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MEMORANDUM

TO: Members of the Investment Committee, CalPERS
FROM: Meketa Investment Group
DATE: September 16, 2024
RE: Quarterly Private Equity Performance Review, as of June 30, 2024

In our role as the Board Private Equity Consultant, Meketa Investment Group ("Meketa") conducted a quarterly performance review of the Private Equity Portfolio ("the Portfolio") for the period ended June 30, 2024[1] based on data provided by State Street and selected reports 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 time period.

Performance

Private Equity showed improved absolute returns for the one-year period through the second quarter of 2024 relative to the prior report. However, the performance of the Portfolio still significantly trailed the Policy Benchmark over the prior one-year period, as private market valuations lagged public markets performance. Performance of the Portfolio across the longer time periods shown below has been within 100 bps of the Policy Benchmark.

Private Equity Performance as of June 30, 2024[1]

	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)
CalPERS PE Portfolio[2]	**10.9**	**9.5**	**12.4**	**11.0**
Policy Benchmark[3]	*25.4*	*8.5*	*12.9*	*11.6*
FTSE Global All Cap + 150 bp[4]	*25.4*	*8.5*	*12.9*	*10.6*
Excess vs. Policy Benchmark	↓ -14.5	↑ 1.0	↓ -0.5	↓ -0.6
Excess vs. FTSE Global All Cap + 150 bps	↓ -14.5	↑ 1.0	↓ -0.5	↑ 0.4

[1] State Street's CalPERS Private Equity performance analysis for the period ended June 30, 2024, reported with a 1-quarter lag.
[2] Source: State Street. CalPERS returns are reported as time-weighted.
[3] The current Policy Benchmark is a Custom FTSE Global All Cap ex-Tobacco Net of Tax Index + 150 basis points, lagged by one quarter. Previous benchmark was blend FTSE US + FTSE AW ex US + 3% lagged 1 quarter from September 2011 to June 2018, Wilshire 2500 ex-tobacco +3% between July 2009 and September 2011, and the Custom Young Fund Index prior to July 2009.
[4] Figures are one quarter lagged, time weighted. FTSE Global All Cap returns are based on the FTSE Global All Cap Index + 150 basis points through October 2011, the FTSE Global All Cap Net of Tax (US RIC) Index + 150 basis points through March 2015, and thereafter on the FTSE Global All Cap ex-Tobacco Net of Tax Index + 150 basis points.

As we have noted in prior reports, private equity performance is reported with a significant delay compared to publicly traded assets. As such, the Portfolio and the Policy Benchmark performance as of June 30, 2024 are each reported with a one-quarter lag (i.e., values through March 31, 2024). Additionally, private equity asset values tend to be less volatile, both in up as well as down markets, compared to publicly traded asset values. In other words, private equity assets tend to fall less in declining public equity markets and increase more slowly in rapidly rising public equity markets.

The Portfolio's NAV as of June 30, 2024 was $78.2 billion, an increase of $6.6 billion (net of cash flows) compared to the June 30, 2023 NAV of $59.7 billion. The current NAV represents 15.5% of the Total Fund, compared to the 17% long term target. As we noted above, the Portfolio's NAV is calculated based upon March 31, 2024 values, while the overall CalPERS portfolio includes publicly traded assets valued as of June 30, 2024.

Performance by Strategy[1]

	NAV ($M)	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)
Buyouts	52,079	11.4	11.2	13.3	12.2
Credit	1,004	4.9	5.4	4.8	3.0
Growth/Expansion	17,213	11.5	5.3	11.9	11.5
Opportunistic	6,227	7.6	9.2	12.2	13.3
Venture	1,083	2.2	5.7	9.5	4.6
Other[2]	544	NA	NA	NA	NA
CalPERS PE Portfolio	**78,150**	**10.9**	**9.5**	**12.4**	**11.0**

The table above highlights that Buyout strategies are the key driver for the Portfolio, representing nearly two-thirds of the NAV and providing attractive returns overall, both recently and over longer time periods. Growth/Expansion, Opportunistic, and Venture strategies each generated positive returns over the trailing one-year period, after each produced negative returns for the previous trailing one-year period as of June 30, 2023. Growth/Expansion experienced the largest increase in returns since our June 2023 report, increasing from -12.8% to 11.5%. Venture also generated positive one-year performance for the first time since December 2022. We note that Venture is a small portion of the Portfolio at just over 1.4% of NAV.

[1] Source: State Street. All trailing returns included in this report are time-weighted.
[2] Includes currency and stock holdings.

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One Year Relative Performance[1]	Relatively Stronger	Relatively Weaker
Strategy	Growth/Expansion, Buyout	Venture, Credit
Structure	Co-Invest/Direct, CIA[2]	Fund of Funds/Secondaries
Geography	Developed Asia, United States	Emerging Markets
Vintages	2011, 2015, 2017-2024	2006 – 2010, 2012-2014, 2016

The table above outlines areas of stronger or weaker relative performance of the Portfolio during the trailing one-year time-period. Areas where performance was near the average or not meaningful are not included in the table above.

Performance by Structure[3]

	NAV ($M)	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)
Customized Investment Accounts	26,315	12.1	10.2	12.9	10.6
Co-Investments / Direct	7,828	18.1	12.5	11.9	10.4
Fund of Funds / Secondaries	1,485	-0.3	7.3	8.2	8.2
Funds	41,979	9.5	8.8	12.3	11.1
Other[4]	544	NA	NA	NA	NA
CalPERS PE Portfolio	**78,150**	**10.9**	**9.5**	**12.4**	**11.0**

The Portfolio's performance over the last year has been driven primarily by Funds, the largest exposure by structure, while CIAs and Co-Investments/Direct Investments generated the highest returns for the trailing one-year period and adding to overall performance. The Fund of Funds portfolio has underperformed across all time periods, in part due to their higher fee loads.

1 Source: State Street. All trailing returns included in this report are time-weighted.
2 Customized Investment Account
3 Source: State Street. All trailing returns included in this report are time-weighted.
4 Includes currency and stock holdings.

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Performance by Geography[1]

	NAV ($M)	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)
United States	59,487	11.9	10.3	12.8	10.8
Developed International	16,517	8.8	9.7	14.3	14.4
Emerging Markets	1,602	-1.3	-4.2	0.5	4.9
Other[2]	544	NA	NA	NA	NA
CalPERS PE Portfolio	**78,150**	**10.9**	**9.5**	**12.4**	**11.0**

While the Portfolio has been primarily driven by the US investments, Developed International investments (primarily in Europe) have been a strong contributor to returns over longer time periods. Similar to last quarter, US investments outpaced Developed International over the trailing one-year period. Emerging Markets performance still significantly trails other geographies with longer-term underperformance partially impacted by the prior use of Fund of Funds (with comparatively high fees) initially used to gain exposure to the region.

Implementation

For the trailing 12 months ending June 30, 2024, Staff completed an aggregate of $16.7 billion of new commitments, which includes $9.0 billion of funded co-investments. During this time, Staff completed 42 new fund commitments, one fund-like CIA, and six discretionary co-investments. Overall, during the 12 months ending June 30, 2024, Staff deployed approximately 55% of the capital in no-, or low-fee investment vehicles. From a strategy perspective, Staff has continued to add exposure to Growth/Expansion and Venture to complement the existing exposure in Large and Mega Buyouts.

As part of a comprehensive update, the Board approved several policy changes that provided Staff with additional flexibility to meet the private equity allocation target. These included: increasing delegated authority limits; expanding the range of co-investment sources; modifying the use of PPOs in co-investments; raising the limits on the percent ownership stake CalPERS can take in certain vehicles; and adjusting the private equity strategy ranges and long-term targets. These changes are being utilized to expand the investment opportunity set for CalPERS.

Key Policy Parameters

The Portfolio is compliant with all key parameters related to strategy diversification, as demonstrated in the table below. The Portfolio is below the long-term asset allocation target of 17% but remains within the range (+/- 5%).

1 Source: State Street.
2 Includes currency and stock holdings.

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Strategy	NAV[1] ($M)	Percent of Total NAV (%)	CalPERS Target (%)	Target Range (%)
Buyout	52,079	66.6	65	55 - 80
Credit	1,004	1.3	0	0 - 10
Growth/Expansion	17,213	22.0	25	5 - 30
Opportunistic	6,227	8.0	4	0 - 10
Venture	1,083	1.4	6	0 - 12
Other[2]	544	0.7	NA	NA
Total Portfolio	**78,150**	**15.5[3]**	**17[4]**	**+/- 4**

Conclusion

The Portfolio continues to show strong recent performance, albeit trailing the Policy Benchmark over the trailing one-year return. Performance of the Portfolio across the longer time periods has been within 100 bps of the Policy Benchmark, outperforming over the trailing three-year period and slightly underperforming over the five- and ten-year periods. Additionally, the Portfolio, as a percent of CalPERS' total portfolio, continues to approach CalPERS' long-term target of 17% and is approximately 1.5% higher since the last report. The recent increase in values corresponds with the broader market rally, and the Portfolio's long-term asset growth continues to be driven by both strong underlying performance and Staff's activities to enhance the Portfolio by sourcing attractive investments with high conviction managers. Staff has focused on increasing allocation to co-investments and adding portfolio diversification through identification of high-quality managers in mid-market buyout, growth equity, and venture strategies.

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

→ Increasing capital deployment – Staff has been committing approximately $15+ billion per year over the last two years, which is in line with investment targets communicated by Staff. This recent commitment pace compares to $3 billion to $5 billion per year in the 2016 to 2018 timeframe.

→ Increasing cost efficiency – No-/low-fee co-investments and CIAs are an important and growing portion of the Portfolio. In the last 12 months, 55% of investment capital has been deployed through no-/low-fee direct co-investments and co-investments executed under CIAs.

→ Adding diversification to the Portfolio – Staff has been adding more Venture, Growth Equity and Mid-Market Buyout strategies to complement the Portfolio's Large- and Mega-Buyout exposure.

→ Maintaining and enhancing relationships with high quality managers – Staff has been able to invest meaningful capital with highly sought out managers.

1 Source: State Street.
2 Includes currency and stock holdings.
3 PE portfolio NAV as a percent of total CalPERS portfolio as of June 30, 2024.
4 In March 2024, the Board approved a 17% long term target allocation for the Portfolio.

While CalPERS faces challenges in building the Portfolio, it also has opportunities given its scale, experience, and large investment team. Staff's continued focus on deploying capital through lower cost investment structures will help mitigate overall fees.

The Appendix includes some data and commentary on the private equity asset class for the first quarter of 2024.

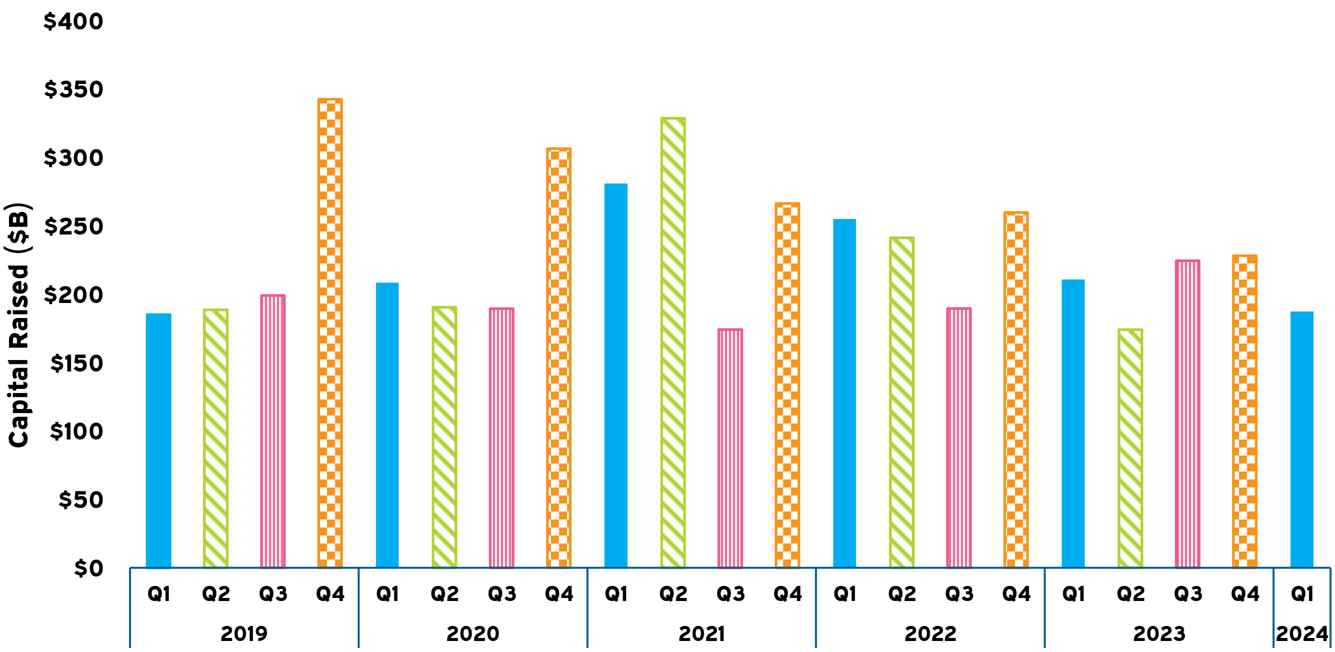
Please do not hesitate to contact us if you have questions or require additional information.

SH/LR/SPM/jls

Attachments

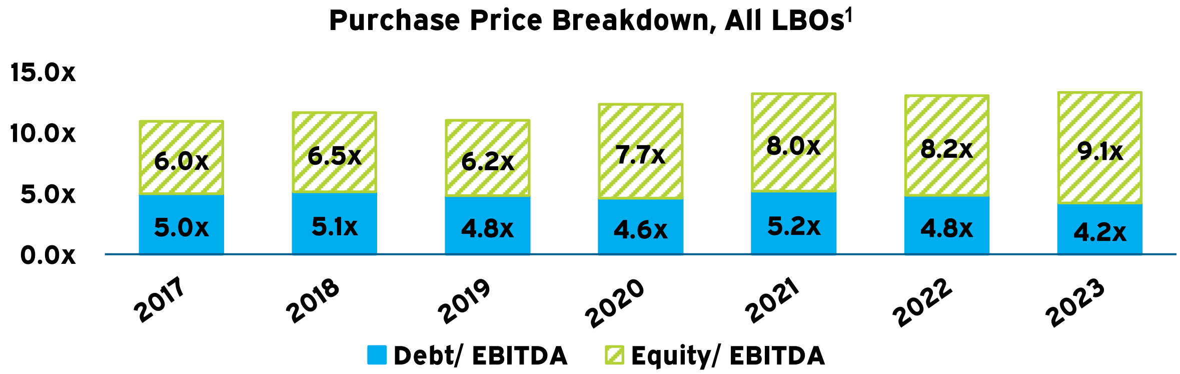
Private Equity Market Commentary – Q1 2024

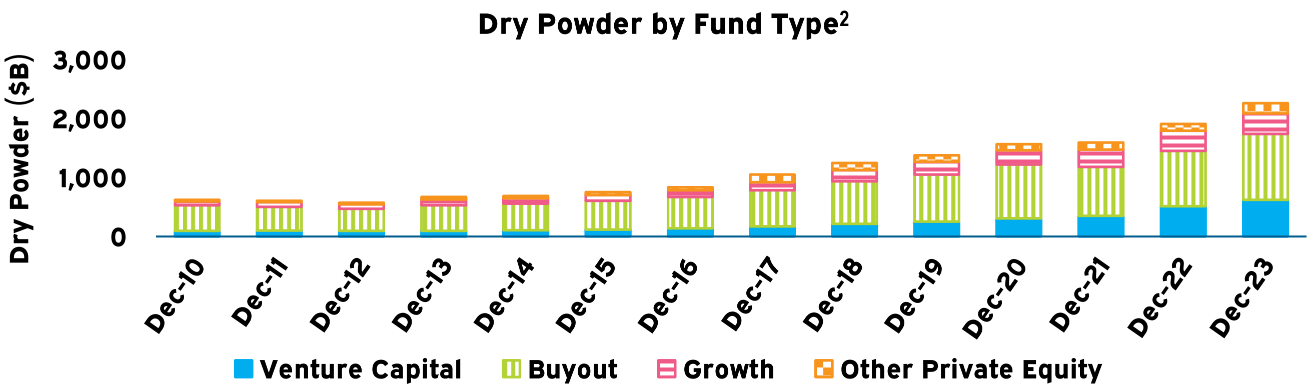
Global Fundraising[1]



Fundraising activity for private equity funds in the first quarter of 2024 decreased by 18% compared to the previous quarter, with $187.5 billion raised, and represents the lowest amount of capital raised for a first quarter since 2019. The first quarter showed continued signs of moderation in the private equity fundraising market as subdued private equity exit volumes continue to weigh on the amount of capital that some LPs have available to deploy. Fewer than 400 funds closed in Q1 2024, the lowest total for a quarter over the last four years. There is still some uncertainty in the economic outlook, and the latest developments within the US economy and economic policy may postpone interest rate cuts, thus holding up stimulus to the corporate sector, including private equity. However, the general expectation of a smooth transition is likely to encourage continued investment in deals and fundraising throughout the remainder of 2024. According to Preqin data, there were over 10,600 funds raising in the market as of March 2024, with aggregate capital targeted of approximately $1.5 trillion. Larger private equity funds ($1 billion or more target) account for over half of the aggregate capital targeted, with approximately 10% of funds in market targeting 65% of capital targeted. Funds continue to spend more time on the road, with 63% of private equity funds (and 78% of venture capital funds) closed in Q1 2024 having been in market for more than 18 months compared to an average of 47% (and 44% for venture capital) from 2019-2023. Overall, this quarter has once again confirmed the trend toward industry concentration. While only 357 funds closed (the lowest number in any quarter since 2019 and down 38% on the first quarter of 2023), the $187.5 billion aggregate capital raised is down only 11% year-on-year.

[1] Source: Preqin.





Relative to 2022, the median private equity buyout purchase price multiple increased from 13.0x EBITDA to 13.3x EBITDA in 2023. This represents a slight 2% increase from 2022 relative to the 1% decrease observed in 2022 from 2021. Due to the higher interest rate environment, recent deals, in aggregate, have been financed with more equity capital, as well. Overall, the increase in purchase price multiples on the year shows resilience to the downward pressure of higher interest rates and sellers not willing to exit deals at lower valuations despite the imbalance between expectations of buyers and sellers through most of the year. New deal activity appears to have found a support level after a quarter-on-quarter decline in the first quarter. Relative to the highly active period in 2021 and 2022, the number of deals has stabilized at levels similar to those seen in 2018-2019 although deal sizes were smaller to start the year. In the first quarter of 2024, the aggregate total for 1,780 deals was $95 billion, only 10 transactions fewer than Q1 2019, but aggregate deals then totaled a much greater $154 billion. Exit deal activity in the first quarter was up on the same period a year ago, when private equity hit a low point as it began adjusting to higher interest rates. However, activity in the first quarter of 2024 was down from the fourth quarter of 2023. The aggregate value of exits followed a similar pattern with the first-quarter aggregate of $52 billion up 40% on the same quarter a year ago, but down 57% on Q4 2023. Dry powder levels as of Q4 2023, have increased by approximately 18% from Q4 2022 and remain at all-time highs. Despite macroeconomic worries, GPs still have ample dry powder to deploy, which helps support deal flow even as debt financing has become more expensive and more restrictive.

[1] Source: Preqin. Data pulled on July 9, 2024.
[2] Global Private Equity Dry Powder Split by Strategy. Provided by Preqin on July 9, 2024. There is a six-month lag in Preqin's dry powder data with December 31, 2023, representing the latest figures, which were released in July 2024.

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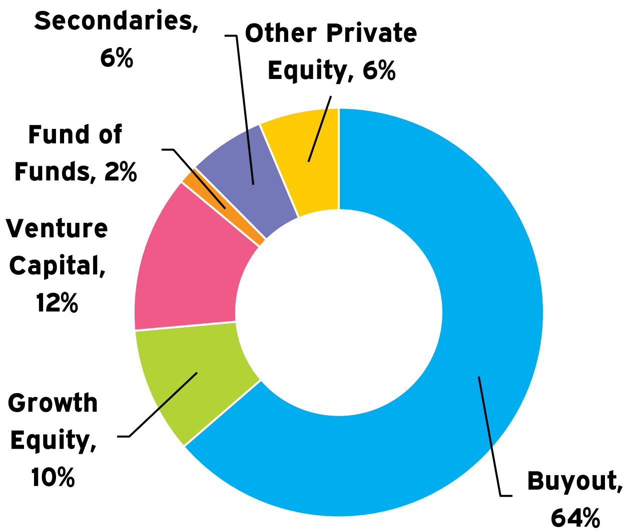
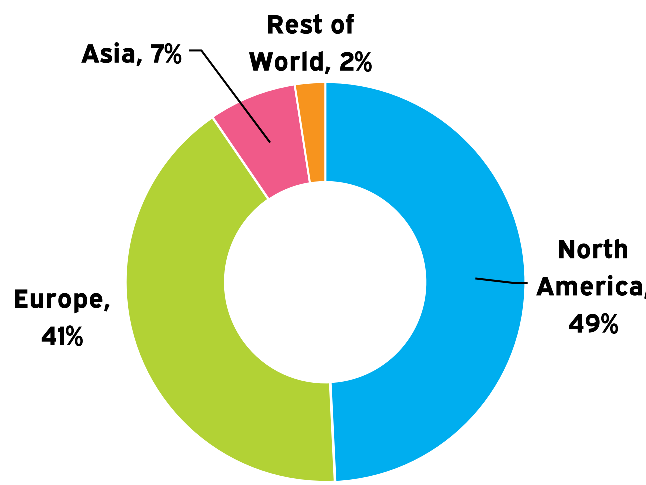
Capital Raised by Strategy[1]



Capital Raised by Geography[2]



Buyout (64% of all private equity capital raised), Venture Capital (12%), and Growth Equity (10%) represented the private equity sub-strategies with the most capital raised during the first quarter of 2024. Buyout funds increased from 53% of capital raised in Q4 2023 to 64% in the first quarter of 2024. Growth Equity and Secondaries decreased the most of any strategy in Q1 2024, each dropping 7% of capital raised from the prior quarter. Secondaries, as a percentage of total capital raised, decreased but demand remains as GPs and LPs seek liquidity solutions. Venture Capital, Fund of Funds, and Other Private Equity, which includes co-investment and hybrid vehicles, remained relatively consistent as a percentage of total capital raised through the first quarter compared to the previous quarter.

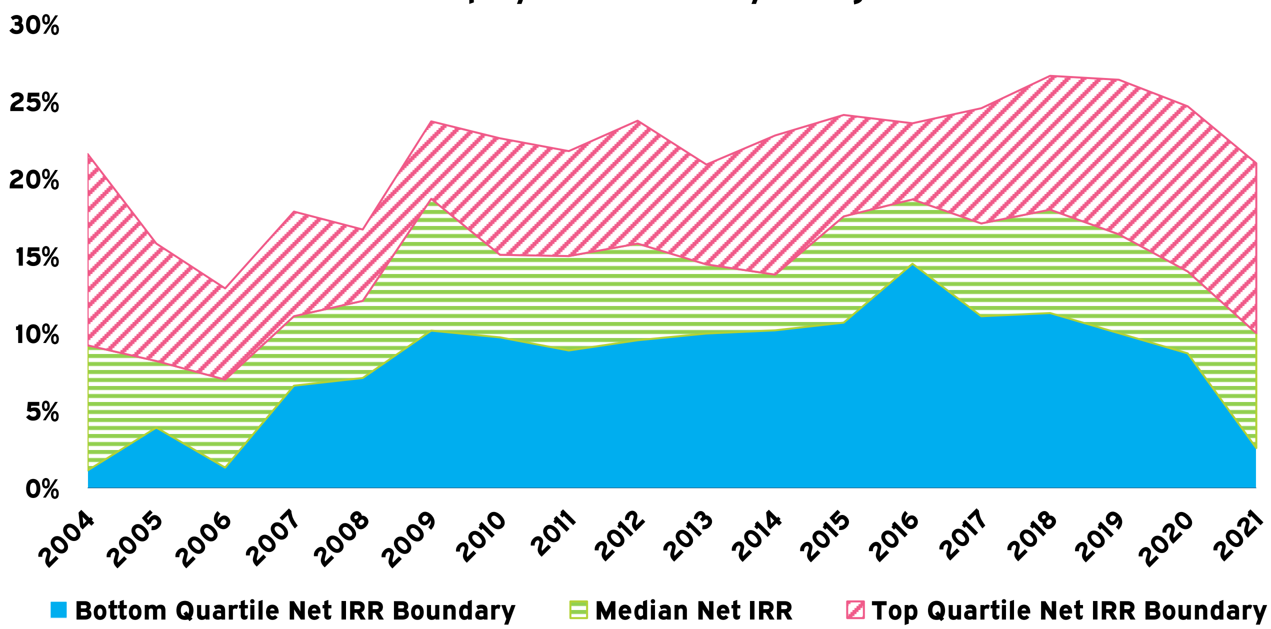
North America-focused vehicles continued to represent the highest geographic allocation of funds raised during the first quarter, representing 49% of total capital. This represents a substantial decrease from the 76% of aggregate capital raised in the prior quarter, but North America still accounted for 64% of the number of funds closed during the quarter. Conversely, as a percentage of total capital raised, commitments to Europe increased from 19% to 41% but still only represented 20% of funds closed. Asia-focused funds remained low, representing 7% of total capital raised, reflecting ongoing challenges for China-focused funds. Investor appetite for Rest of World also remain subdued with $4.6 billion of aggregate capital raised across 18 funds (5% of funds closed) during the quarter.

[1] Source: Preqin.
[2] Source: Preqin.

Private Equity Performance by Horizon[1]

Horizon	Private Equity (%)	Buyout (%)	Venture Capital (%)	Growth Equity (%)
1 Year to 12/2023	6.7	9.5	(5.3)	3.5
3 Years to 12/2023	12.8	14.7	5.0	7.5
5 Years to 12/2023	16.0	17.8	12.0	12.9
10 Years to 12/2023	15.1	16.4	11.5	14.1

Private Equity Performance by Vintage Year[2]



As of December 31, 2023, one-year private equity returns increased from the prior quarter, generating a 6.7% IRR over the trailing 12 months through Q4 2023. This compares to the trailing 12-month return of 5.1% as of Q3 2023 and a one-year return of -0.2% at Q4 2022. Overall, private equity returns have proven resilient but still remain far below the highs of recent years. One-year returns remain negative for Venture funds at a -5.3% IRR but have increased for all strategies relative to Q3 2023 marks. In general, however, performance has been strong in each vintage year since the Global Financial Crisis. Buyout, Venture, and Growth funds have all generally performed well over the various time horizons on an absolute basis, with Buyout outperforming both Growth Equity and Venture funds across longer time periods as of Q4 2023. Lastly, the spread between first and third quartile performance in private equity has increased since the Global Financial Crisis; 2007 vintage funds reported an 11.3% spread while 2021 vintage funds reported an 18.4% spread.

[1] Source: Preqin Horizon IRRs as of 12/31/2023. Data as of 3/31/2024 is not yet available.
[2] Source: Preqin, Private Equity – All, Quartile Returns as of 3/31/2024. Data pulled on July 8, 2024.

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