

Real Assets

Annual Program Review

As of Quarter Ending on March 31, 2024

Sarah Corr, Managing Investment Director

Real Assets

June 10, 2024

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Program Overview



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Portfolio Performance and Risk Analysis



Key Initiatives



Program Overview

Role

- Provide stable and predictable cash yield, diversification of equity risk, and inflation protection
- Returns predominantly derived from income
- Real Estate provides stable cash yield under long term leases with good credit tenants
- Infrastructure focuses on large scale, essential and defensive assets with proven revenue models

Key Metrics

- NAV in billions*: RA \$66.4, RE \$50.3, Infrastructure \$15.7
- 28 Partners and 68 Partnerships

Investment Beliefs

- A long investment horizon is a responsibility and an advantage (IB 2)
- CalPERS will take risk only where we have a strong belief that we will be rewarded for it (IB 7)
- Costs matter and need to be effectively managed (IB 8)
- Strong processes, teamwork and deep resources are needed to achieve CalPERS goals and objectives (IB 10)

*As of 3/31/24



Strategy and Portfolio Positioning

Positioning

- Emphasis on Core to fulfill role of Real Assets
 - Real Estate targets Core, well-located assets with strong competitive positions and defensive characteristics
 - Infrastructure targets essential, durable/long-lived assets and interests in portfolio companies
- Enhance returns through expansion of Non-Core strategies

Strategies

- Increase allocation to Infrastructure portfolio
- Separate accounts maintain focus on Core; expand Non-Core strategies via commingled funds and co-investments utilizing cost-efficient structures
- Maintain disciplined leverage strategy
- Consistent with the Sustainable Investments (SI) 2030 plan, increase focus on sustainable investment opportunities including energy transition, renewables, carbon-neutral and sustainability certified assets
- Pursue exit strategies of non-strategic assets

Market Environment

Current Concerns

- Inflation causing pressure on interest rates
- Rising interest rates putting downward pressure on asset values
- Real Estate transactions market experiencing material decline in volume with wide bid-ask spreads
- Refinancing risk and elevated financing costs
- Softening fundamentals in select Real Estate sectors
- Pricing of high-demand sectors in Infrastructure

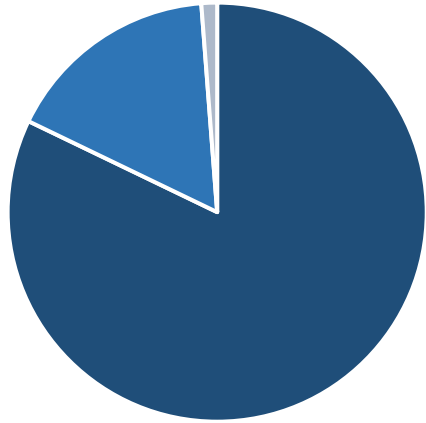
Deployment Themes

- Increased allocations to private assets leading to high levels of dry powder
- Market participants continue to favor Industrial, Multifamily and select Retail
- Tailwinds exist for Digital assets and Energy Transition assets
- Higher interest rates have sidelined investors that rely on leverage
- Capital market dislocation may present attractive opportunities for well capitalized investors



Portfolio Performance and Risk Analysis*

Asset Class Allocation (\$ Billion)



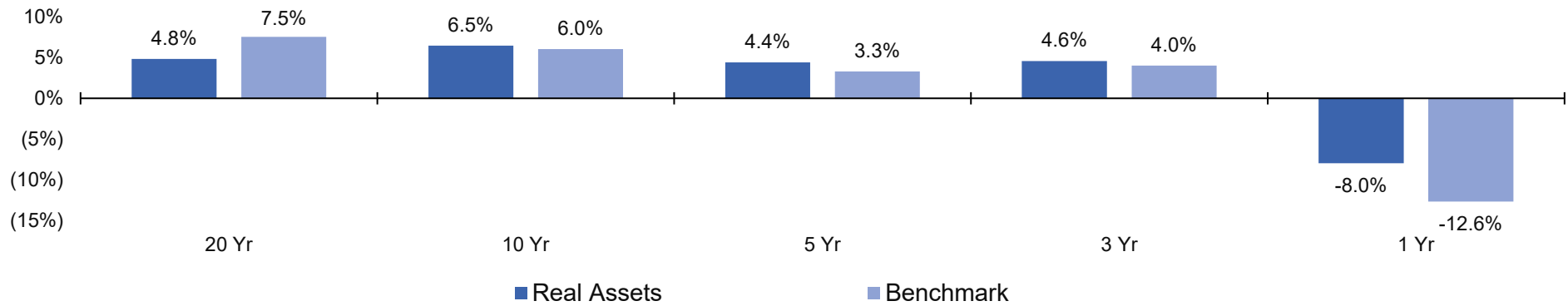
Total Market Value: \$66.4

- Real Estate \$50.3 | 75.8%
- Infrastructure \$15.7 | 23.7%
- Forestland \$0.3 | 0.5%

Key Metrics



Total Return



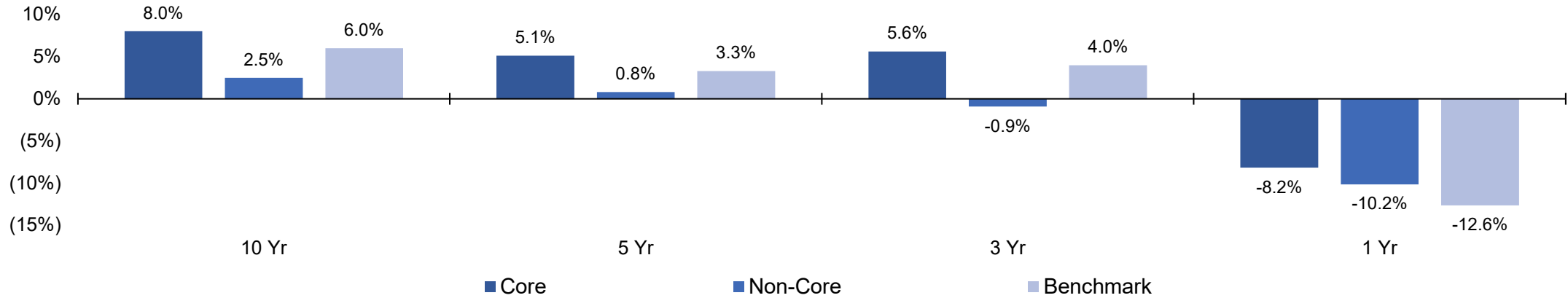
*3/31/24 performance based on 12/31/23 financial statements

¹Contractual unfunded commitment as of 12/31/23

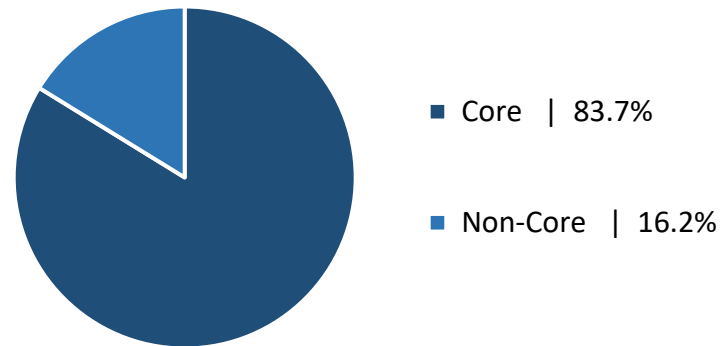


Performance and Allocation Analysis

Total Return

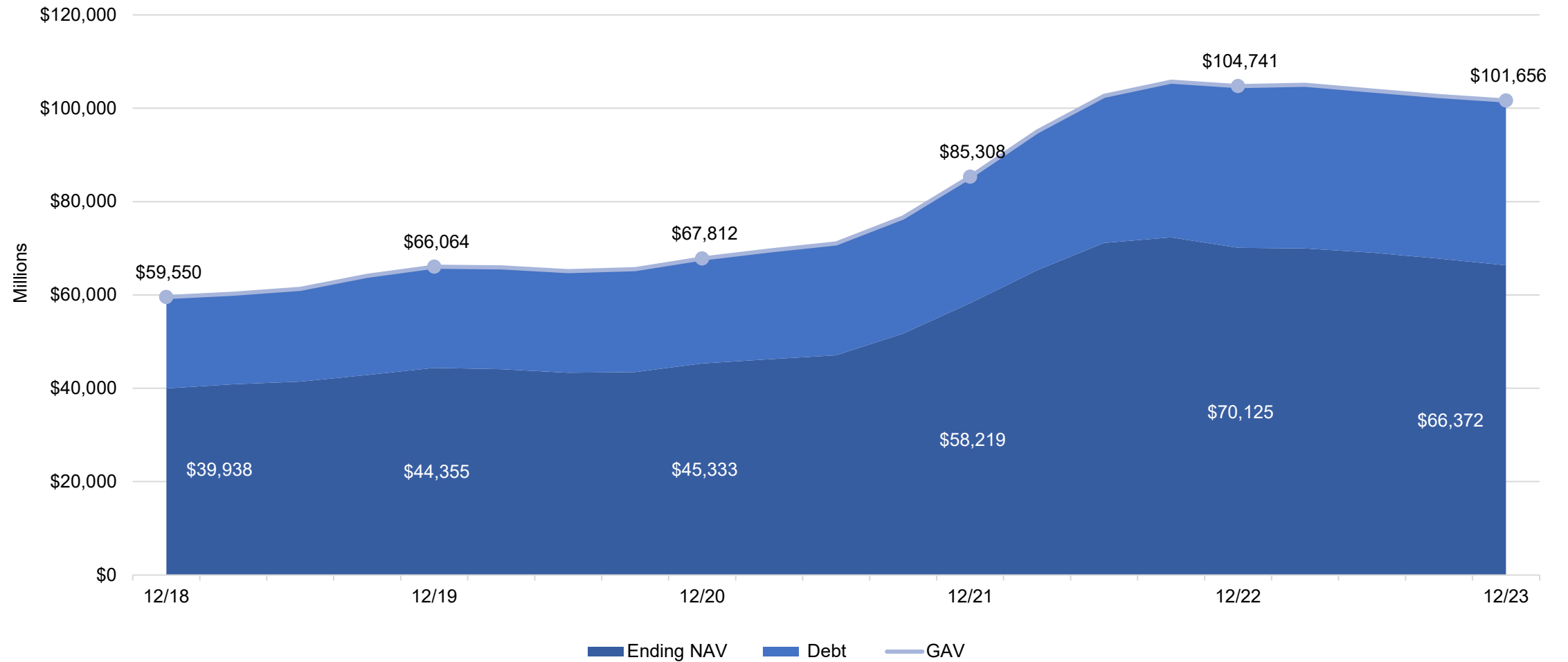


Exposure by Risk





Gross Asset Value & Net Asset Value Trends



Portfolio Analysis

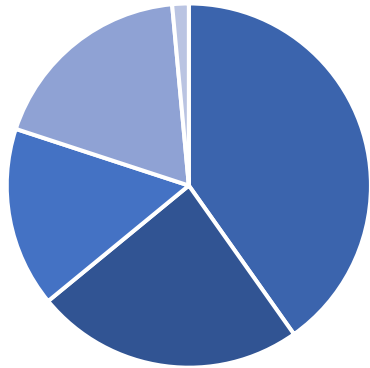
Real Estate





Portfolio Performance | Real Estate

Property Type

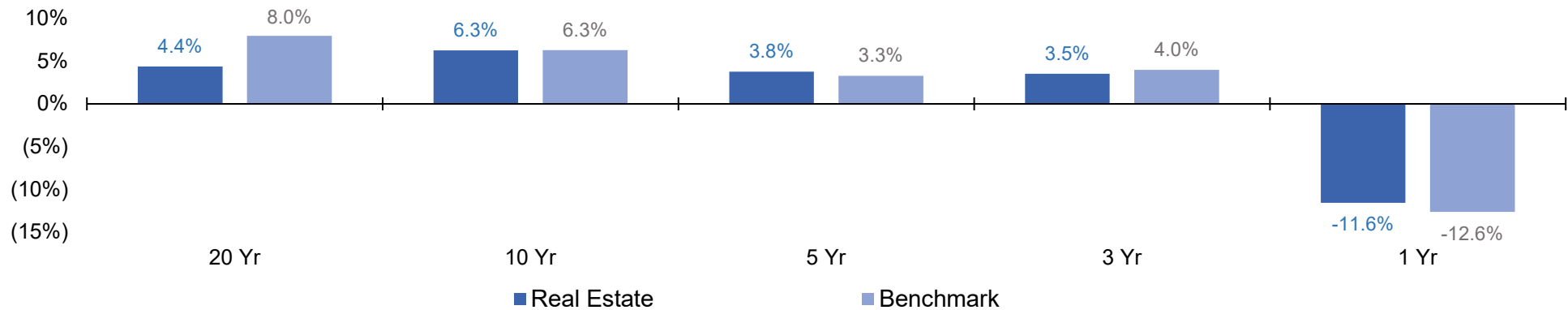


- Industrial | 40.2%
- Apartment | 23.9%
- Office | 16.0%
- Retail | 18.5%
- Other | 1.5%

Key Metrics



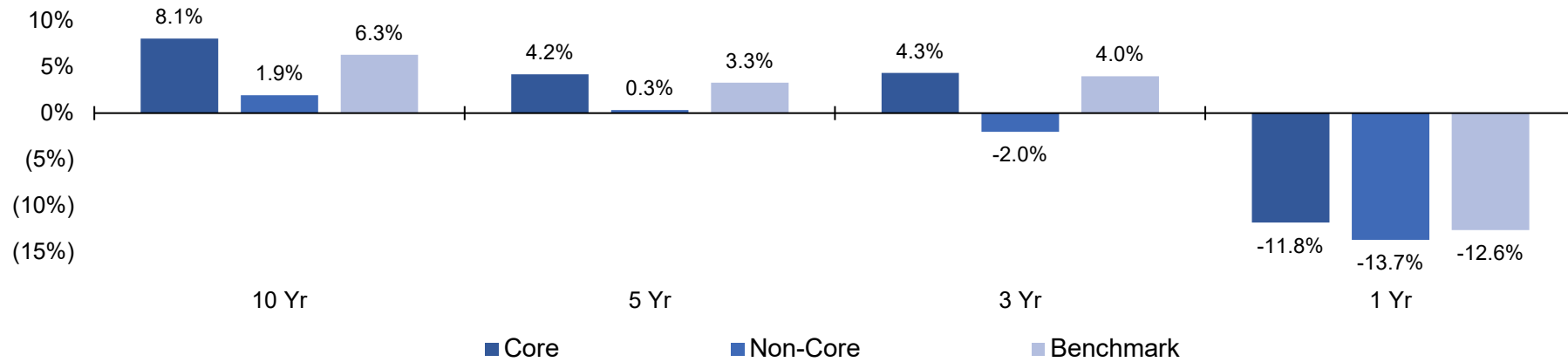
Total Return



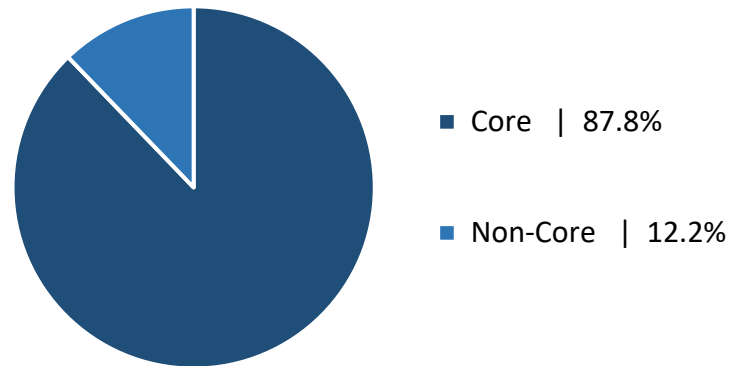


Performance and Allocation Analysis | Real Estate

Total Return

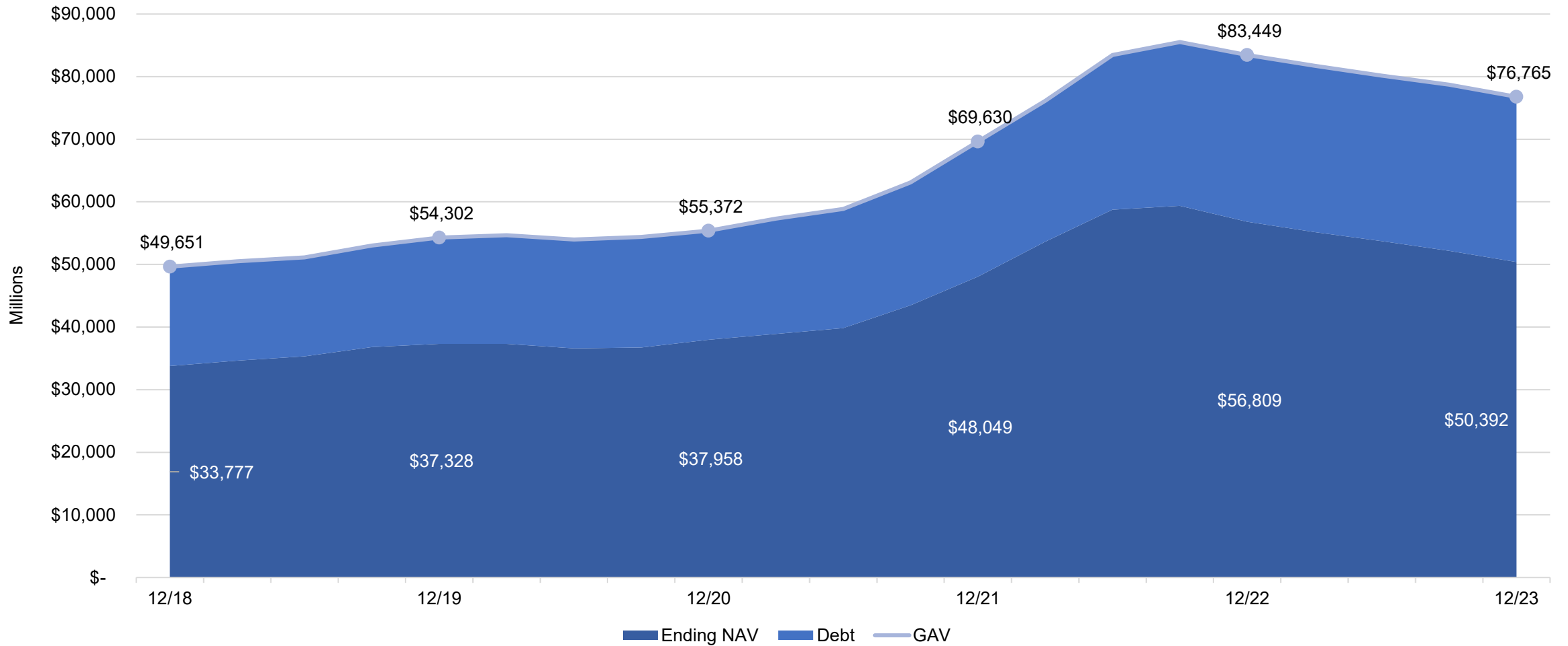


Exposure by Risk



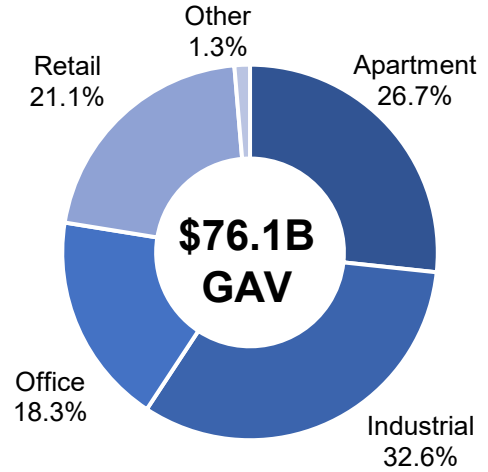
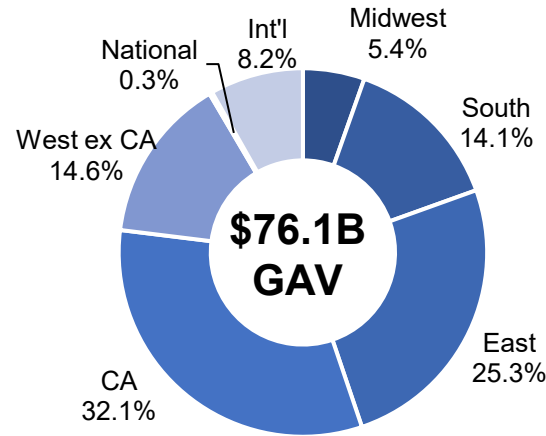
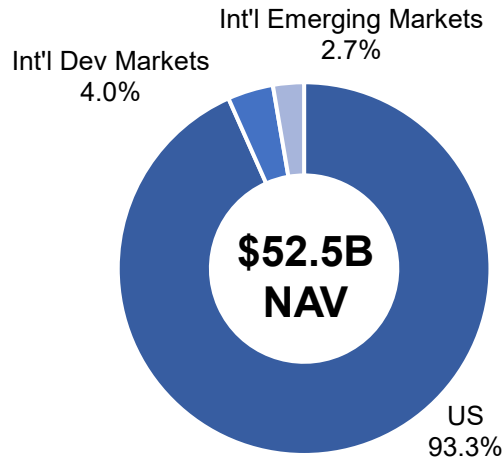


GAV & NAV | Real Estate

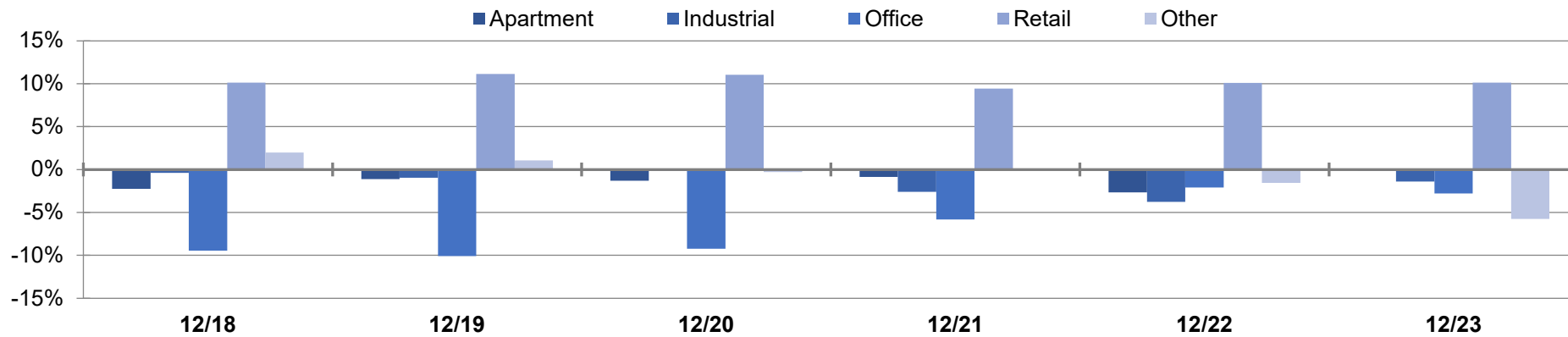




Exposures | Real Estate



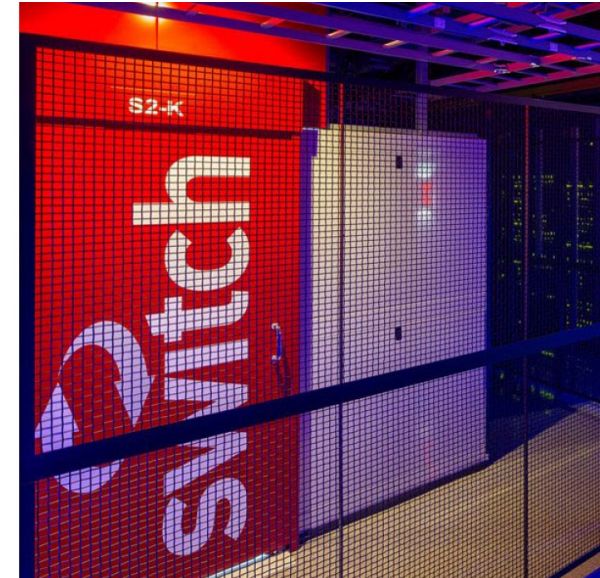
Difference versus Property Type Benchmarks*



*Based on GAV

Portfolio Analysis

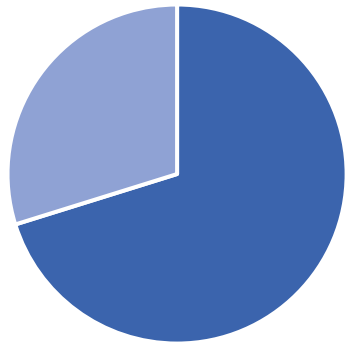
Infrastructure





Portfolio Performance | Infrastructure

Risk Type

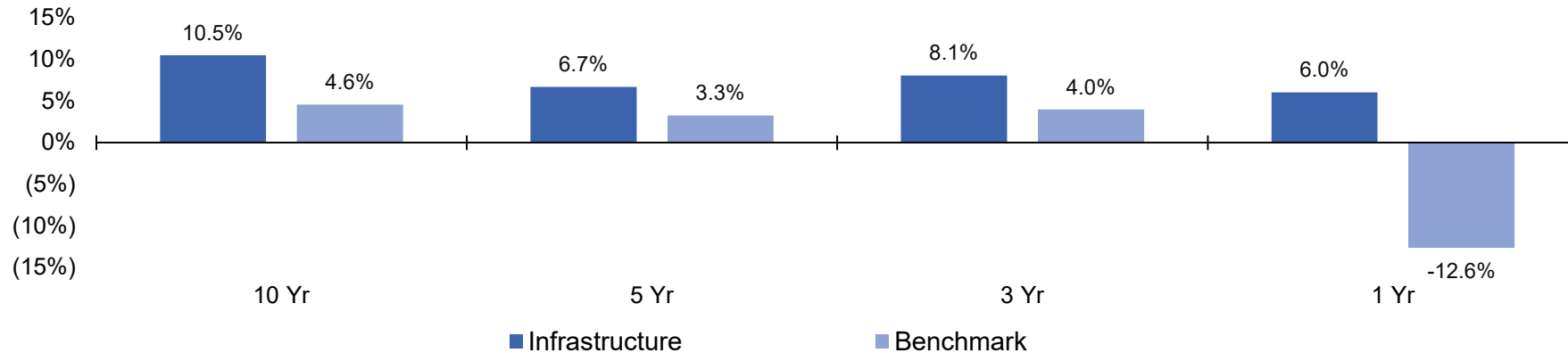


- Core | 70.2%
- Non-Core | 29.8%

Key Metrics

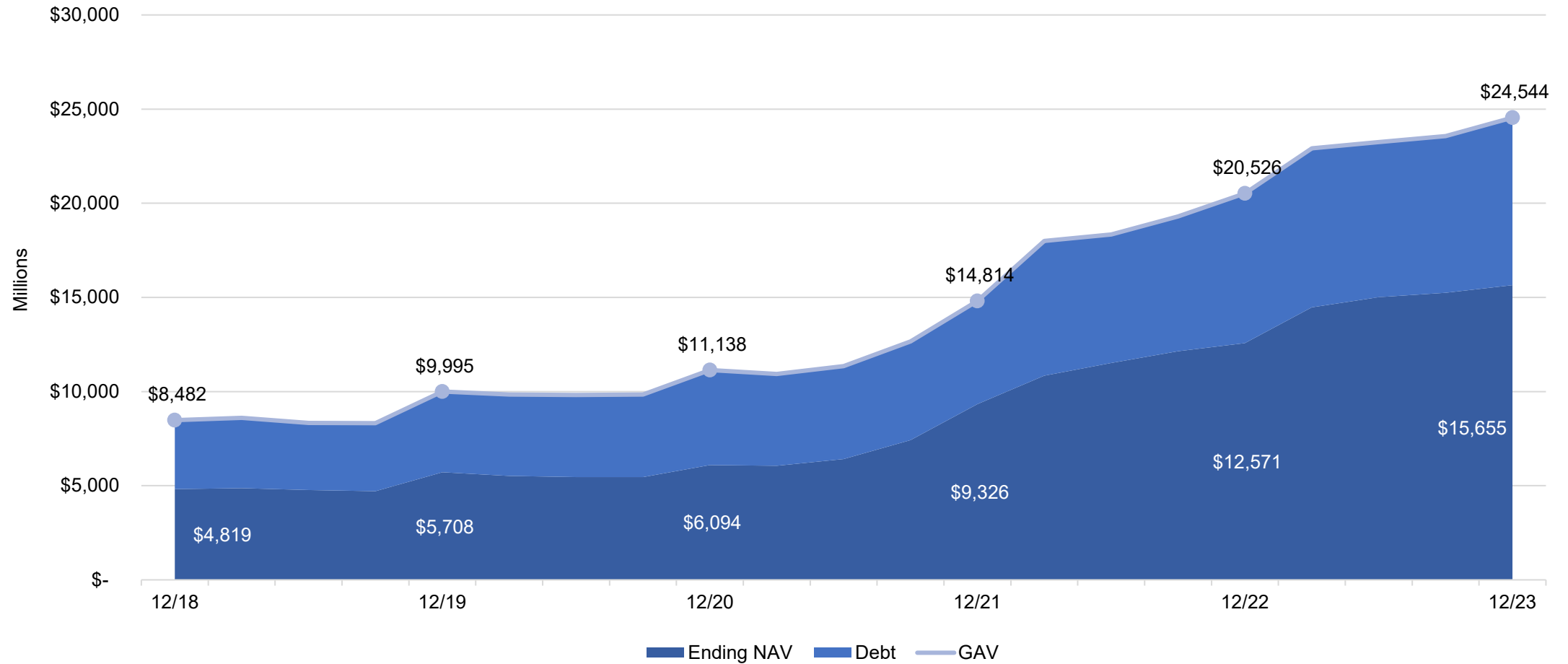


Total Return



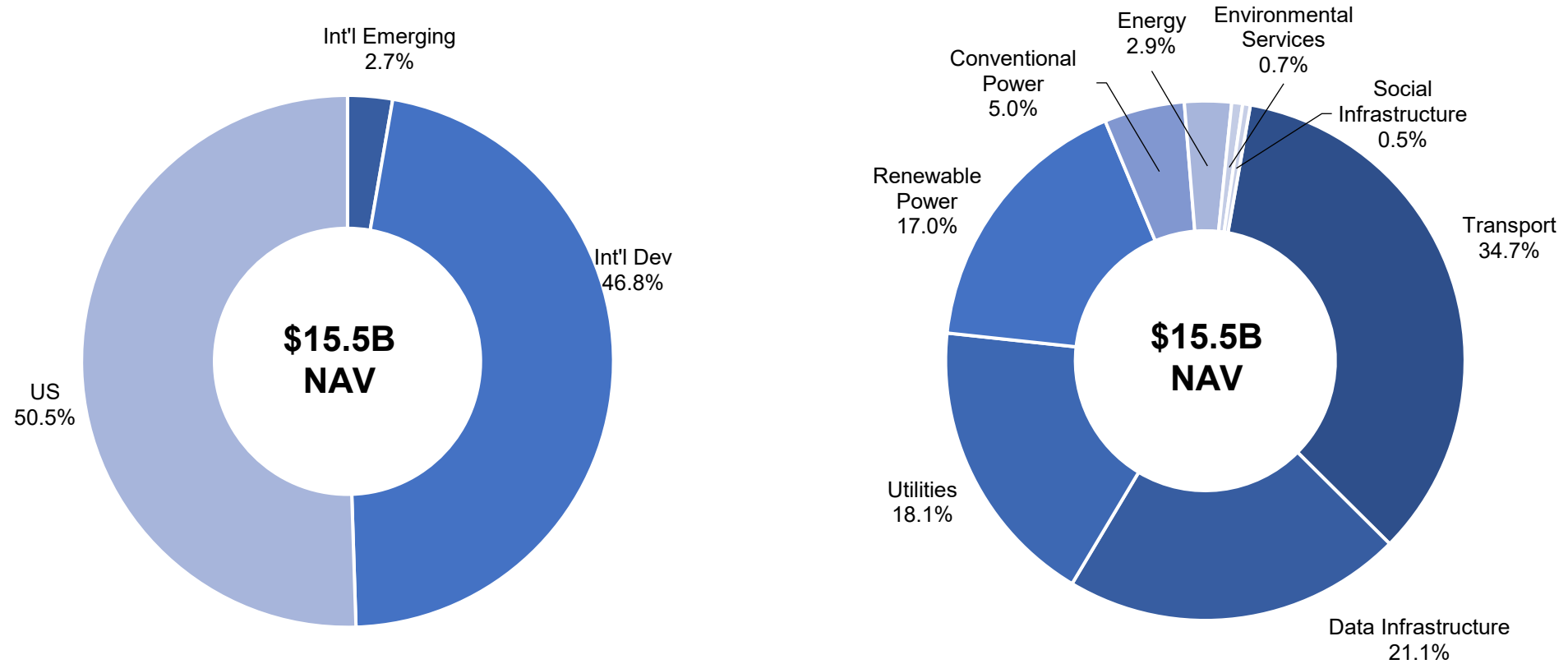


GAV & NAV | Infrastructure





Geography & Asset Sector* | Infrastructure



*As of 12/31/23



Business Updates and Key Initiatives | Evaluation

- Real Assets outperformed the policy benchmark over the 1, 3, 5, and 10-year periods
- Real Estate near-term performance challenged by higher interest rates and corresponding capital market adjustments
- Infrastructure stability dampening Real Estate return volatility
- Deepening existing relationships with strategic partners
- Progress being made towards SI 2030 Plan goals



Key Initiatives

- Structure new relationships with best-in-class managers, increasing allocation to Non-Core strategies
- Increase allocation to Infrastructure, prioritizing cost-efficient co-investment vehicles
- Align with Total Fund objectives to grow sustainable investment exposure, encompassing energy transition, renewables, carbon neutral and sustainably certified assets consistent with the Total Fund's 2030 plan
- Continue liquidation of Non-Strategic assets



Key Initiatives | Integration of Governance and Sustainability

Sustainable Investment Activities	Description / Status
Global Real Estate Sustainability Benchmark (GRESB)	<ul style="list-style-type: none"> 85% of the portfolio submitted into GRESB Assessment in 2023
Energy Optimization (EO) Initiative for Real Estate	<ul style="list-style-type: none"> Ongoing identification of accretive EO opportunities, reducing carbon intensity and generating cost savings over time In 2023, enhanced reporting to include asset level GHG emissions
Climate Risk & Energy Transition Research	<ul style="list-style-type: none"> Collaborated with SI to develop 2030 SI Business Plans for Real Estate and Infrastructure
National Council of Real Estate Investment Fiduciaries (NCREIF) Pension Real Estate Association (PREA) Reporting Standards	<ul style="list-style-type: none"> CalPERS represented on NCREIF PREA’s Reporting Standards Council Contributed to the development of “ESG Principles of Reporting for Private Real Estate” and ESG Committee review of KPIs