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MEMORANDUM

TO: Members of the Investment Committee, CalPERS
FROM: Meketa Investment Group
DATE: March 17, 2025
RE: Semi-Annual Private Debt Performance Review, as of December 31, 2024

In our role as the Board Private Debt Consultant, Meketa Investment Group ("Meketa") conducted a semi-annual performance review of the Private Debt Portfolio ("the Portfolio") for the period ended December 31, 2024[1] based on data provided in 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

The Private Debt program has an official inception date of July 1, 2022; however, underlying investments in the Portfolio have a longer track record from their inclusion in the Opportunistic Strategies program, which dates to July 1, 2020. As shown below, Private Debt has delivered strong performance through the fourth quarter of 2024, with the Portfolio outpacing the Policy Benchmark over each time period.

Private Debt Performance as of December 31, 2024[1]

	FYTD (%)	1 Year (%)	3 Year (%)	Since Inception[2] (%)
CalPERS PD Portfolio[3]	6.0	14.5	11.0	10.5
Policy Benchmark[4]	*4.6*	*10.8*	*8.4*	*7.9*
Excess vs. Policy Benchmark	⬆ 1.4	⬆ 3.6	⬆ 2.6	⬆ 2.6

Of note, private debt performance is reported with a delay compared to publicly traded assets. As such, the Portfolio and the Policy Benchmark performance as of December 31, 2024 are each reported with a one-quarter lag (i.e., values through September 30, 2024).

As of December 31, 2024, the Portfolio consisted of 58 underlying investments totaling $48.2 billion of committed capital with an aggregate net asset value ("NAV") of $19.0 billion, an increase of $1.5 billion (net of cash flows) compared to the December 31, 2023 NAV of $12.7 billion. The current NAV represents 3.6% of the Total Fund, compared to the 8% long-term target. As we noted above, the Portfolio's NAV is calculated based upon September 30, 2024 values, while the overall CalPERS portfolio includes publicly traded assets valued as of December 31, 2024.

[1] CalPERS Private Debt performance analysis for the period ended December 31, 2024, reported with a 1-quarter lag. Since Inception and 3-Year performance includes historical periods prior to the Private Debt segment's inception of July 1, 2022 when Private Debt investments were held within the Opportunistic Strategies Program.
[2] Inception date is July 1, 2020.
[3] Source: CalPERS. CalPERS returns are reported as time-weighted.
[4] The current Policy Benchmark is a Custom S&P LSTA US LL Index one-quarter lagged + 125 bps from July 1, 2022 onward and 7% absolute return prior to July 1, 2022.

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Diversification by Strategy[1]

	NAV ($M)	Percent of Total NAV (%)	FYTD (%)	1 Year (%)	3 Year (%)	Since Inception (%)
Direct Lending	16,070	84.5	6.4	15.4	11.5	11.5
Specialty Lending	2,047	10.8	3.9	9.7	9.5	8.8
Real Estate Financing	894	4.7	6.1	12.3	8.3	8.0
CalPERS PD Portfolio	**19,011**	**100.0**	**6.0**	**14.5**	**11.0**	**10.5**

The table above highlights that Direct Lending strategies make up the majority of the Portfolio, which is consistent with policy guidelines and expectations. In aggregate, CalPERS has completed 41 commitments, or 71% of the total number of commitments, to Direct Lending strategies. The Portfolio also includes 13 commitments to Specialty Lending and four to Real Estate Financing. Direct Lending strategies have generated attractive returns overall and the strongest returns over each time period shown above relative to the other two strategies.

Diversification by Structure[1]

	NAV ($M)	Percent of Total NAV (%)	FYTD (%)	1 Year (%)	3 Year (%)	Since Inception (%)
Customized Investment Account	12,598	66.3	6.0	14.8	11.2	10.0
Fund	6,223	32.7	6.2	13.9	10.3	11.9
Co-Investment	190	1.0	7.5	18.8	16.3	13.4
CalPERS PD Portfolio	**19,011**	**100.0**	**6.0**	**14.5**	**11.0**	**10.5**

The Portfolio has exposure to three discrete investment structures, including customized investment accounts (“CIAs”), funds, and co-investments. CIAs represent the majority of current exposure, totaling nearing two-thirds of NAV across 47 commitments. Of note, CIAs include a number of co-investment funds (no management fee, no incentive fees), which account for most of the Portfolio’s co-investment exposure. Ten fund commitments aggregate to nearly 33% of the Portfolio’s NAV. As shown above, there is one co-investment, which represents a single co-investment opportunity executed outside of a CIA structure totaling 1% of NAV. CIAs have produced higher returns than Funds over the trailing one-year and three-year time periods.

[1] Source: CalPERS.

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Diversification by Geography[1]

	NAV ($M)	Percent of Total NAV (%)	FYTD (%)	1 Year (%)	3 Year (%)	Since Inception (%)
United States	8,646	45.5	6.7	16.3	12.9	11.2
Global	7,506	39.5	5.4	13.0	9.2	10.1
Europe	2,859	15.0	6.0	12.2	10.6	9.8
CalPERS PD Portfolio	**19,011**	**100.0**	**6.0**	**14.5**	**11.0**	**10.5**

As of December 31, 2024, the Portfolio is well-diversified geographically. Approximately 45% of the current NAV is invested in US-focused strategies with the balance deployed across Global and European--focused mandates. The Portfolio's geographic diversification is largely consistent with the broader private credit market, which is predominantly focused on North America and Europe. The trailing returns for US-focused strategies have outpaced Global and Europe over each time period shown above.

Implementation

For the trailing 12 months ending December 31, 2024, Staff completed an aggregate of $16.9 billion of new commitments, which includes $13.8 billion across 19 customized investment accounts and $3.1 billion across three fund commitments. Overall, during the 12 months ending December 31, 2024, Staff deployed approximately 82% of the capital in CIAs. From a strategy perspective, Staff has continued to add exposure to Direct Lending and Specialty Lending, which accounted for 57% and 28% of committed capital, respectively, over the last 12 months. Geographically, approximately 53% of committed capital was allocated to Global strategies during the past year, with the balance to United States (28%) and Europe (18%) strategies.

Key Policy Parameters

The Portfolio is compliant with all key parameters related to strategy diversification, as demonstrated in the table below. The Portfolio continues to ramp towards the desired exposure of an 8% target allocation.

Strategy	NAV[1] ($M)	Percent of Total NAV (%)	Target Range (%)
Direct Lending	16,070	84.5	20 – 100
Specialty Lending	2,047	10.8	0 – 40
Real Estate Financing	894	4.7	0 - 40
Residential Mortgages	0	0.0	0 - 40
Total Portfolio	**19,011**	**3.6**[2]	**8**[3]

1 Source: CalPERS.
2 PD portfolio NAV as a percent of total CalPERS portfolio as of December 31, 2024.
3 In March 2024, the Board approved an 8% long-term target allocation for the Portfolio, an increase from 5%.

Conclusion

The Portfolio continues to show strong performance, outpacing the Policy Benchmark over the trailing one-year period as well as longer time periods. Additionally, the Portfolio, as a percent of CalPERS' total portfolio, continues to approach CalPERS' long-term target of 8% and is approximately 0.5% higher since the last report.

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

→ Increasing capital deployment – Over the year ending December 31, 2024, Staff committed approximately $16.9 billion in private credit, including both initial commitments (77% of total) and upsizes to existing commitments (23% of total).

→ Increasing cost efficiency – No-/low-fee co-investments and CIAs are an important and growing portion of the Portfolio. In the last 12 months, 82% of investment capital has been deployed through CIAs.

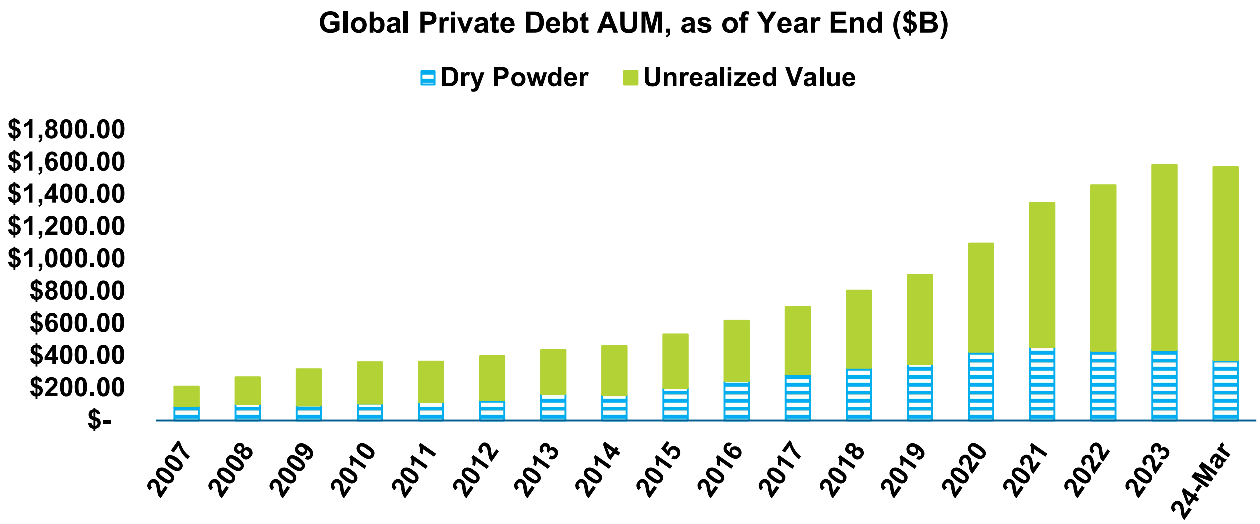
The Appendix includes some data and commentary on the private debt asset class for the third quarter of 2024.

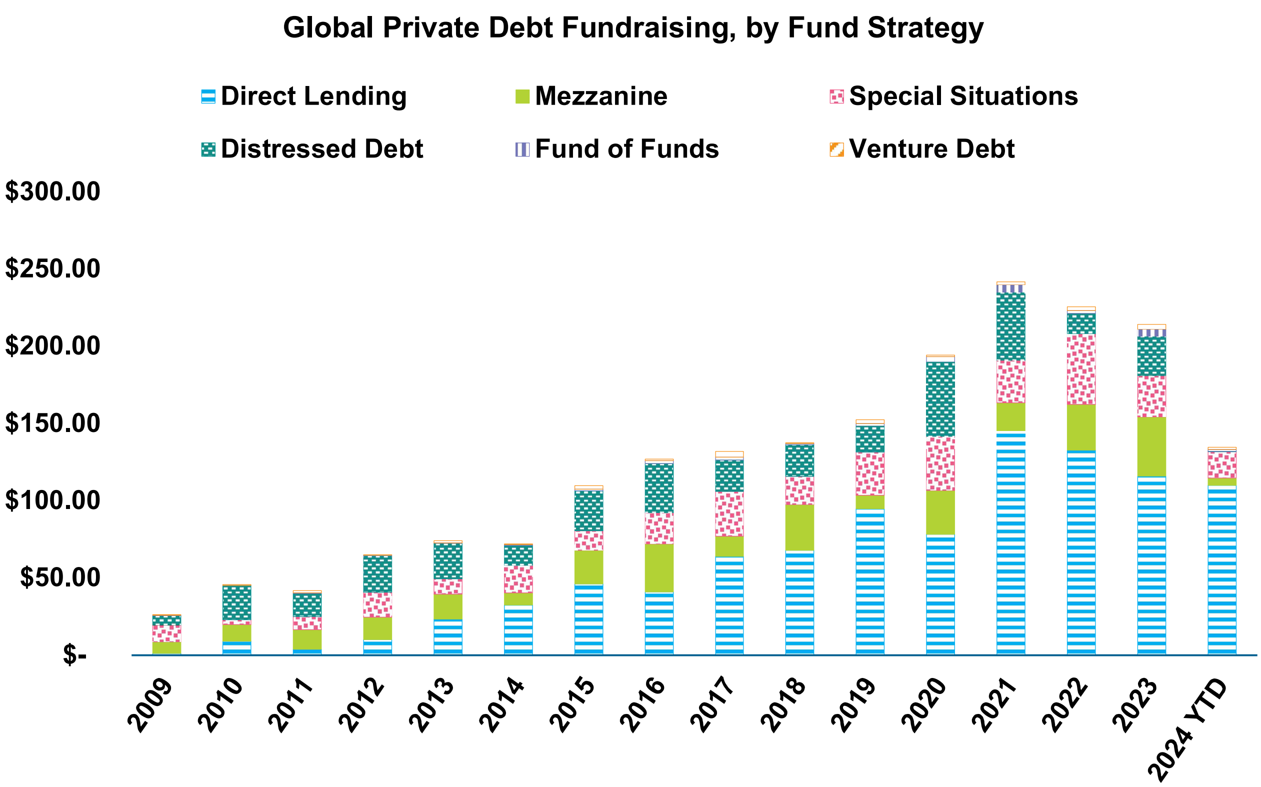
Please do not hesitate to contact us if you have questions or require additional information.

JM/MB/SPM/jls

Attachments

Private Debt Market Commentary – Q3 2024

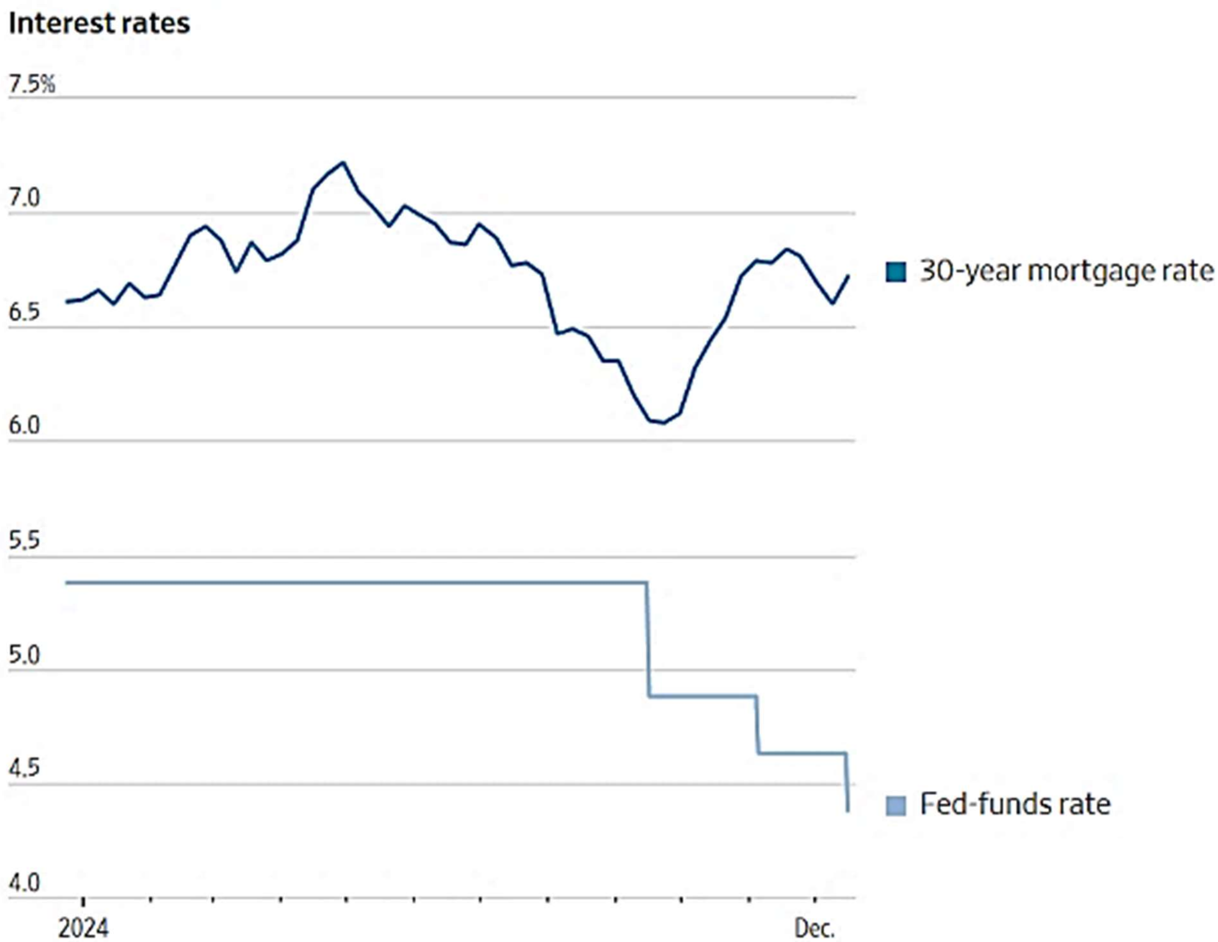




→ Private Debt fundraising remains robust. Larger funds continue to attract more capital with the average size of funds in market is now over $1 billion.1 Direct lending also continues to attract the most investor capital.

Private Credit: Key Economic Drivers

Mortgage Rates vs. Fed Funds[1]



→ The economically critical US housing market faces some headwinds, with the US mortgage rate reversing its downward trend, posing a challenge to household formation and prospective home buyers.

[1] WSJ: "The Fed Cuts Rates. Mortgages Costs Went Up" (December 20, 2024).

Private Credit: US Senior Direct Lending

Total Return Lincoln Senior Debt Index vs. Morningstar LSTA[1]

→ Middle market direct lending spreads also experienced year-over-year tightening but still maintained a premium to syndicated markets. Spreads for a private unitranche loan to a $50 million EBITDA company in a non-cyclical sector tightened to SOFR+500 from SOFR+549, per PitchBook's recent quarterly data.

→ Quarter-end returns for direct lending were +2.7%, as captured by the Lincoln Senior Debt Index ("LSDI") and 1.9% by the Morningstar Leveraged Loan Index ("LSTA"). LSDI return composition was 2.0% income and 0.7% capital appreciation in Q3.

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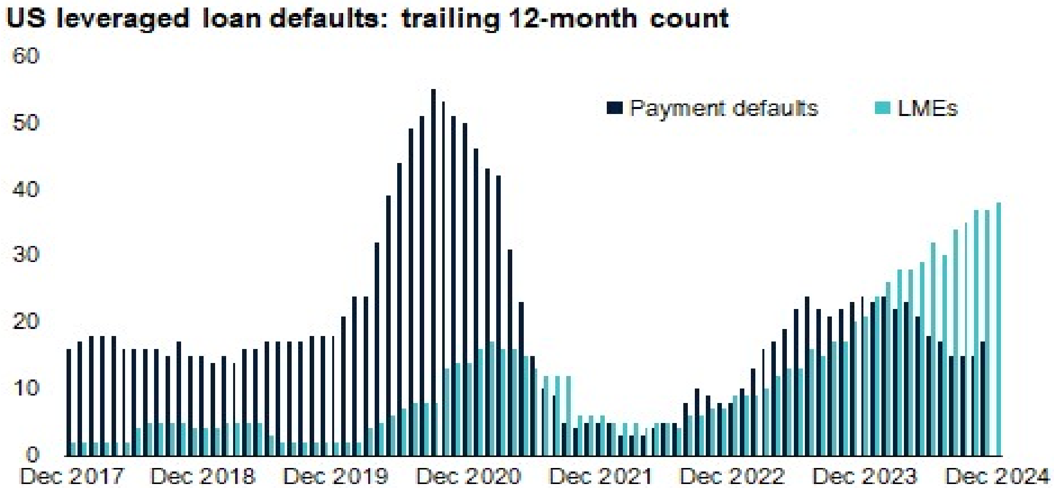
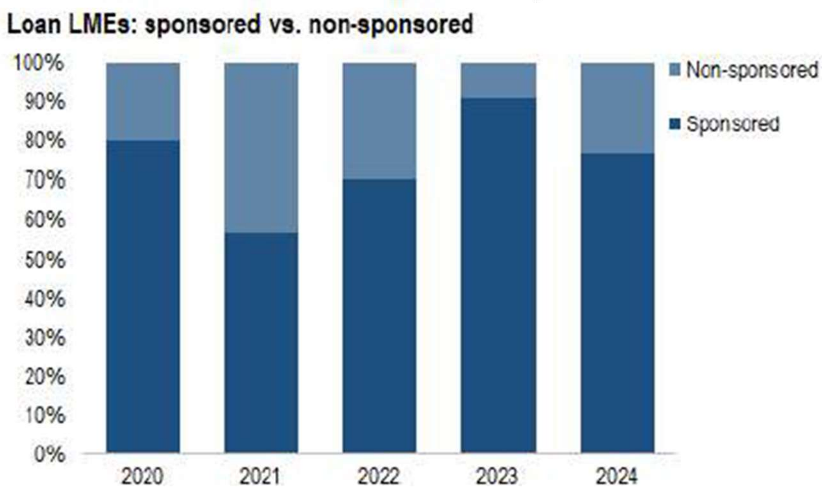
[1] Lincoln International Commentary (Q3 2024).

Leveraged Finance Market Environment (Q3 2024)

Leveraged Finance Volume Backing M&A[1]



M&A New Issue Loan Spread[2]



→ Lower total yield, due to declining base rates and tighter spreads, lowered funding costs for borrowers rated single-B, a segment typically targeted by private credit lenders and capital solutions providers.

→ The leveraged loan default rate declined to 1.26% in September, with expectations that it may fall further in 2025 as lower funding costs boost interest coverage ratios. Actual non-payment defaults in 2024 were muted in part due to private equity sponsors stepping-in with additional capital or negotiating new debt financing to preserve their equity stake in portfolio companies, a type of transaction referred as Liability Management Exercise ("LME").

→ Lower default rates for sponsor-backed companies in times of stress, or higher base rates, are linked to the willingness of sponsors to come to the table for a negotiated LME transaction.

[1] Source: Pitchbook LCD Quarterly Credit Wrap (as of 12/31/24).
[2] Source: Pitchbook LCD News & Analysis (as of 1/3/25).

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