

Global Public Equity Annual Program Review

As of Quarter Ending on June 30, 2024

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Global Public Equity

September 16, 2024

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Program Overview



Market Environment



Portfolio Performance and Risk Analysis



Business Updates and Key Initiatives

Unless otherwise noted, performance data is as of June 30, 2024



Program Overview

Role

- Efficiently capture the equity risk premium to provide capital appreciation over the long-term, while also acting as a source of liquidity for Total Fund cashflow needs
- Cap Weighted Segment provides exposure to economic growth and offers a reliable source of liquidity
- Factor Weighted Segment provides exposure to economic growth with reduced overall volatility and some diversification of equity risk. Effective 07/01/2024, the segment is 90% drawdown focused and 10% climate transition focused

Key Metrics¹

- Total AUM: \$211B (76% Cap Weighted, 24% Factor Weighted)
- 74% of assets classified as passive, 26% of assets classified as active
- 92% of assets are internally-managed, 8% of assets externally-managed

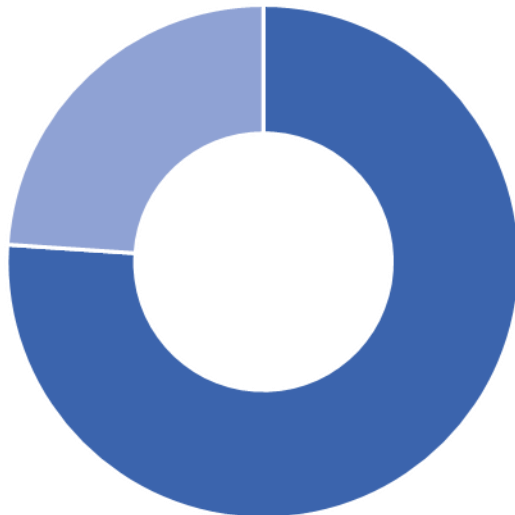
Investment Beliefs

- A long investment horizon is a responsibility and an advantage. *(IB 2)*
- Long-term value creation requires effective management of three forms of capital: financial, physical, and human. *(IB 4)*
- CalPERS will take risk only where we have a strong belief we will be rewarded for it. *(IB 7)*
- Costs matter and need to be effectively managed. *(IB 8)*
- Strong processes and teamwork and deep resources are needed to achieve CalPERS goals and objectives. *(IB 10)*



Strategy and Portfolio Positioning | SAA Segments

GPE Portfolio Positioning as of June 30, 2024



Total Market Value: \$210.6B
 ■ Cap Weighted | 76% | \$160.2B
 ■ Factor Weighted | 24% | \$50.4B

Total Fund Allocation (%) as of June 30, 2024

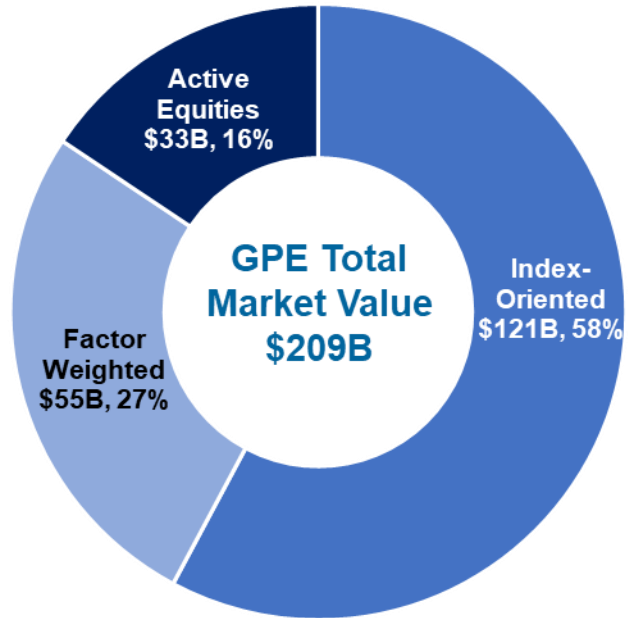
	% of Total Fund Actual	% of Total Fund Interim Target
Public Equity	41.9	40.4 (+/- 7)
Cap Weighted	31.8	30.4
Factor Weighted	10.0	10.0

- GPE is the principal asset class providing growth exposure in the strategic asset allocation
- The program thoughtfully delivers multiple equity betas in a risk and cost aware manner
- GPE's goal is to provide equity beta exposure plus risk-managed systematic and opportunistic alpha
- 92% of the total portfolio is invested in cost-efficient, internally-managed strategies

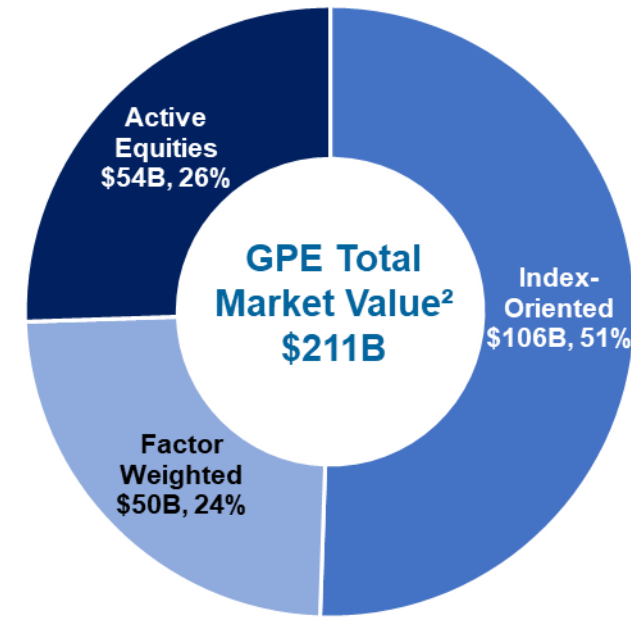


Strategy and Portfolio Positioning | Implementation

GPE Portfolio Positioning as of June 30, 2023



GPE Portfolio Positioning as of June 30, 2024



We believe that active management can and does deliver alpha over the long-term (5+ years) by exploiting market inefficiencies

- GPE's program implementation goal is to outperform the global public equity policy benchmark over rolling 5-year periods, with target IR of 0.5
- GPE Active Equities outperformed its composite benchmark by 239 bps over the last 1-year and 123 bps over the last 5-years, delivering over \$700M of dollar value added (DVA) over the last 1-year and over \$1,000M of cumulative DVA over the last 5-years
- GPE will continue to prudently increase allocation to active strategies in search of alpha, while cognizant of the 50 bps policy tracking error limit

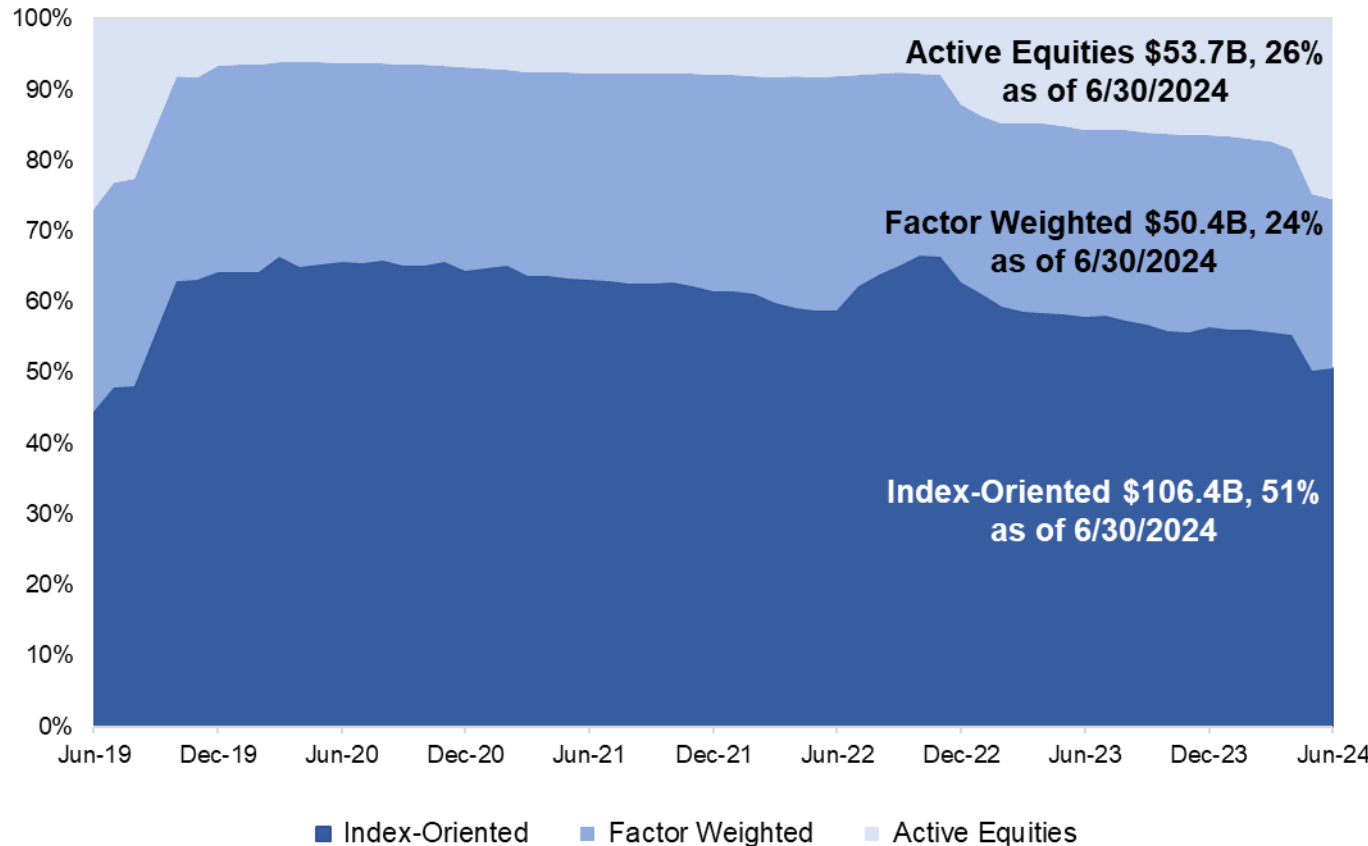
¹DVA is dollar value added above the benchmark return

²Total Fund directed net flows from GPE totaled -\$32B during FY 23/24



Strategy and Portfolio Positioning | Historical Allocation

GPE Portfolio Positioning | 5-Year Historical Allocation



- Re-established active risk taking in GPE in November 2022, following the 2019 Total Fund initiative to reduce active risk
- Deployed \$13B to active strategies in FY 2022-23, increasing the allocation to Active Equities from 8% to 16%
- Deployed \$14B to active strategies in FY 2023-24, increasing the allocation to Active Equities from 16% to 26%

Portfolio Performance | Active Management

How Staff Decisions Can Add Value



**Manager &
Strategy
Selection**



**Portfolio
Construction**



**Implementation
Decisions**



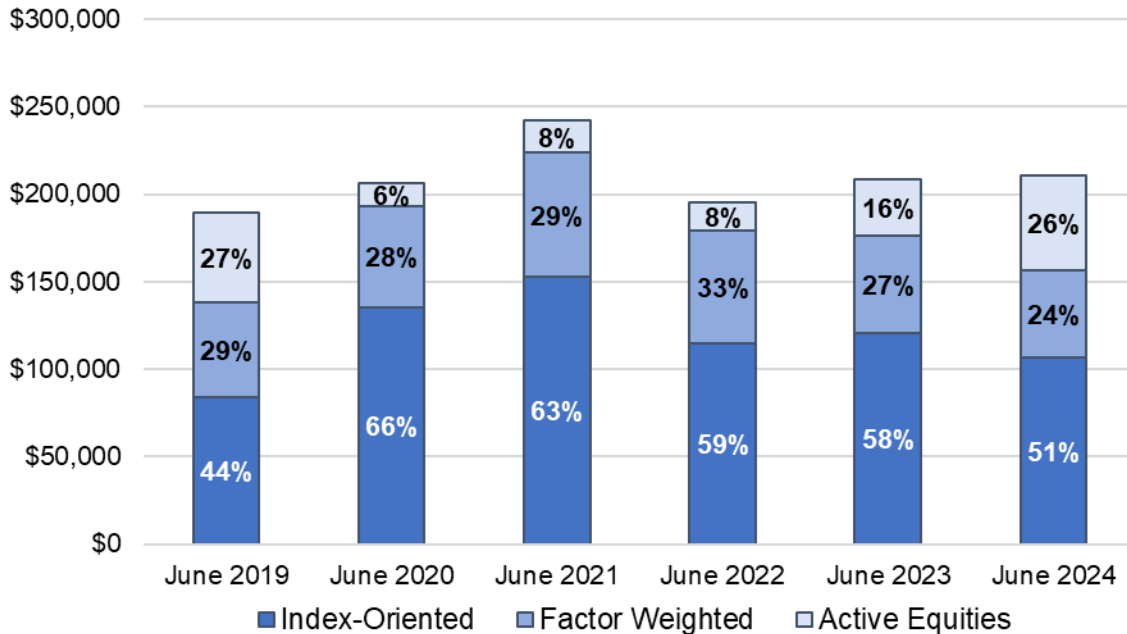
**Securities
Lending**

Portfolio Performance | Excess Return & Dollar Value Added (DVA)

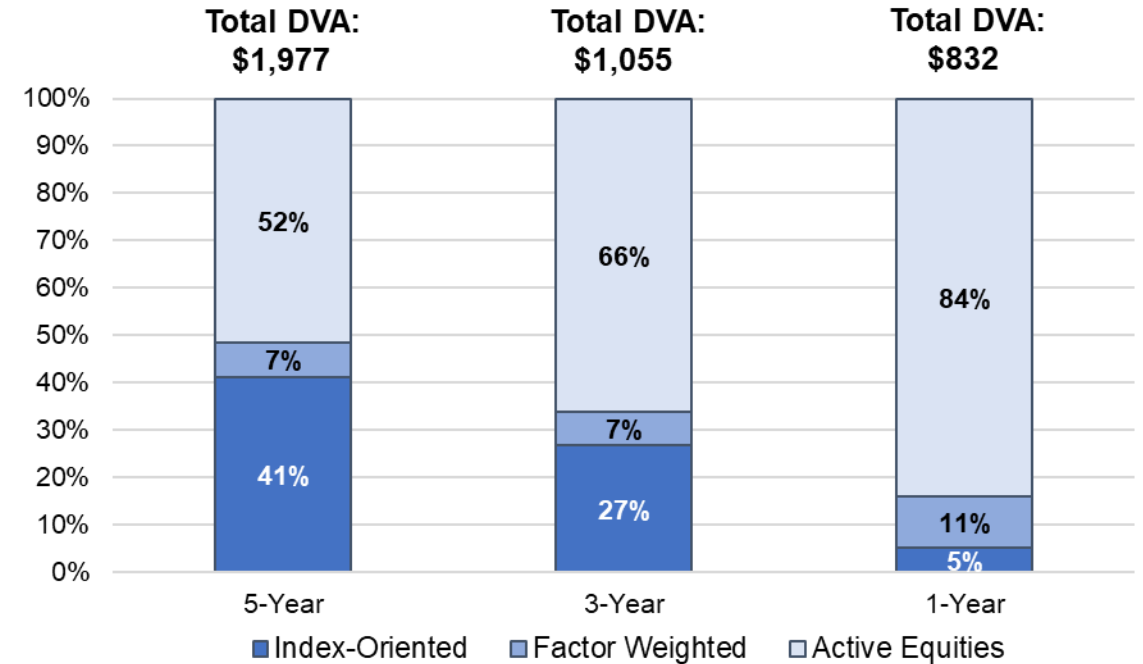
GPE Total Return		=	Policy Benchmark Return		+	Excess Return	DVA¹
Things we must do + Things we choose to do			Things we must do: Board Approved SAA			Things we choose to do: Staff Decisions to Pursue Active Management	
5-years	9.83%	=	9.62%	+	0.21%	\$1,977M 5-Year Cumulative Value Added	
3-years	5.24%	=	5.06%	+	0.18%	\$1,055M 3-Year Cumulative Value Added	
1-year	17.54%	=	17.08%	+	0.46%	\$832M 1-Year Value Added	

Portfolio Performance | Dollar Value Added

FYE Market Value (in millions)



GPE Portfolio DVA^{1,2,3} (in millions)



- Active Equities contributed 84% to GPE's 1-year combined DVA while its average allocation in the FY was only 18%
- Skilled internal portfolio implementation of "passive" strategies contributed 5% to GPE's 1-year combined DVA

¹ Percentages are calculated based on the combined DVA from Index-Oriented Equities, Factor-Weighted Equities, and Active Equities.

² The total GPE DVA also includes the cumulative effects of changes to active investment strategies over time, including things like reducing allocations to active strategies and redeploying those assets to other GPE strategies

³ The 5-year DVA for the Index-Oriented Strategy includes contributions from CLO investments, which were transferred to a standalone strategy in December 2020



Market Environment

Current Concerns

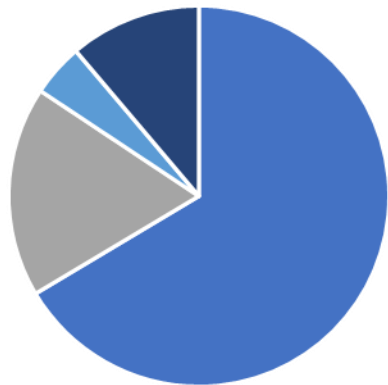
- Global growth at risk of weakening as consumer strength and labor market soften
- Market volatility due to uncertainty about inflation, interest rates, and geopolitics
- Market pricing in a soft-landing base case and global recession as downside scenario
- High equity valuation largely based on robust corporate profitability, AI optimism, and Fed easing
- Market concentration, which may persist though duration is uncertain

Investment Themes

- Our long-term investment horizon gives us the ability to withstand short-term market volatility and prudently add active risk in pursuit of adding value above the policy benchmark
- Examine regional market efficiency disparities and prioritize active management in less efficient markets

Cap Weighted Segment

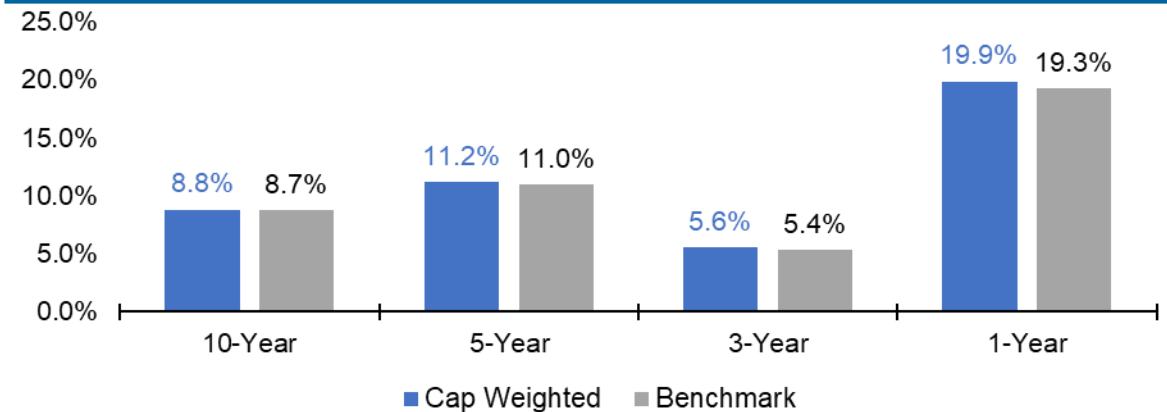
Strategy Allocation (in billions)



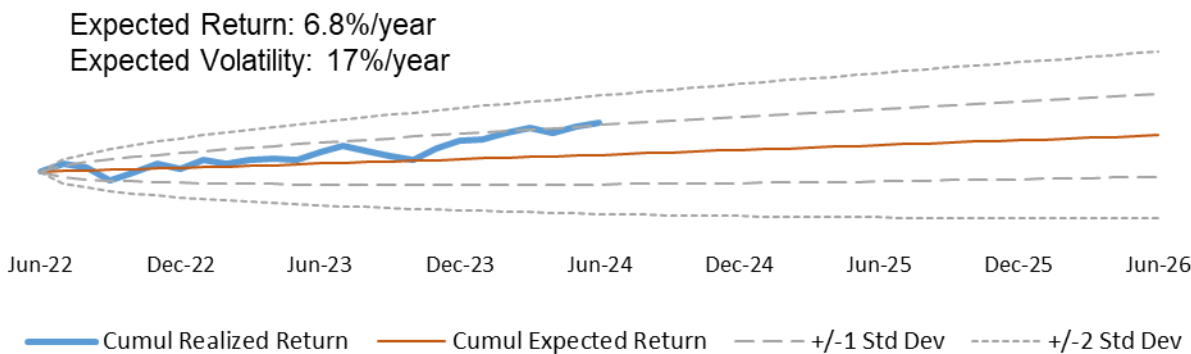
Total Market Exposure: \$160.2

- Index-Oriented | 66.4% | \$106.4
- Enhanced Index | 17.9% | \$28.6
- Multi-Factor¹ | 4.5% | \$7.2
- Traditional Active | 11.2% | \$17.9

Total Return



Cumulative Return vs 2021 SAA Expectations



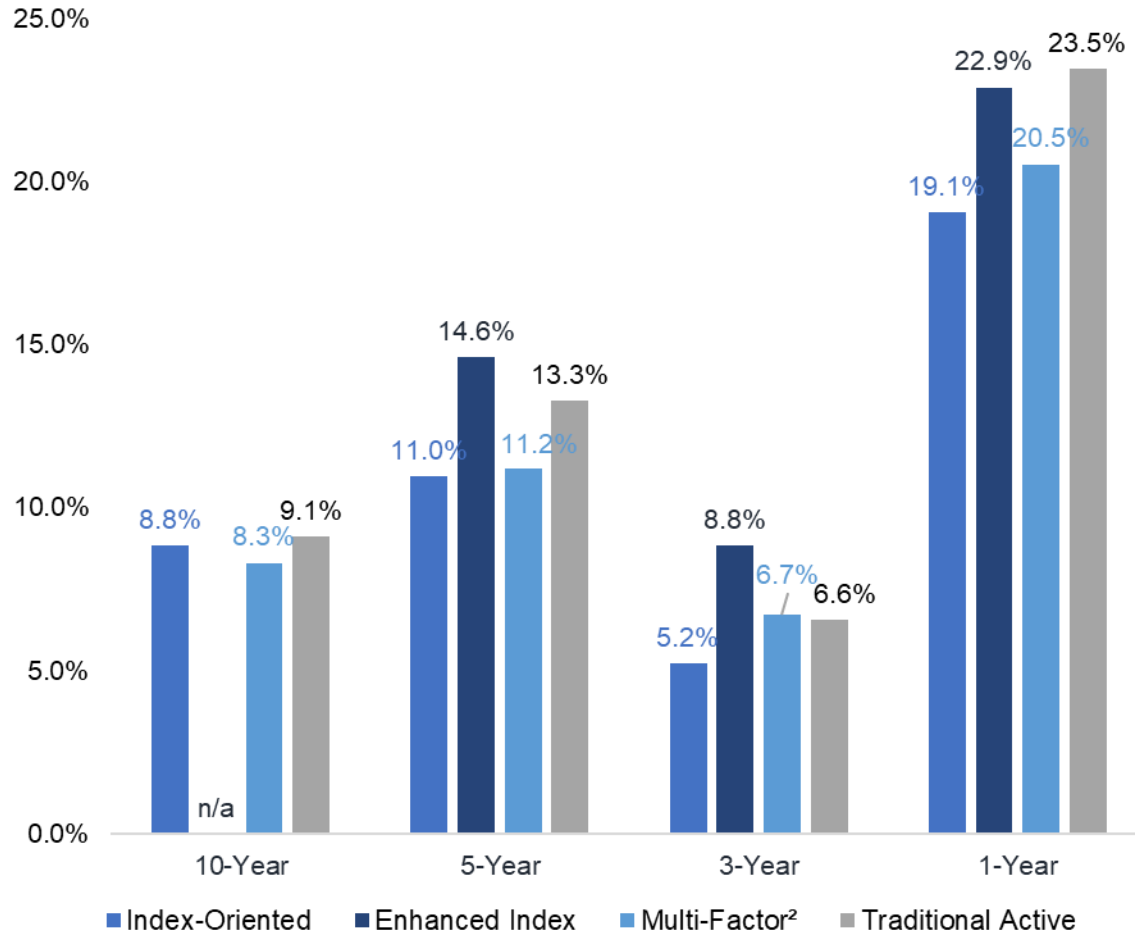
Key Metrics

Realized 10 Year Sharpe Ratio 0.5	Realized 5 Year Info Ratio 1.0	Forecasted Volatility 18.3%	Forecasted Tracking Error 38 bps
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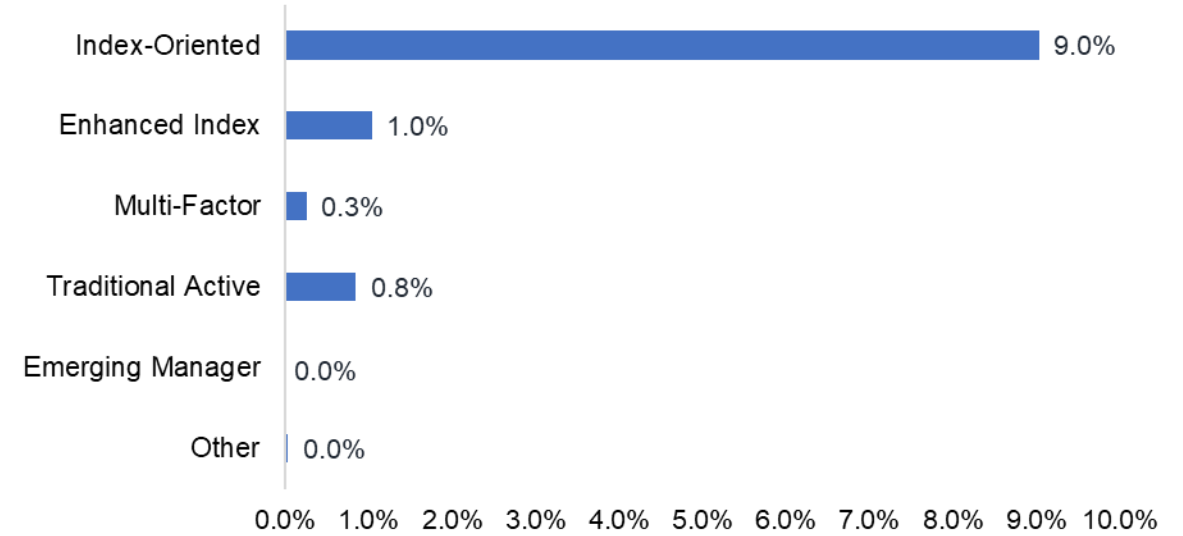


Portfolio Performance | Cap Weighted Total Return by Strategy

Total Return by Strategy



Contribution to Cap Weighted 5 Year Total Return



	Average Allocation	Return	Contribution to Return
Cap Weighted		11.2%	11.2%
Index-Oriented	84.6%	11.0%	9.0%
Enhanced Index	6.5%	14.6%	1.0%
Multi-Factor ²	2.1%	11.2%	0.3%
Traditional Active	6.1%	13.3%	0.8%
Emerging Manager	0.4%		0.0%
Other ¹	0.3%		0.0%

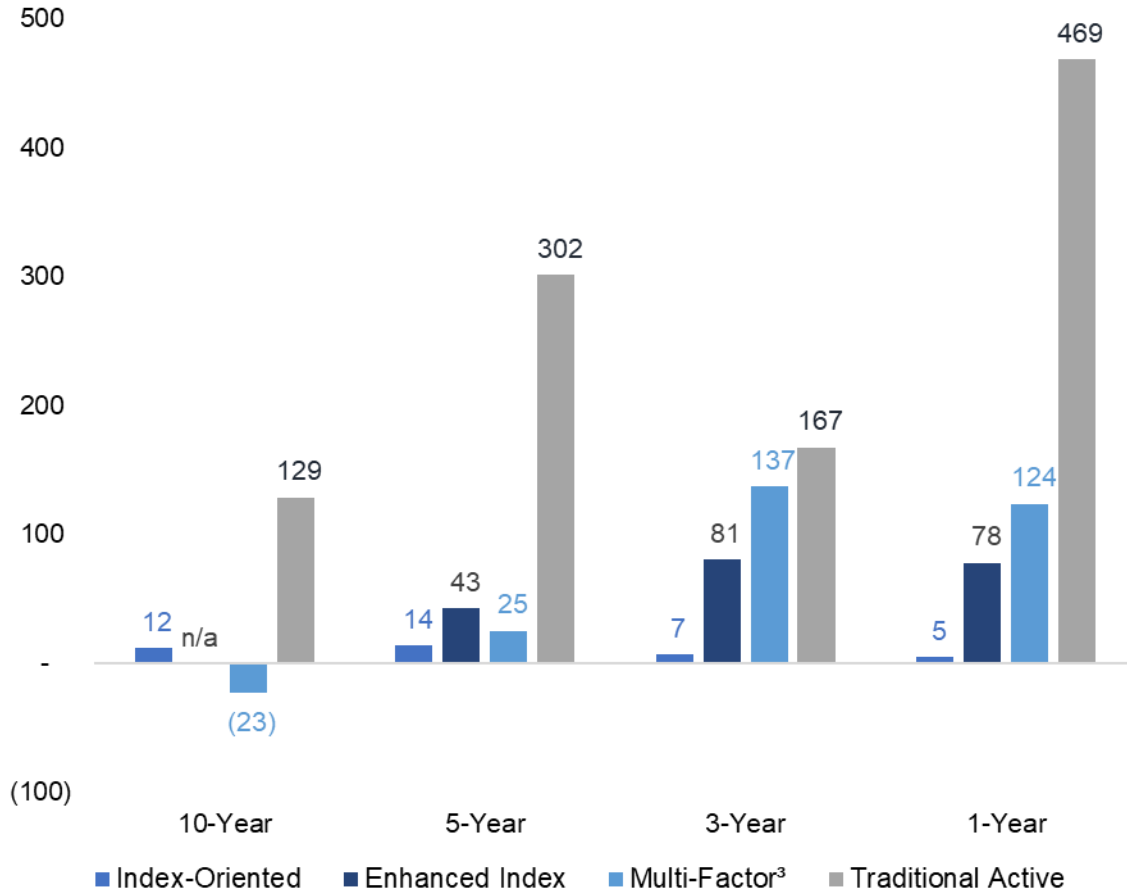
Note: All performance reported net of investment expenses and annualized.

¹ Other includes impact from allocations to defunded strategies.

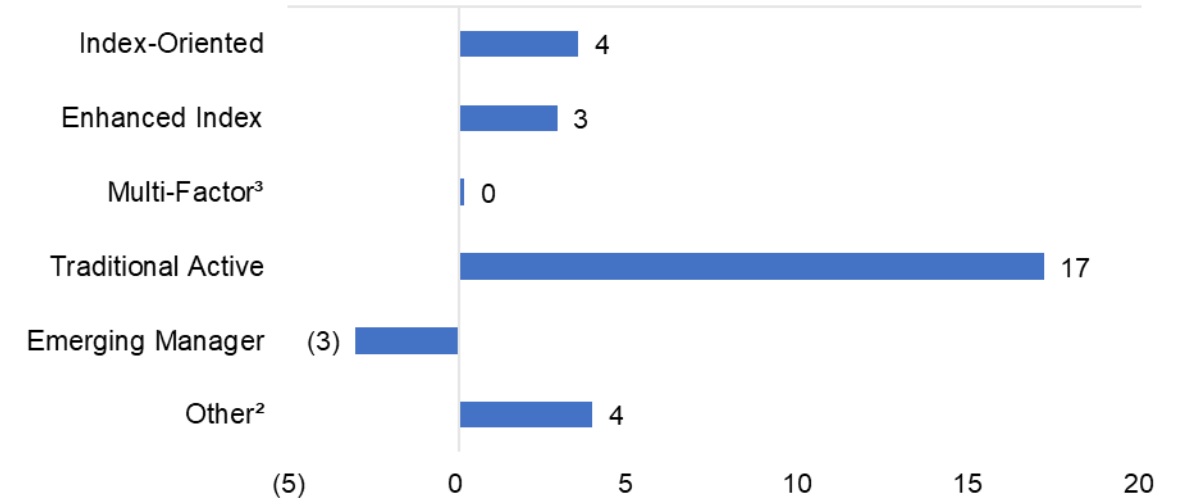
² The Multi-Factor strategy transitioned from Alternative Beta in 2019.

Portfolio Performance | Cap Weighted Excess Return by Strategy

Excess Return by Strategy² (bps)



Contribution to Cap Weighted 5Y Excess Return¹ (bps)



	Avg Weight	Return	BM Return	Excess (bps)	Contribution to Excess
Cap Weighted		11.2%	11.0%	25	25
Index-Oriented	84.6%	11.0%	10.8%	14	4
Enhanced Index	6.5%	14.6%	14.2%	43	3
Multi-Factor ³	2.1%	11.2%	11.0%	25	0
Traditional Active	6.1%	13.3%	10.3%	302	17
Emerging Manager	0.4%				(3)
Other ²	0.3%				4



Note: All performance reported net of investment expenses and annualized. Public Equity benchmarks are net of taxes.

¹ Strategy contribution to excess excludes the impact of income from securities lending, which is reflected in "Other."

² Other includes impact from allocations to defunded strategies, income from securities lending, and allocation management. Excess returns shown include income from securities lending.

³ The Multi-Factor strategy transitioned from Alternative Beta in 2019.

5 Year Cap Weighted Risk-Return



	Return	Volatility	Sharp Ratio	Tracking Error (bps)	Information Ratio
Cap Weighted	11.2%	17.7%	0.51	24	1.01
Index-Oriented	11.0%	17.6%	0.50	10	1.43
Enhanced Index	14.6%	18.5%	0.67	69	0.61
Multi-Factor ¹	11.2%	17.1%	0.53	190	0.13
Traditional Active	13.3%	17.2%	0.65	280	1.08



Cap Weighted Risk Summary

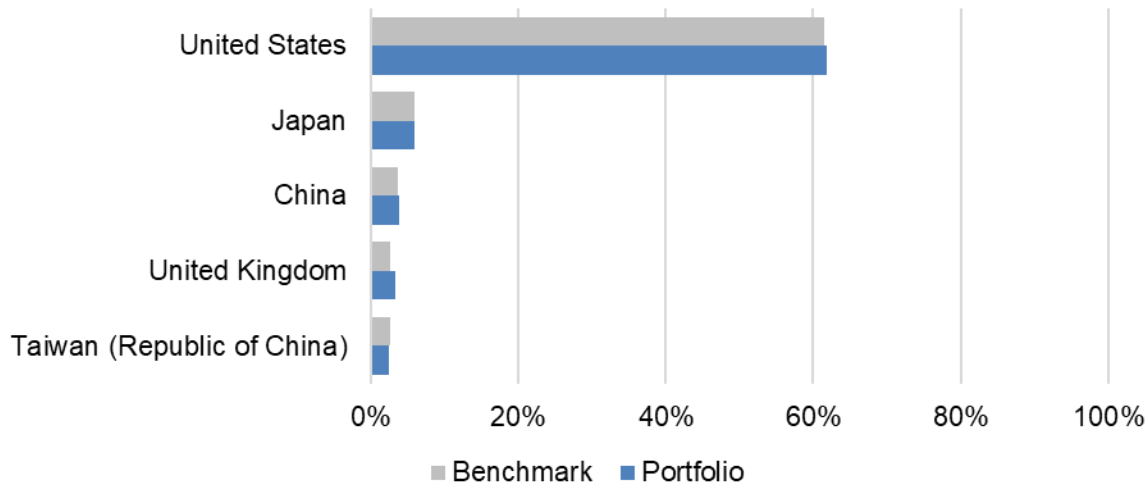
Segment Risk Statistics (Forecasted)

Forecasted Volatility	18.3%
Benchmark Volatility	18.4%
Tracking Error	0.38%
Portfolio Beta (to Bmk)	1.0

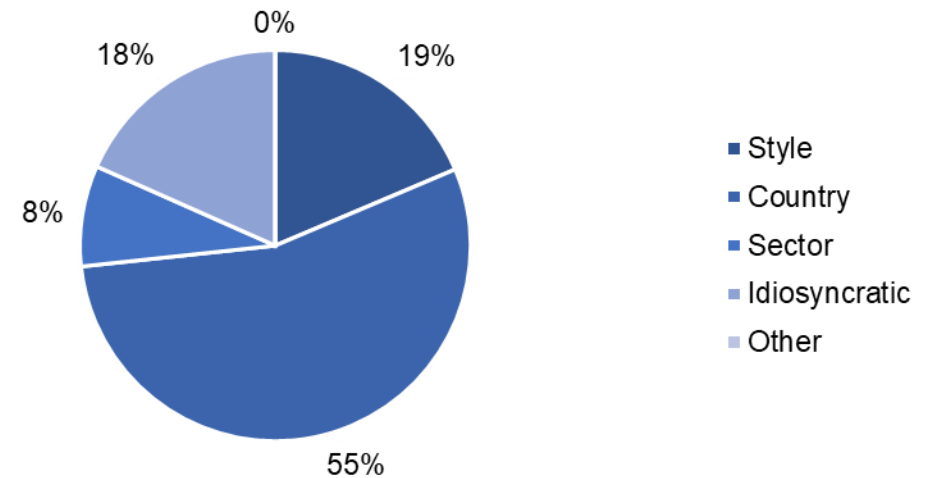
Risk Decomposition (Forecasted)

	Portfolio Risk Contribution	% Risk	Active Risk Contribution	% Risk
Total Segment Risk	18.3%	100.0%	0.38%	100.0%
Equity	17.4%	94.7%	0.37%	95.7%
Foreign Exchange	1.0%	5.3%	0.02%	4.2%
Rates	0.0%	0.0%	0.00%	0.2%
Spreads	0.0%	0.0%	0.00%	0.0%

Segment Allocation by Country (Top 5)

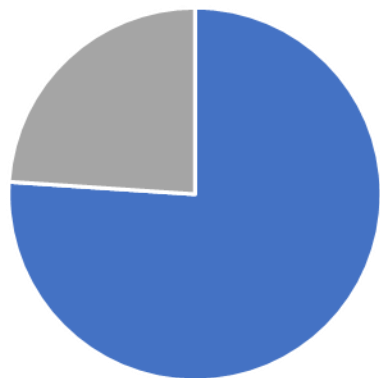


Active Risk from Equity Factor



Factor Weighted Segment

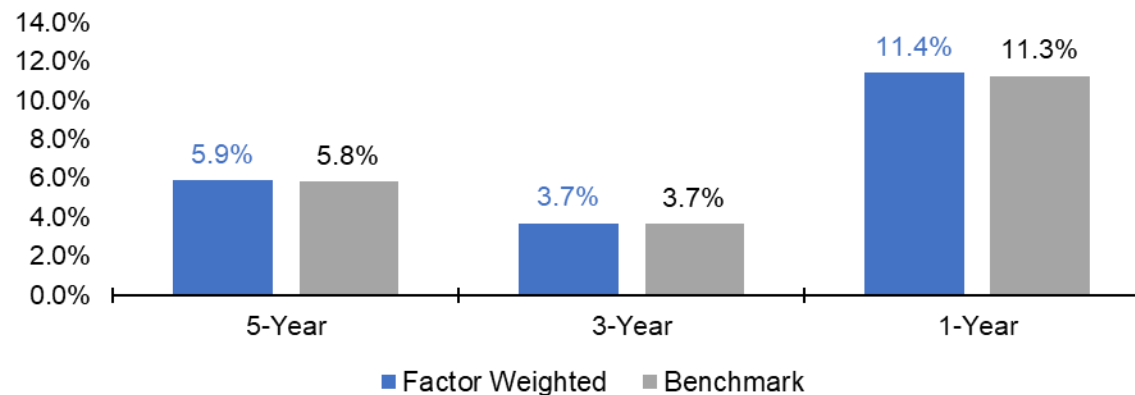
Strategy Allocation (in billions)



Total GPE Market Exposure: \$210.6

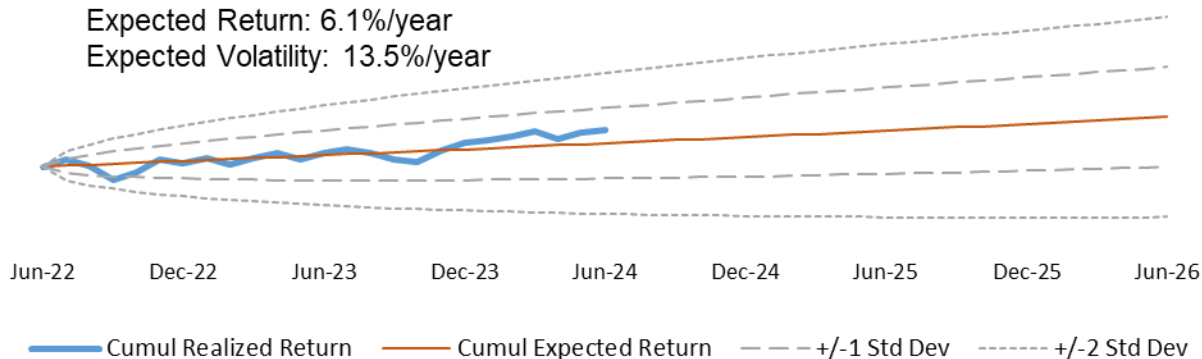
- Cap Weighted | 76.1% | \$160.2
- Factor Weighted | 23.9% | \$50.4

Total Return



Cumulative Return vs 2021 SAA Expectations

Expected Return: 6.1%/year
Expected Volatility: 13.5%/year

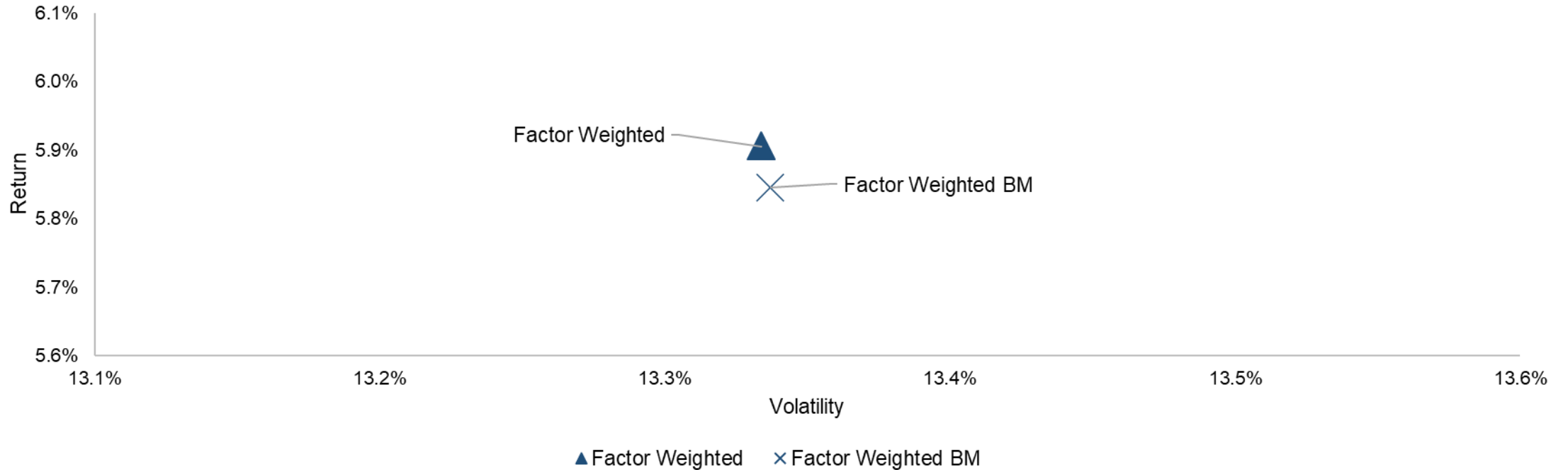


Key Metrics

Realized 10 Year Sharpe Ratio 0.3	Realized 5 Year Info Ratio 0.5	Forecasted Volatility 14.2%	Forecasted Tracking Error 6 bps
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5 Year Factor Weighted Risk-Return



	Return	Volatility	Sharp Ratio	Tracking Error (bps)	Information Ratio
Factor Weighted	5.9%	13.3%	0.28	12	0.49

Factor Weighted Risk Summary

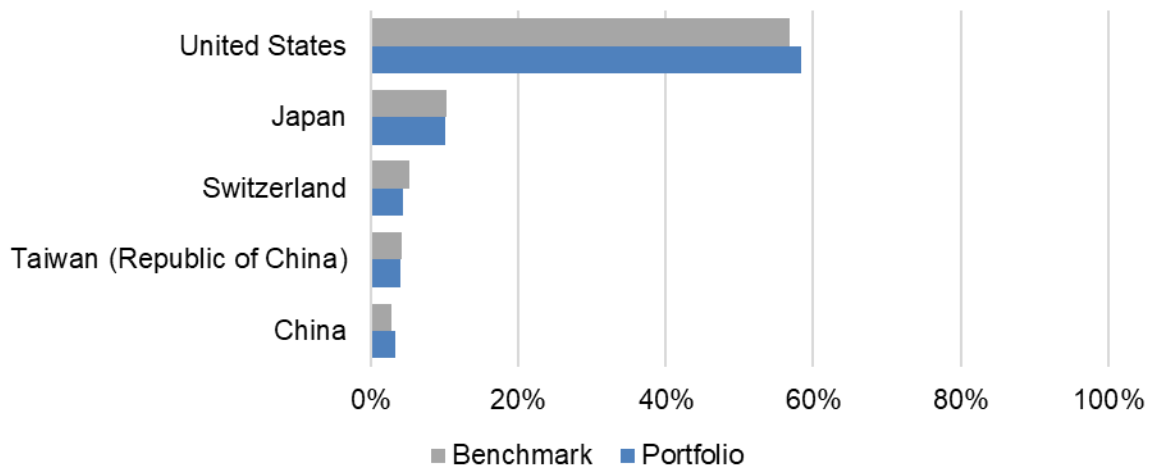
Segment Risk Statistics (Forecasted)

Forecasted Volatility	14.2%
Benchmark Volatility	14.2%
Tracking Error	0.06%
Portfolio Beta (to Bmk)	1.0

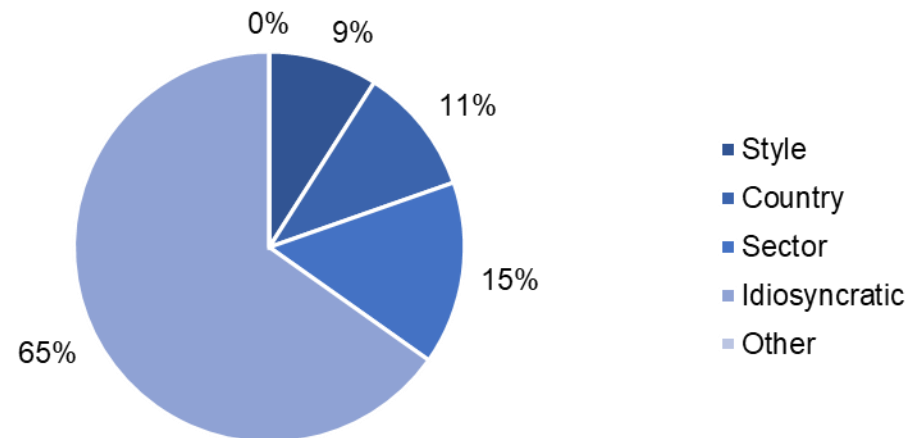
Risk Decomposition (Forecasted)

	Portfolio Risk Contribution	% Risk	Active Risk Contribution	% Risk
Total Segment Risk	14.2%	100.0%	0.06%	100.0%
Equity	13.5%	95.3%	0.05%	77.4%
Foreign Exchange	0.7%	4.7%	0.01%	22.6%
Rates	0.0%	0.0%	0.00%	0.0%
Spreads	0.0%	0.0%	0.00%	0.0%

Segment Allocation by Country (Top 5)



Active Risk from Equity Factor





Business Updates and Key Initiatives | Evaluation

What Worked



- Deployed \$14B to active strategies in a risk-aware manner in Q4 of FY 2023-24
- Implemented \$32B in Total Fund rebalancing and mid-cycle Strategic Asset Allocation adjustments
- Piloted and formalized the new Manager Universe Continuous Search (MUCS) process
- Delivered strong total and relative returns for the 1-, 3-, 5-, and 10-year periods
- Progressed effective stewardship by taking leadership role in protecting shareowner rights and holding corporate board directors accountable
- Collaborated with Sustainable Investments to customize Climate Transition Index to improve portfolio resilience and capture potential climate-related alpha opportunities

Areas for Refinement



- Continue to enhance portfolio construction and holistic portfolio management capabilities, including the development of new portfolio analytics and market dashboard
- Integrate research function to inform portfolio positioning and decision-making
- Continue to develop and enhance active strategies monitoring process
- Continue to improve alignment of interests
- Improve data and technology capabilities
- Evolve Climate Transition Index implementation and monitoring to improve portfolio resilience and capture climate-related alpha potential opportunities



Key Initiatives | Fiscal Year 2024-25

Continue to Enhance the Active Risk Framework and Portfolio Construction to:



Further diversify sources of alpha potential (active equity strategies)



Efficiently capture the equity risk premium

Support the Data and Technology Modernization Initiative



Engage in the evaluation and implementation of the multi-year Capital Markets and Total Fund Platform Project

Progress the Sustainable Investments 2030 Strategy



Implement the Climate Transition Index to improve portfolio resilience and capture climate-related alpha potential



Define framework for identifying and selecting active climate transition strategies for potential alpha opportunities



Integration of Governance and Sustainability

<p>Proxy Voting</p>	<p>Vote all public company proxies in a manner consistent with CalPERS' Governance & Sustainability Principles and CalPERS Investment Beliefs</p>
<p>Engagement</p>	<p>Actively engage portfolio companies on compensation, corporate board diversity, climate change, human capital management, other governance and sustainability considerations to promote long-term value creation</p>
<p>Partnerships</p>	<p>Use external and internal partnerships to actively engage global asset owners and managers, companies, data providers, regulators, and standards-setting bodies</p>
<p>Research</p>	<p>Research, develop, and integrate best practices and proxy voting enhancements, while evolving Governance & Sustainability Principles</p>

Stewardship | 2023-2024 Proxy Voting and Corporate Engagement



**>9,700 Meetings Voted
&
>93,000 Ballot Items**



**Opposed 354 Directors for
Climate Oversight Concerns**



**Opposed 40% of
Say-on-Pay Proposals (U.S)**



416 Engagements



**Climate Action 100+ Lead
20 Companies**



**Opposed 796 Directors for Board
Composition / Diversity Concerns**



Stewardship | 2023-24 Key Proxy Votes

Company	Proposal Description
Boeing (BA)	Withheld vote from board leadership for oversight concerns surrounding quality, safety, and compensation <ul style="list-style-type: none"> • Director “support” range (67% - 90%)
Chipotle Mexican Grill (CMG)	Voted “for” Human Capital Management (HCM) shareowner proposals: <ul style="list-style-type: none"> • Regarding Third-Party Audit on Worker Safety (30% support) • Report on Harassment and Discrimination (17% support)
Exxon Mobil (XOM)	Withheld vote from the entire board (12 nominees) for significant governance concern at the company <ul style="list-style-type: none"> • Director “support” ranged 87% - 99% (Lead Independent Director received lowest level of support)
Norfolk Southern (NSC)	Proxy Contest – Supported management nominees (3 board seats won by dissident slate) Voted “against” Advisory Vote on Executive Compensation (proposal did not pass with only 13% support)
Tesla (TSLA)	Voted “against” the ratification of Elon Musk’s 2018 Stock Option Award (77% support)
Wells Fargo (WFC)	Voted “for” shareowner proposal surrounding Freedom of Association and Collective Bargaining (30% support)



Stewardship | Climate Action 100+ Initiative

Climate Action 100+ Update

- CalPERS leading engagement at 20 of the 170 companies, plus leadership responsibilities
- > 90% of companies have aligned reporting with Taskforce on Climate-related Financial Disclosure
- > 75% of companies have a 2050 net zero target or ambition
- Over 600 signatories

Climate Action 100+ Engagement Goals

Requesting that boards and senior management of companies:

- Implement a strong governance framework that clearly articulates the board's accountability and oversight of climate change risk
- Actively reduce GHG emissions across the value chain
- Provide enhanced corporate disclosures on targets and implement transition plans



Stewardship | Proxy Voting: Climate Risk Oversight

2023

- Expanded universe of companies reviewed to 350 from 165
- Universe accounts for > 80% of total portfolio Scope 1 & 2 emissions and > 50% of Scope 3 emissions
- Result: CalPERS opposed 335 directors at 109 companies
- CalPERS staff engaging the 109 companies

2024

- Updated the company evaluation process to include medium-term climate goals
- Result: CalPERS opposed 354 directors at 100 companies
- CalPERS will seek to engage with all companies where we oppose directors



Stewardship | Key Issues and Priorities for FY 2024-25

Climate/Sustainability

- Climate Action 100+
- Enhance Director Accountability at CalPERS Top Emitters
- Support climate shareowner proposals consistent with CalPERS Governance and Sustainability Principles:
 - Climate Risk, Net Zero Target Setting, Climate Transition, GHG Emissions, Pollution Related

Governance

- Board Composition and Diversity
- Enhance Disclosures of Director Characteristics
- California Funds Initiative (expanding diversity engagements to international markets)
- Executive Compensation (Say-on-Pay)
- Contest Director Elections
- Support governance shareowner proposals consistent with CalPERS Governance and Sustainability Principles:
 - Supermajority Vote, Special Meeting Request, Independent Board Chair

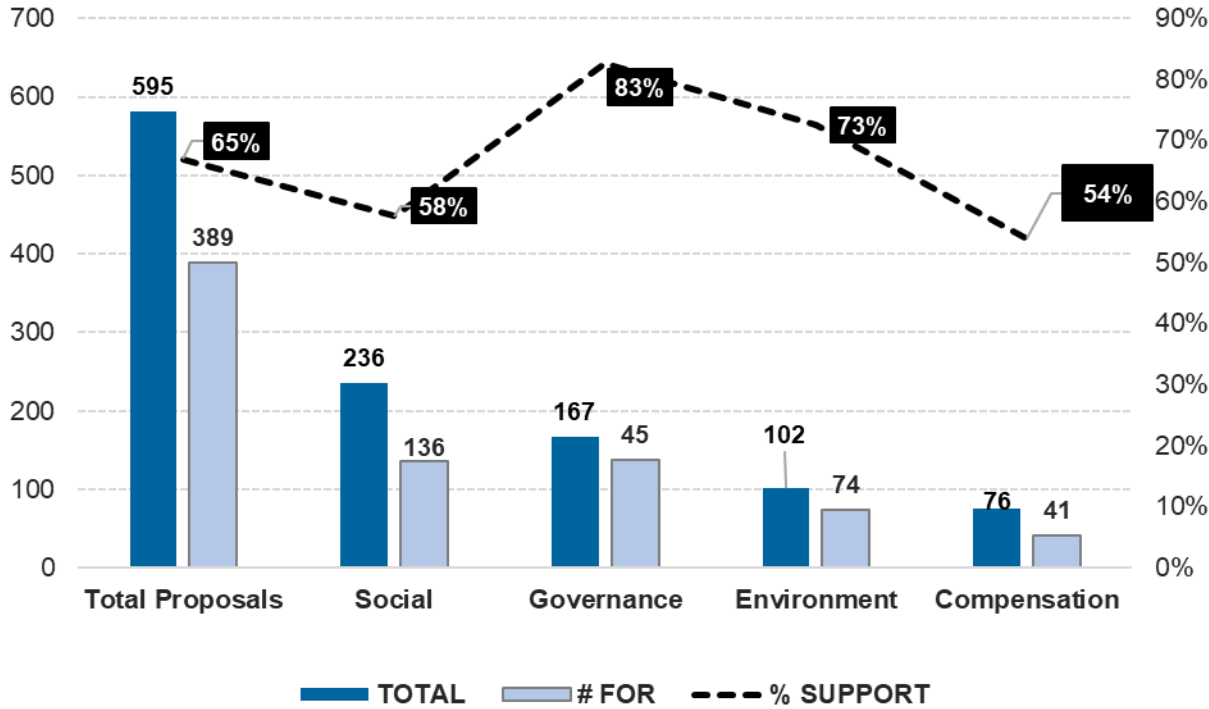
Human Capital Management

- Support social-related/HCM related shareowner proposals consistent with CalPERS Governance and Sustainability Principles:
 - Freedom of Association, Labor Rights, Human Rights, Racial Equity Audits

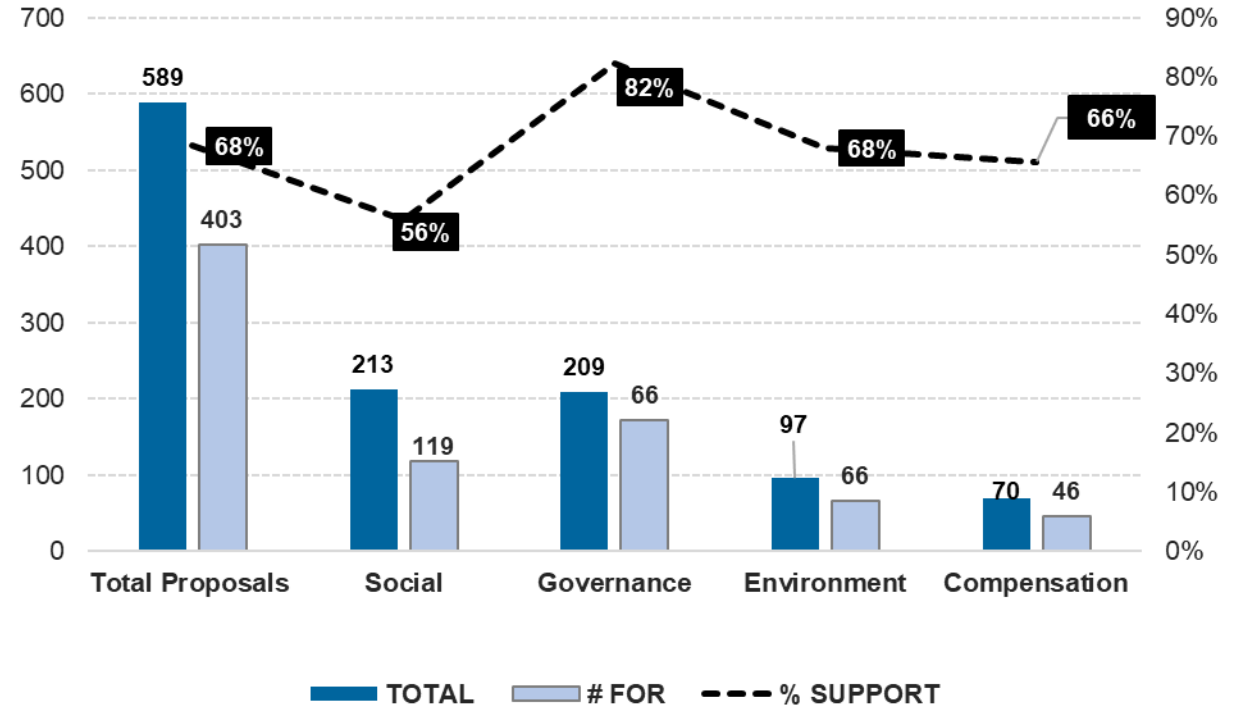


Stewardship | U.S Shareowner Proposals

Support Level at U.S. Shareowner Proposals: FY 2023-24



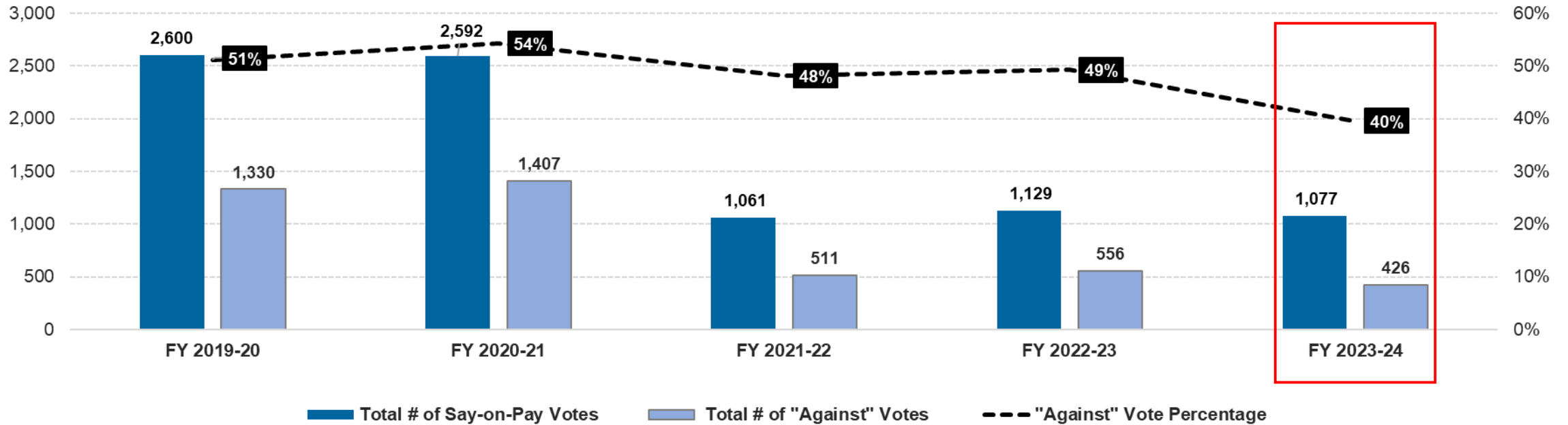
Support Level at U.S. Shareowner Proposals: FY 2022-23





Stewardship | U.S. Executive Compensation Votes

CalPERS' U.S. Executive Compensation Votes: FY 2019-20 to FY 2023-24



- In addition to voting against 40% of say-on-pay proposals in FY 23-24, CalPERS voted “against” 931 compensation committee members
- Average say-on-pay support level at S&P 500 companies was 90% in 2024 vs. 88% in 2023