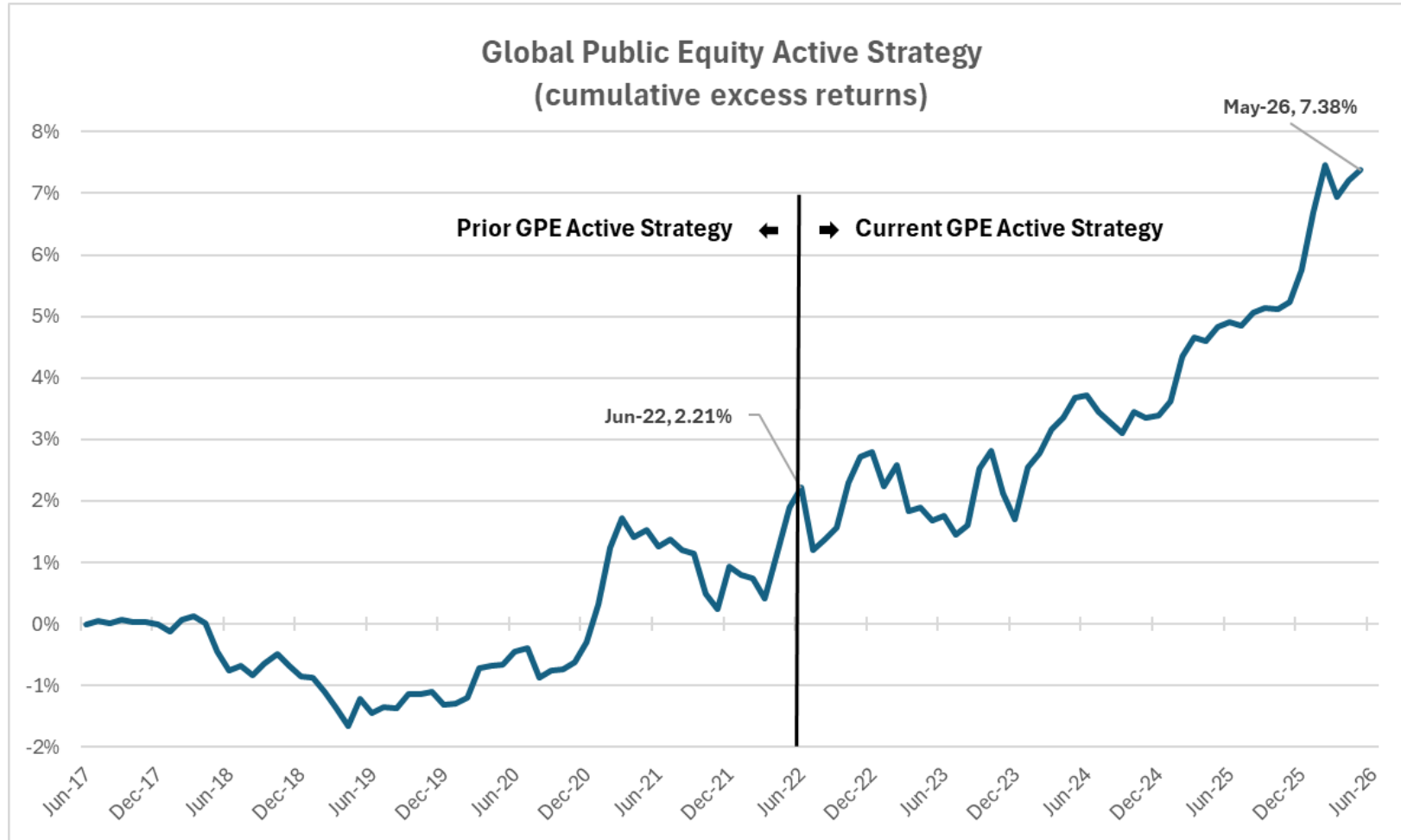
		1 Year			3 Year			5 Year		
GPE Active Book	Ending Market Value	Fund	Benchmark	Excess	Fund	Benchmark	Excess	Fund	Benchmark	Excess
as-of June 2022	15,864,697,162	(14.34)	(15.23)	0.89	8.78	7.41	1.37	8.17	7.65	0.52

**Current GPE active strategy (est. in FY 2022-23) is significantly beating the index**

		1 Year			3 Year			5 Year		
GPE Active Book	Ending Market Value	Fund	Benchmark	Excess	Fund	Benchmark	Excess	Fund	Benchmark	Excess
as-of May 2026	109,155,682,580	34.35	31.33	3.01	25.43	23.18	2.25	13.61	12.30	1.31



# CalPERS GPE Active Equity Returns





# How has CalPERS GPE beat the Index?

## Clear Investment Philosophy

- Deploying assets to proven strategies based on rigorous investment frameworks can deliver superior risk-adjusted net returns.
- While markets are mostly efficient, disciplined long-term investors can exploit behavioral biases, market structural issues and market.

## Experienced Team

- The CalPERS Global Public Equity team possess the knowledge, experience (art) and tools (science) to identify skillful managers.
- Efficient, structured search and underwriting process that is robust and repeatable.

## Favorable Economics

- CalPERS scale and brand enables us to better align economic outcomes with managers.
- The team is experienced at negotiating fees that align manager pay with performance.
- We leverage internal capabilities to implement some strategies in-house to secure more advantageous fee structures.

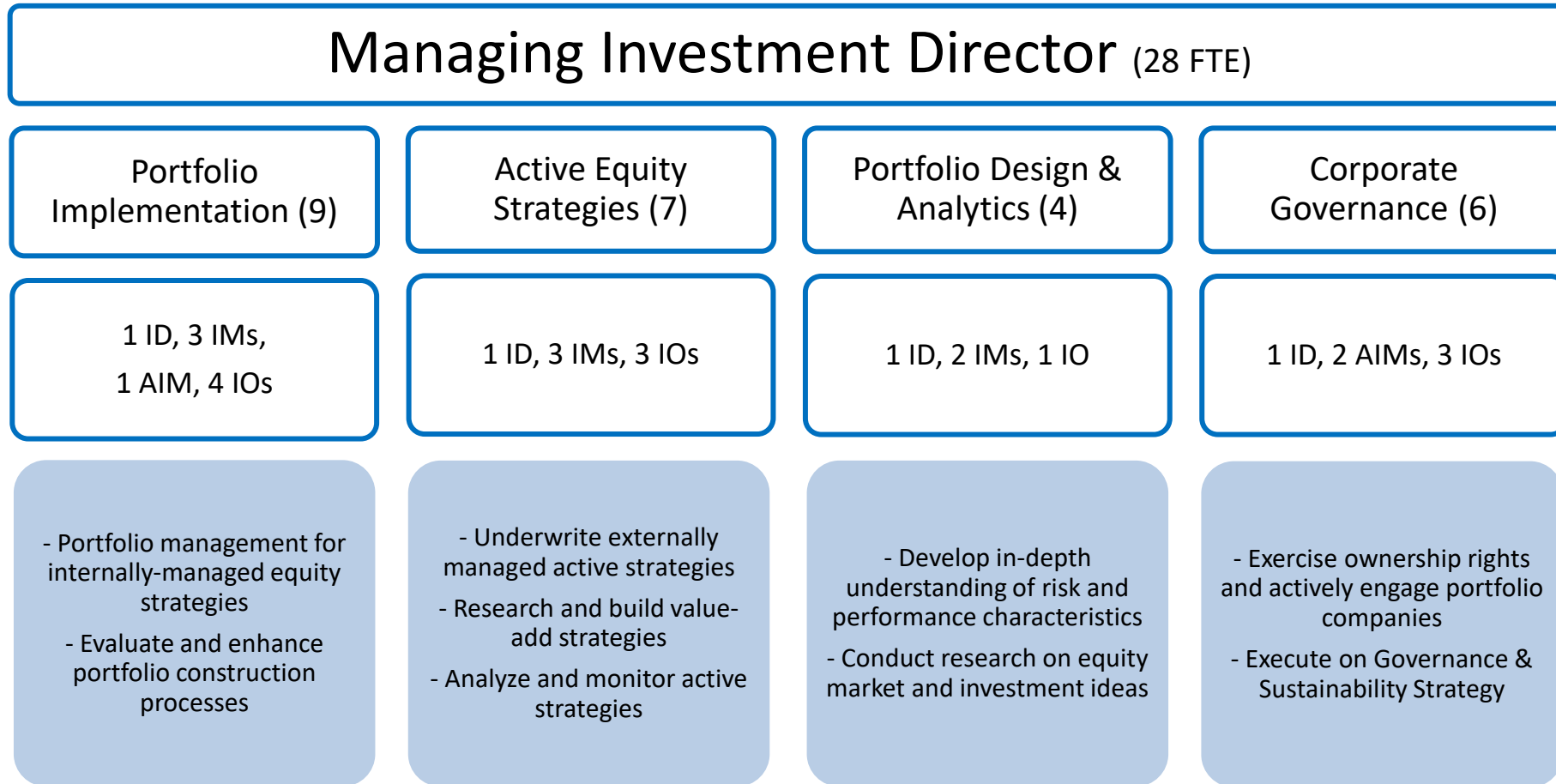


# Global Public Equity Investment Philosophy

- **A disciplined and adaptive portfolio management process**, which is based on rigorous investment frameworks, can deliver superior risk-adjusted net returns. While markets are mostly efficient, a long-term investor can exploit behavioral biases, market structural issues and market dislocations to earn superior risk-adjusted net returns
- **Consistency is critical to investment success.** Efficient, repeatable processes lead to scalable exposures that can deliver consistent risk-adjusted performance over the long-term.
- **Diversify, diversify, diversify.** Diversification is the only “free lunch” in investments. Superior risk adjusted returns can be earned by combining well-diversified strategies. Diversification of active risks is achieved by seeking strategies with low correlation of active returns.
- **Collective ownership and accountability.** One team/mission approach with total transparency around a disciplined manager selection processes results in focused, higher-performing teams and portfolios.



# GPE Investment Team





# Identifying skillful managers

## **Highly experienced and disciplined team members**

- Tenured staff with long investment horizons: 22 years of average experience (12 w/CalPERS)
- Strong negotiating and contracting skills to ensure strong net-of-fees performance

## **Manager Universe Continuous Search (MUCS) process**

- Established to streamline the procurement process while maintaining a competitive, robust, and repeatable structured process for identifying and hiring skilled external managers.

## **Tools for thorough, multi-dimensional analysis**

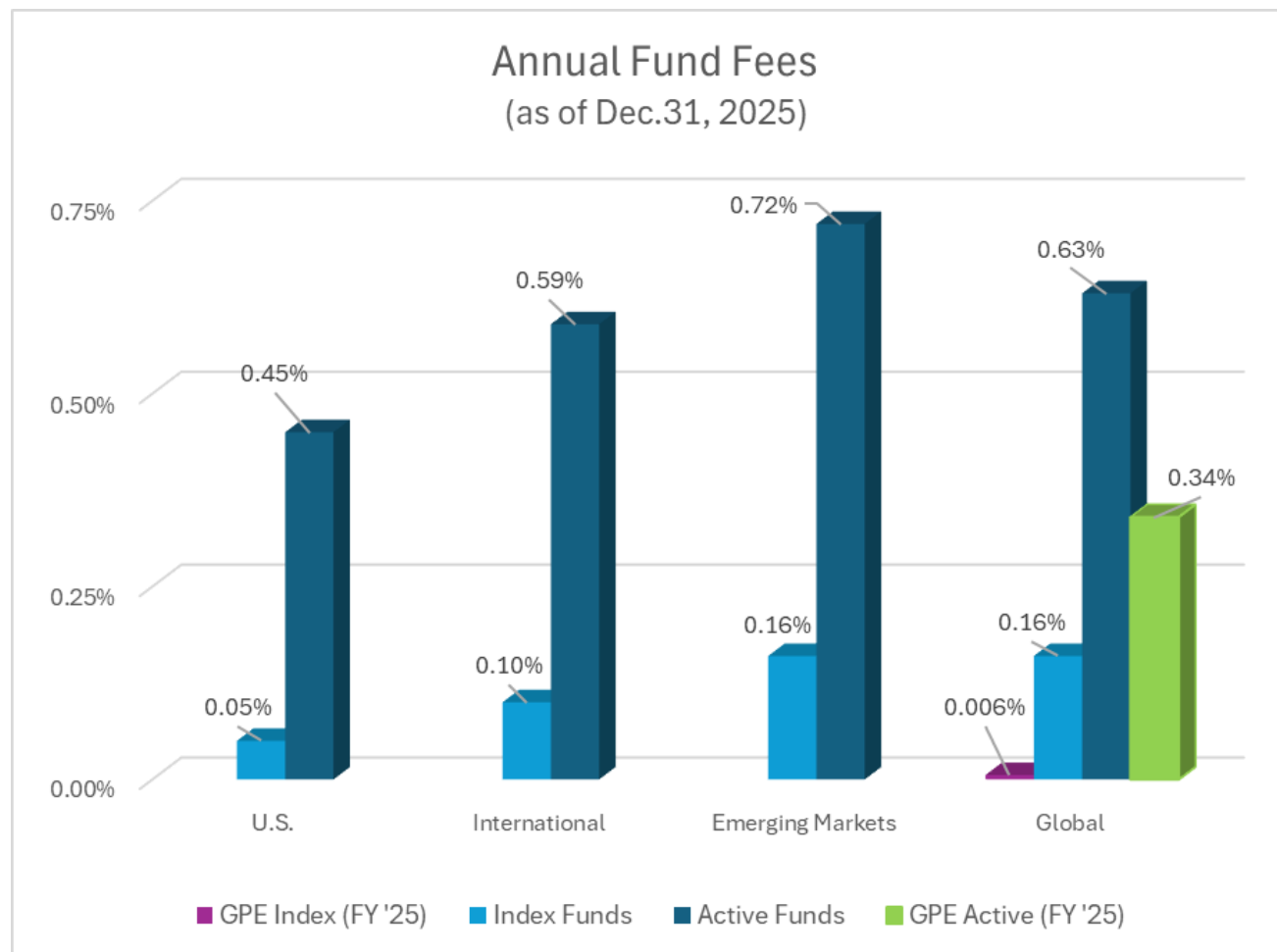
- 3<sup>rd</sup> party off-the-shelf platforms for performance and risk assessment
- Internally-developed proprietary analytics and reporting

## **Proven governance both within GPE and in collaboration with Total Fund**

- GPE Capital Allocation Committee (est. 2010) & Investment Review Committee (est. 2014)
- Total Fund Investment Underwriting Committee & Total Fund Management Committee



# Negotiating Aligned Economics





# Global Public Equity Active Book (as of 12/31/25)

Global Public Equity Active Strategies \$79.5 Billion / 40.4% of GPE					
3 Strategy Bucket Groups					
	Enhanced Index	Multi-Factor	Traditional Active		
Implementation:	1 Internal product	1 Internal product	2 External	3 External; 2 Internal	1 External; 1 Internal
Approach:	Quantitative	Quantitative	Quantitative	Quant + Fundamental	Quantitative
Style:	Core	Core	Core + Tactical	Core	Core
Geography:	Global	Global	Global	Global / Developed ex-US	Emerging Markets
Risk Level:	Tracking error ~1%	Tracking error ~2%	Tracking error 3%+	Tracking error 3%+	Tracking error 3%+

**Enhanced Index:** looks to earn a small amount of excess return through modest active management.

**Multi-Factor:** seeks to captures risk premia from common factors (traits) such as Value & Momentum.

**Traditional Active:** pursues maximum risk-adjusted active returns from high-performing external managers.



# Global Public Equity Active Management Summary

The GPE team have shown the ability and support to deliver strong risk-adjusted active returns with favorable economics.

5 year net-of-fees results (as of: December 31, 2025):

- **Annualized Excess Return:** 140 basis points (**1.40%**)
- **Information Ratio** (excess return ÷ tracking error): **0.98**
- **Dollar Value Added\*** (DVA): **\$2.3 billion**

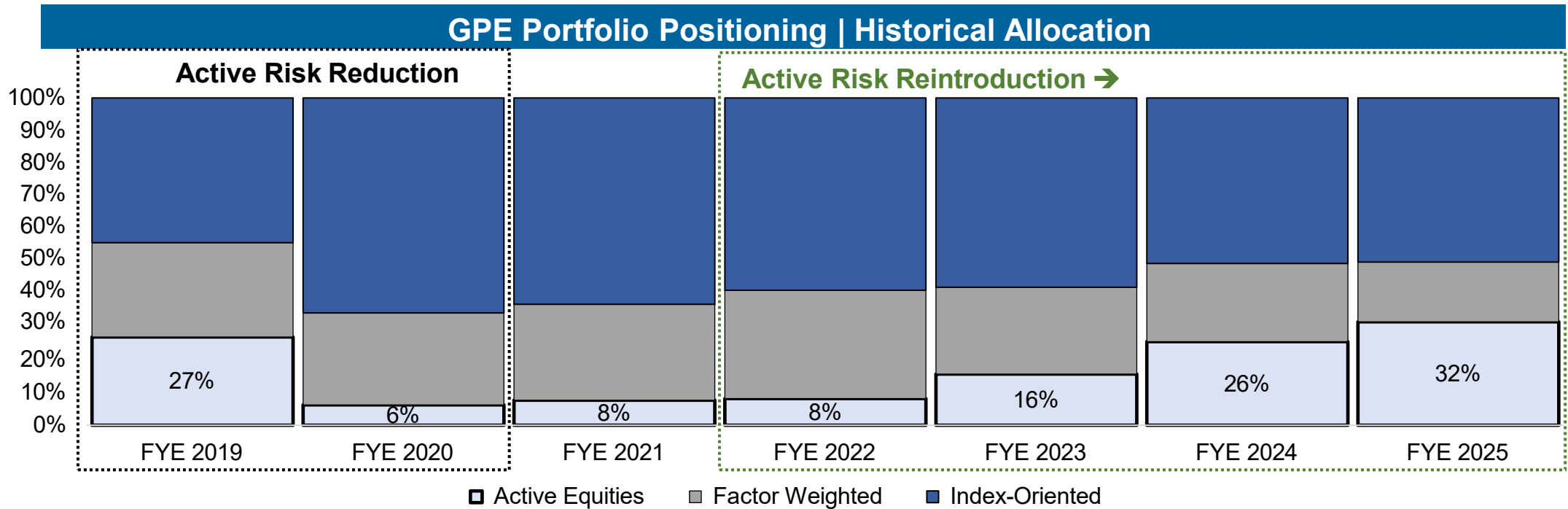
# Appendix

June 30, 2025 FYE information presented at September 2025 IC  
(June 30, 2026 FYE will be presented at September 2026 IC)



# Strategy and Portfolio Positioning | Historical Allocation

## Strategic Focus: Rebuilding Active Equities Allocation



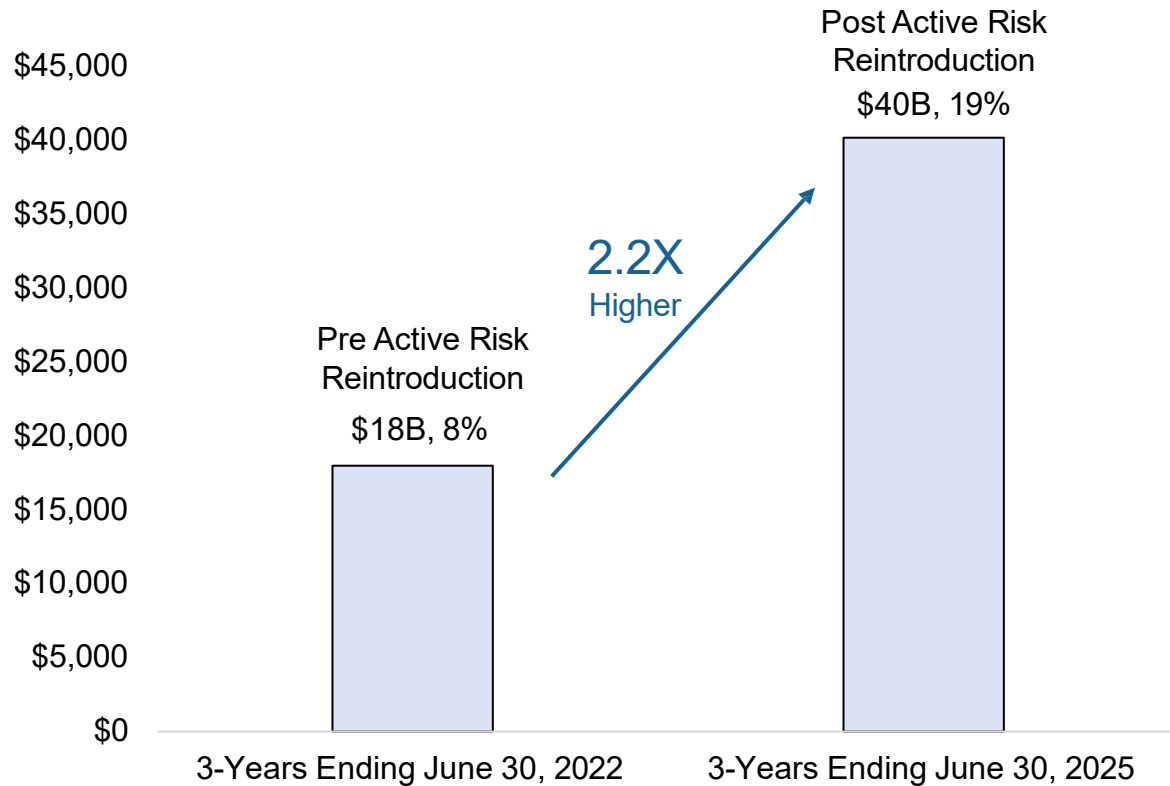
<sup>1</sup>Deployed \$4.5B by fiscal-year-end and an additional \$2B in the beginning of FY 25/26



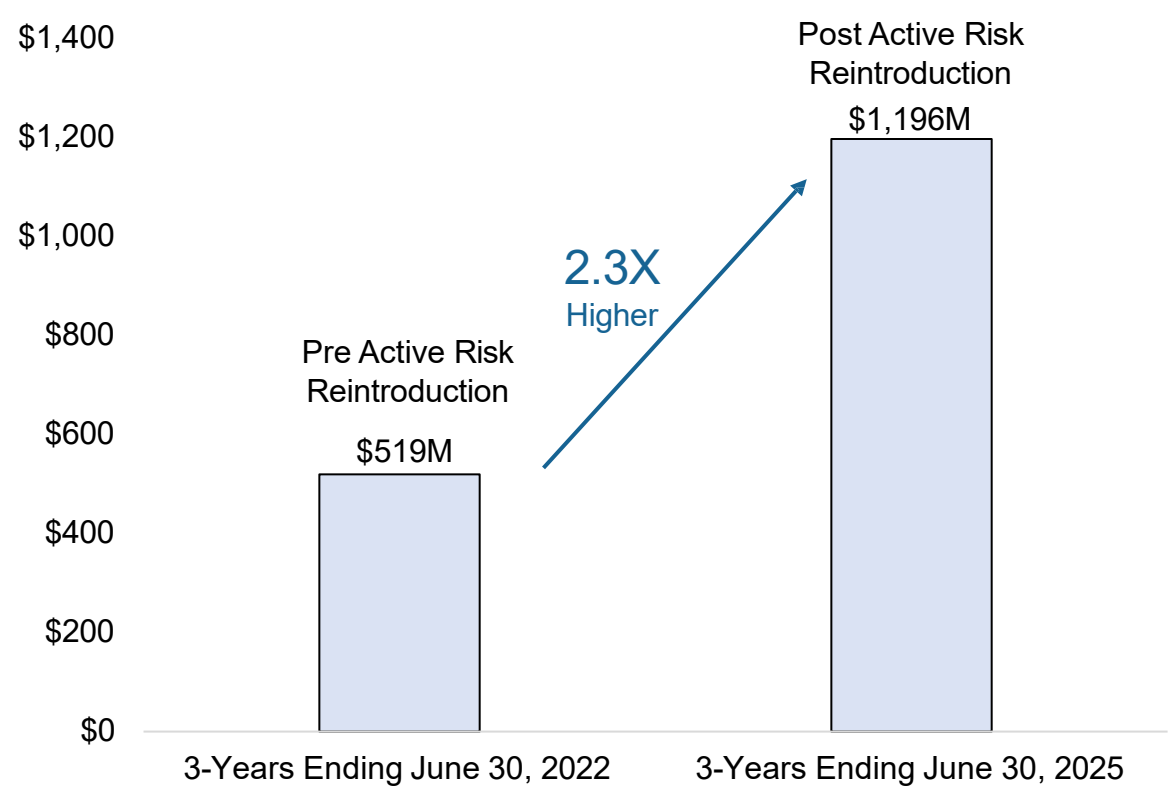
# Strategy and Portfolio Positioning | Active Equities

## CalPERS GPE Active Book Pre & Post Active Risk Reintroduction

Average Allocation (\$M)



Active Book DVA (\$M)



# Performance and Risk Analysis | SAA Segments

## Total Global Public Equity

**\$215B**  
Assets Under  
Management

**+13.2%**  
5-Year Total  
Return

**+25 bps**  
5-Year Excess  
Return

**\$2,392M**  
5-Year Cumulative  
Value Added

## Cap Weighted Segment

**82%**  
Allocation of  
Total GPE

**18.8%**  
Forecasted  
Volatility

**43 bps**  
Forecasted  
Tracking Error

## Factor Weighted Segment

**32%**  
Allocation to  
Active Strategies

**+16.8%**  
FY 24/25  
Total Return

**+45 bps**  
FY 24/25  
Excess Return

**\$804M**  
FY 24/25  
Value Added

**18%**  
Allocation of  
Total GPE

**15.7%**  
Forecasted  
Volatility

**29 bps**  
Forecasted  
Tracking Error



# Portfolio Performance | Active Management

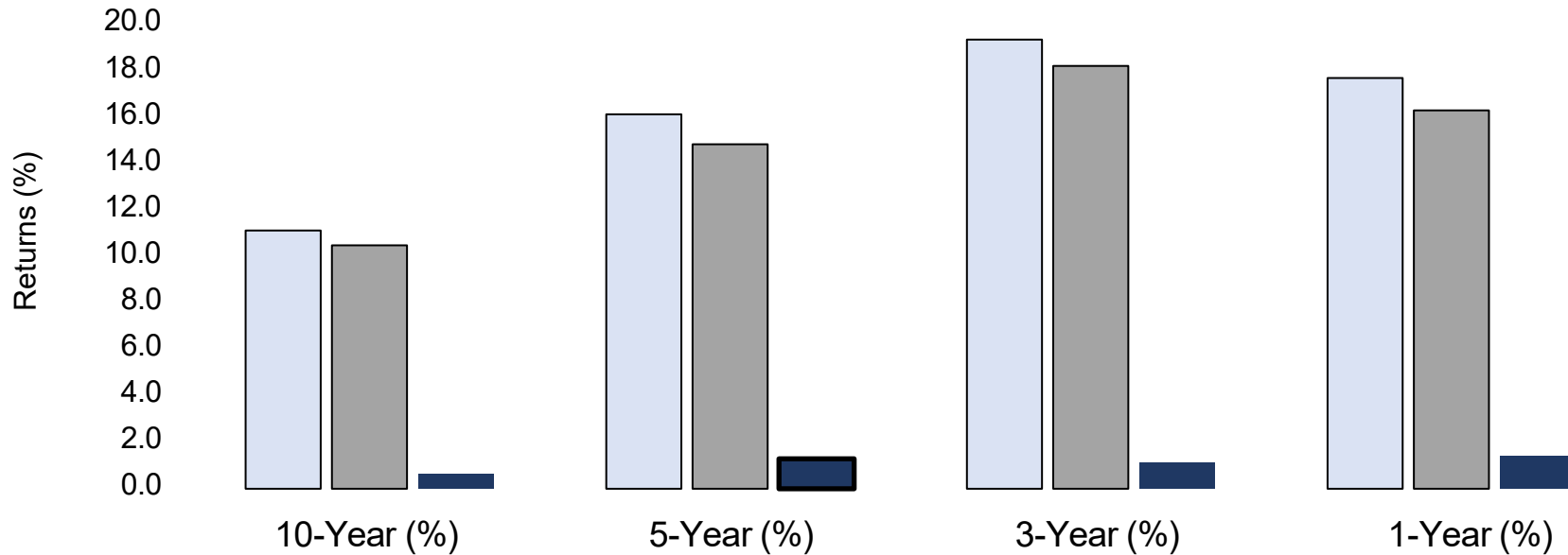
## How Staff Decisions Added \$1.5B DVA Over Last 3-Years



# Performance | CalPERS Active Equities

CalPERS Active Equities Delivered Strong Returns While Maintaining Liquidity and Cost Efficiency

**CalPERS Active Equities Performance As of June 30, 2025**



□ CalPERS Active Equities	11.06	16.04	19.24	17.59
■ CalPERS Active Composite BM	10.43	14.75	18.11	16.20
■ Excess Return	0.63	1.28	1.13	1.39
Information Ratio	0.54	0.89	0.78	1.47



# Performance | Peer Universe Ranking

## GPE 3-Year Performance Ranks Above Median to Top Quartile

As of Dec. 2024	CEM Equities Program Net Value Added (%) <sup>1</sup>	eVestment Active Equities Excess Return (%) <sup>2</sup>	eVestment Active Equities Information Ratio <sup>2</sup>
90th Percentile	0.6	3.06	0.93
75th Percentile	0.4	0.91	0.30
Peer Median	-0.3	-0.83	-0.20
25th Percentile	-0.7	-3.62	-0.64
10th Percentile	-1.3	-7.09	-1.06
Average	-0.3	-1.63	-0.08
Count	10	1,762	1,762

**CalPERS GPE**

**0.0**

**0.97**

**0.64**

**CalPERS GPE Rank**

**Above Median**

**Top Quartile**

**Top Quartile**