

# Private Equity Annual Program Review

As of Quarter Ending March 31, 2024

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Private Equity

June 10, 2024

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# Program Overview

## Role

- Enhance equity returns through an active, value-added approach
- Drive returns through appreciation, sometimes with leverage; negligible cash yield
- Harvest the illiquidity premium

## Key Metrics

- AUM at \$72.6bn as of March 31, 2024
- Buyout at \$48.9bn (67.4%), Growth at \$15.8bn (21.7%), Opportunistic at \$6.0bn (8.3%), Credit at \$1.1bn (1.5%), and Venture at \$0.8bn (1%)
- U.S. portfolio at \$55.6bn (76.5%), Europe portfolio at \$14.6bn (20.1%), EM at \$1.6bn (2.2%), and Developed Asia at \$0.8bn (1.1%)
- Approximately 126 managers and 363 funds<sup>1</sup>

## Investment Beliefs

- A long investment horizon is a responsibility and an advantage (*IB 2*)
- 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*)

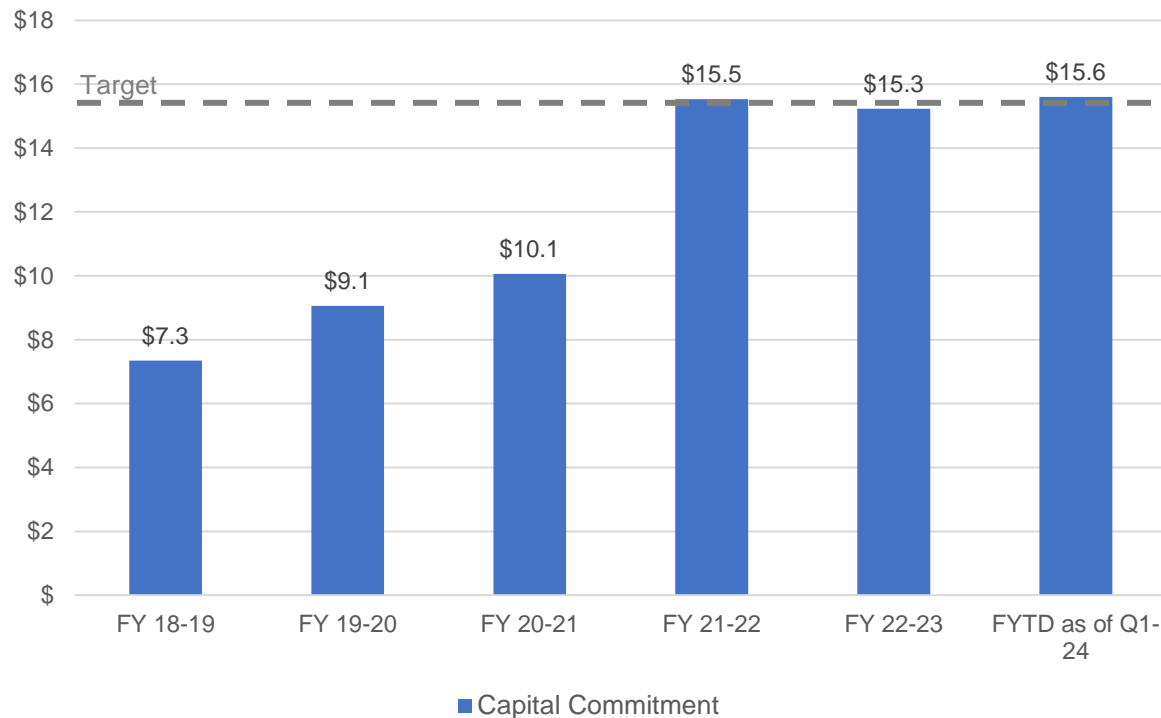
<sup>1</sup> Including Funds, Fund-of-Funds, and Customized Investment Accounts



# Program Overview

## Commitments by Fiscal Year

As of March 31, 2024  
\$ in bn



- Commitments have been consistent with the target of \$15.5bn +/-15% per year for the last three fiscal years
- Consistency in commitments is important to avoiding another “lost decade”<sup>1</sup>
- CalPERS PE achieved its goal of at least 40% co-invest in FY 2022-23 and 2023-24 year-to-date commitments

Source: PEARS (Active Only) as of March 31, 2024. Total commitments for FY 2023-24 will be higher than the interim total at 3.31.24

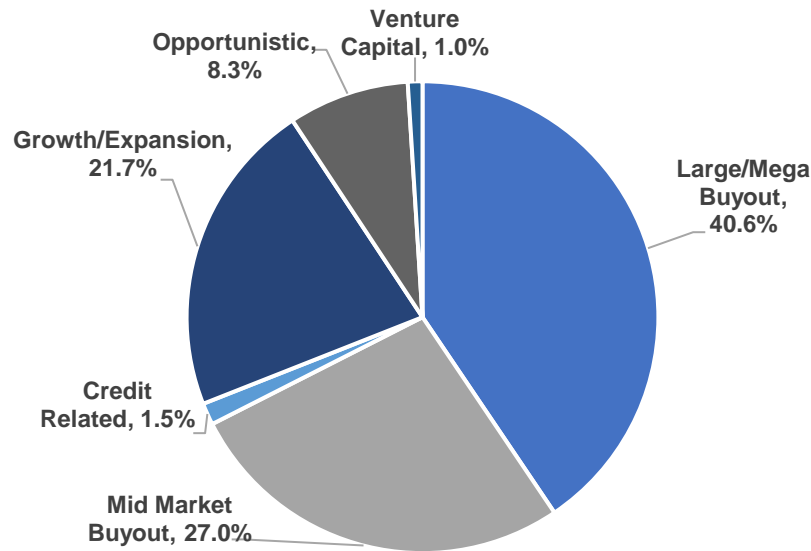
<sup>1</sup> Ref. Board meetings on September 19, 2022, and June 20, 2023



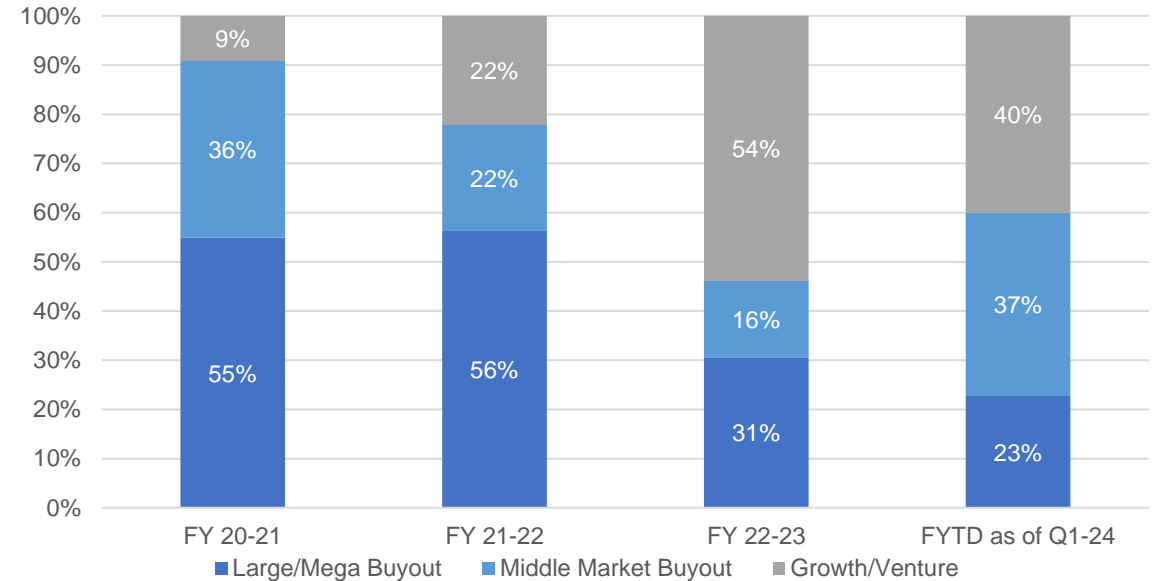
# Portfolio Positioning

## NAV by Strategy

As of March 31, 2024



## Primary Commitments by Fiscal Year and Strategy<sup>1</sup>



- Large/Mega Buyout dominated CalPERS PE primary commitments until mid FY 2022-23
- In Nov. 2022, CalPERS began strategy diversification by integrating Growth & Innovation into PE
  - Buyout went from 91% in FY 2020-21 to 60% FYTD
  - Within Buyout, Large/Mega went from a majority in FY 2020-21 to a minority in the current FY

Source: PEARS (Active Only) as of March 31, 2024

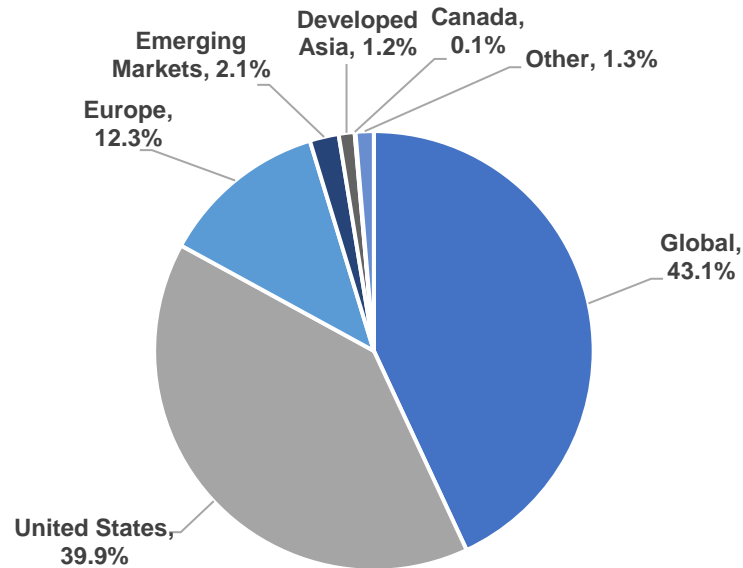
<sup>1</sup> Buyout and Growth/Venture Only



# Program Overview

## NAV By Manager Geographic Mandate

As of March 31, 2024



- CalPERS PE has selectively diversified the portfolio geographically over the last two fiscal years
- Program intention is to remain US-centric
- U.S. exposure is approximately 75% when looking through investments with a global mandate
- Europe exposure is approximately 20% when looking through investments with a global mandate

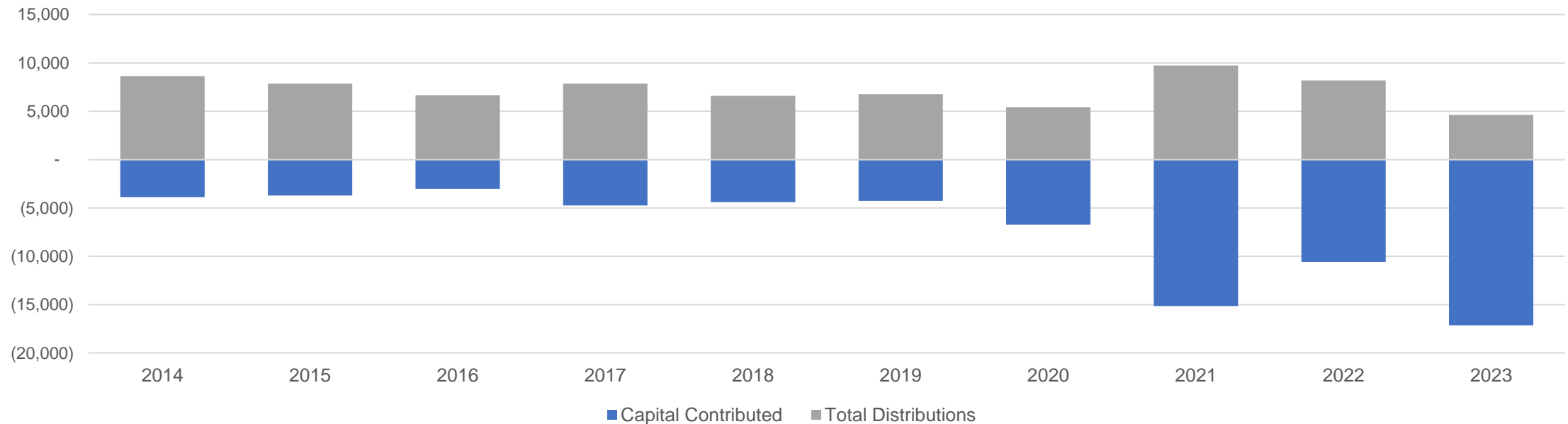
Source: PEARS (Active Only) as of March 31, 2024  
Note: Global funds are primarily invested in the U.S. and Europe



# Program Overview

## Capital Contributions and Distributions

As of December 31, 2023  
\$ in mm



- The PE program has been cash flow negative as it scales to meet higher asset allocation targets
  - In 2021, CalPERS approved increasing the PE target from 8% to 13%
  - In 2024, CalPERS approved an increase from 13% to 17%

Source: PEARS as of December 31, 2023



# Market Environment

## Deployment Themes Since Nov. 2022:

- Commit consistently by vintage year to avoid another lost decade
- Invest in diverse and emerging managers to improve returns
- Engage with investment partners to prioritize sustainable investment frameworks
- Increase co-investment without management fees or carry to reduce costs and enhance net returns
- Diversify the portfolio with venture and growth strategies to reduce buyout exposure
- Recompose the buyout portfolio from Mega/Large to Middle Market Buyout
- Make the portfolio more international

## Current Concerns:

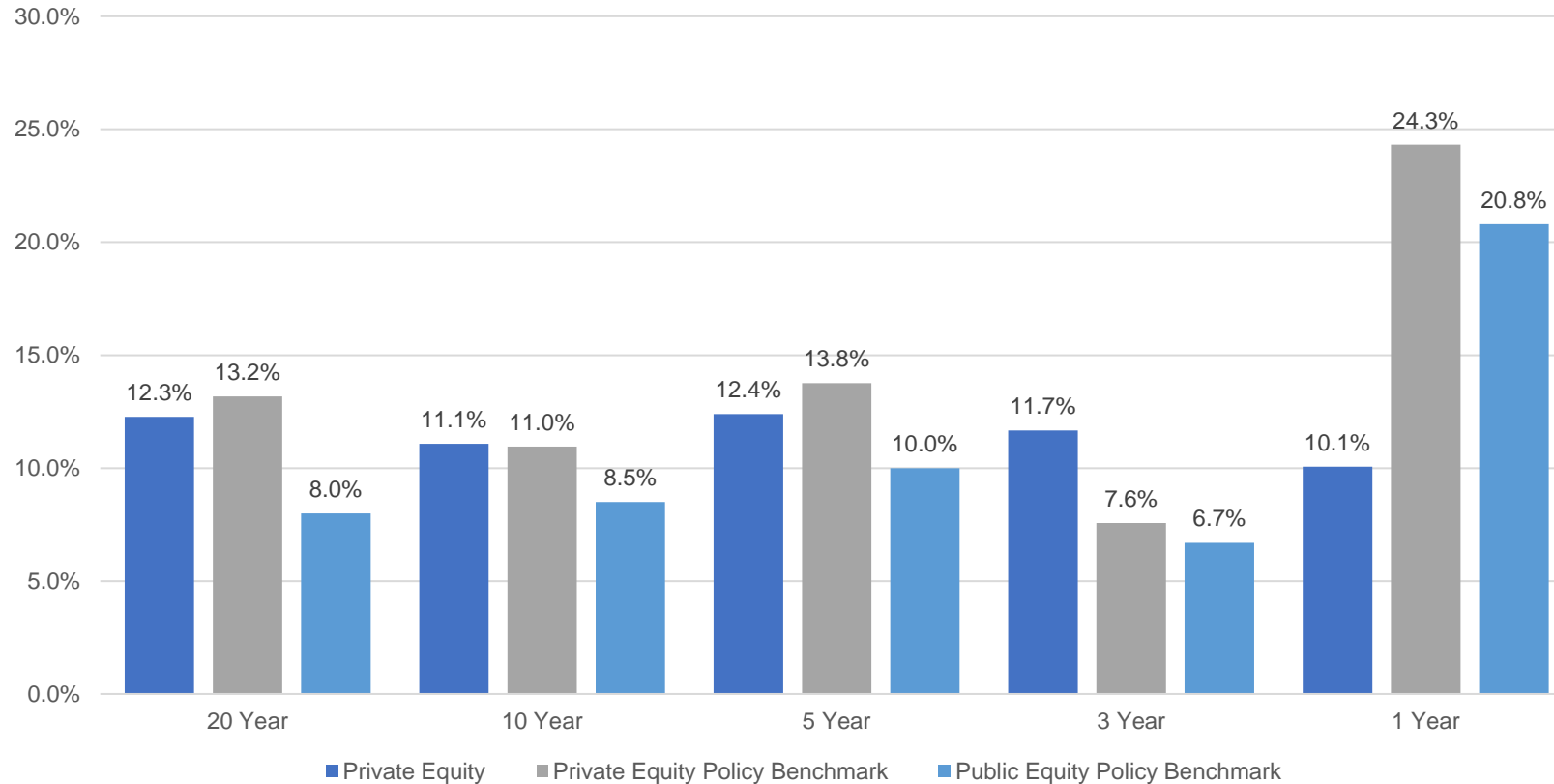
- Inflation and interest rates have stabilized at a high level, resulting in continued pressure on company earnings and availability of financing for Buyout transactions
- Uncertainty around valuations has resulted in reduced deal volume, including reduced realizations and co-investment opportunities





# Portfolio Performance and Risk Analysis | Total Return

Time Weighted Rates of Return (As of March 31, 2024)



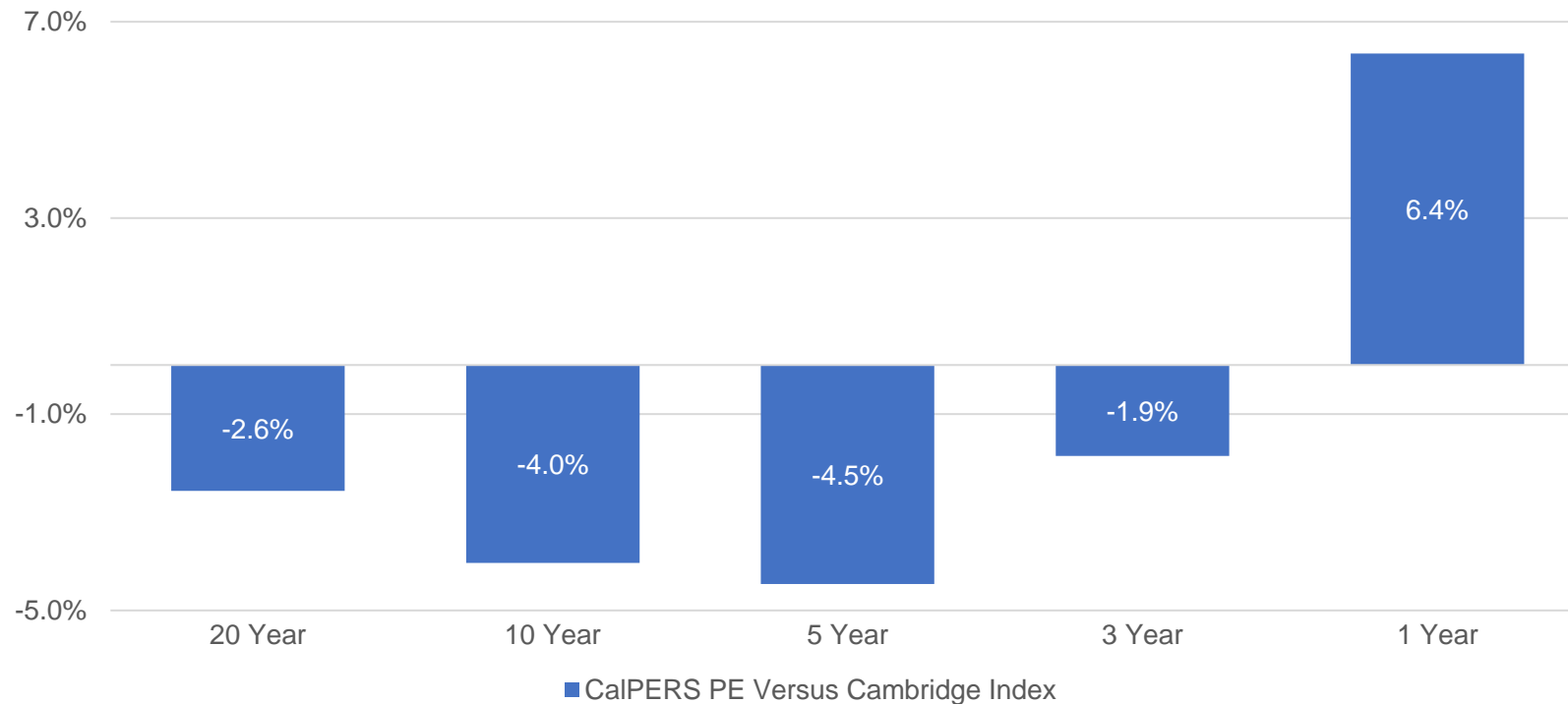
- A surge in the 1-year policy benchmark performance has not yet been reflected in Private Equity valuations, which lag public markets
- The CalPERS Private Equity portfolio is outperforming the public benchmark for the 3- and 10-year time periods

Source: State Street as of March 31, 2024  
 Note: The ten and twenty-year benchmark numbers are a composite of linked benchmarks



# Portfolio Performance and Risk Analysis | Total Return

**Internal Rates of Return Difference Between CalPERS PE and Cambridge Index (As of September 30, 2023)**



- CalPERS outperformed the Cambridge Index in the 1-year period as of 9.30.23
- Underperformance in the 3-, 5-, 10-, 20-year periods resulted from:
  - Inconsistent allocation
  - Under-allocation to Growth and Venture
  - Missing longstanding co-investment goals
- 1-year Performance drivers:
  - Integrating Growth & Innovation into PE
  - Achieving co-invest target

Source: PEARS and Staff Analysis as of 9/30/23; Cambridge Private Equity Index as of 9/30/23  
 Note: Cambridge Private Equity Index modified to reflect CalPERS strategy targets



# Portfolio Performance and Risk Analysis | Total Return

Assumptions	
Committed	\$1,000,000,000
Gross multiple	2.5
Management fee	1.25%
Carry	20%
Fund life	10

Savings versus primary fund economics	
Management fee	\$125,000,000
Carry	\$275,000,000
<b>Total savings from direct/co-investment</b>	<b>\$400,000,000</b>

- Co-invest helps limited partners capture more of Private Equity’s returns
- Each \$1bn in co-invest saves about \$400mm in management fees and carry over the life of PE investments under realistic assumptions
- Based on CalPERS annual deployment budget of \$15.5bn and a co-invest ratio of 40%, fee savings would be approximately \$2.5bn over a 10-year period for each year of commitments
  - Approximately \$25bn for 10 years of commitments

Source: CalPERS Staff Analysis



# Key Initiatives | Integration of Governance and Sustainability

## Highlights of CalPERS PE's Efforts over the Last Year to Enhance Returns through Building a More Sustainable Portfolio:

- Labor Principles
  - Coordinated with Sustainable Investments to adopt the Labor Principles
  - Working with PE investment partners to obtain their attestations to operate in broad alignment with the Labor Principles
  - Scaling back or declining commitments to PE funds that have not been aligning with CalPERS values on human capital
- Diversity
  - Shifting focus to smaller funds in Buyout, expanding Growth, and adding Venture to increase the diverse opportunity set
  - In FY 2023-24, committed over \$4bn to diverse managers in the non-intermediated portfolio (i.e., beyond Project Mosaic)
  - Co-hosted Catalyst: California's Diverse Investment Manager Forum
- Diligence
  - Incorporated a broader set of Governance and Sustainability questions into the CalPERS Due Diligence Questionnaire
  - Coordinating with Sustainable Investments as it further integrates Governance and Sustainability into Private Markets diligence
  - Collecting more information from our PE investment partners by encouraging their participation in the ESG Data Convergence Initiative (EDCI)
- Climate
  - Working with Sustainable Investments to develop an actionable pipeline to meet the \$100bn 2030 goal
  - Made primary commitments to several specialized Climate funds
  - Approved over \$600mm of co-investments supporting Climate solutions and continuing to source opportunities



# Key Initiatives | Integration of Governance and Sustainability

## Diversity, Equity, and Inclusion

In FY 2023-24:

**\$4.15bn**

Allocated to Diverse  
Managers

**\$1.45bn**

Allocated to Emerging  
Managers

- Since the last PE Annual Program Review, CalPERS co-hosted Catalyst: California's Diverse Investment Manager Forum, bringing together institutional investors and other global allocators to engage with diverse investor entrepreneurs and general partners **to forge a new path in leadership and growth**
- CalPERS Project Mosaic, a \$1bn partnership with TPG Next and GCM Grosvenor, **made its first investments**



# Key Initiatives | Integration of Governance and Sustainability

## ESG Data Convergence Initiative (EDCI)

- CalPERS co-founded EDCI in 2021 and serves on the steering committee
- EDCI launched with 7 GPs and 9 LPs/IMs representing about \$4 trillion in AUM and now has over 200 GPs and 100 LPs/IMs representing about \$26 trillion of AUM
- Since Q4 2022, CalPERS worked to increase the participation of its active Buyout managers in EDCI
  - The number of GPs participating went from 20 to 38, increasing the participation rate from 49% to 69%
  - The proportion of NAV with EDCI-participating GPs went from 50% to 77%

Note: Current participate rate includes managers that have committed to participate in EDCI by the end of 2024