

Private Equity Annual Program Review

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Program Overview

Role

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

Key Metrics

- AUM at \$55.1B as of March 31, 2023
- Buyout at \$40.2B (73%), Growth at \$10.5B (19%), Opportunistic at \$2.0B (4%), Credit at \$1.4B (3%), and Venture at \$0.8B (1%)
- U.S. portfolio at \$40.8B (74%), Europe portfolio at \$11.8B (22%), EM at \$1.7B (3%), and Developed Asia at \$0.6B (1%)
- Approximately 114 managers and 380 funds¹

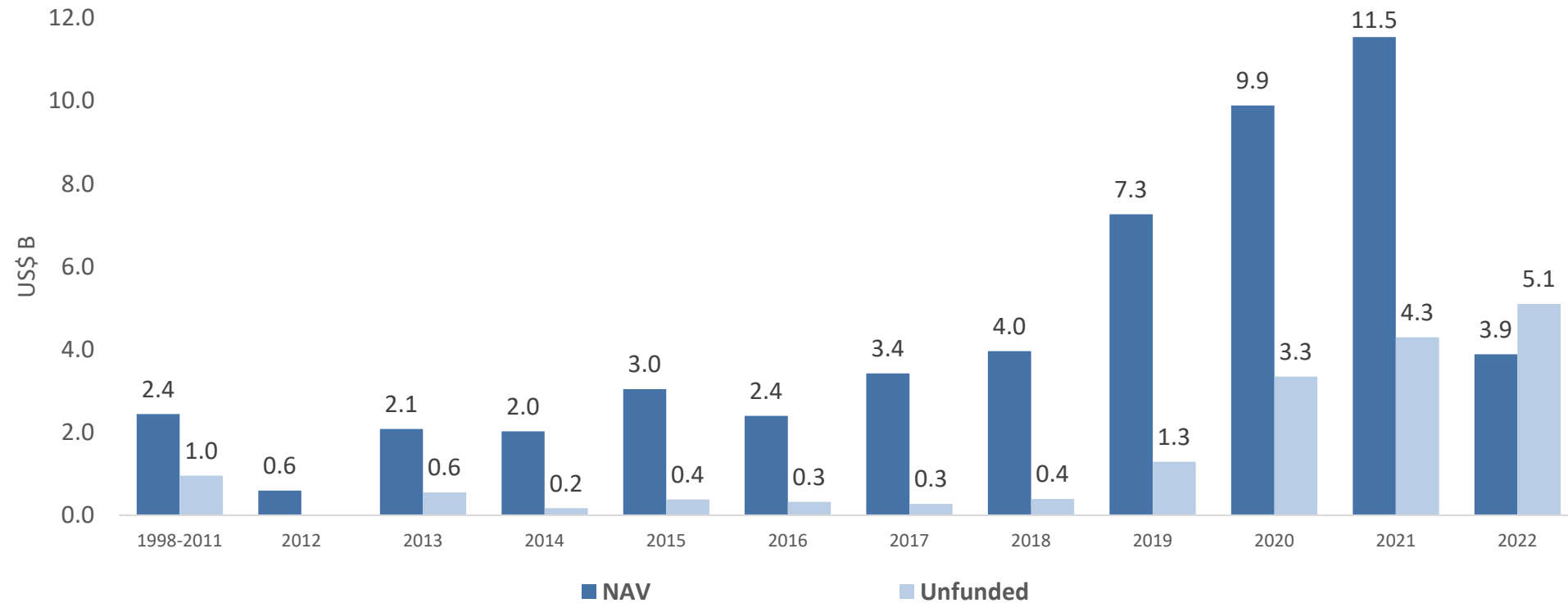
Investment Beliefs

- A long investment horizon is a responsibility and an advantage. *(IB 2)*
- CalPERS will take risk only where we have a strong belief 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)*

¹ Including Funds, Fund-of-Funds, and Customized Investment Accounts

Exposure Breakdown

NAV and Unfunded by Vintage Year at March 31, 2023 (\$B)



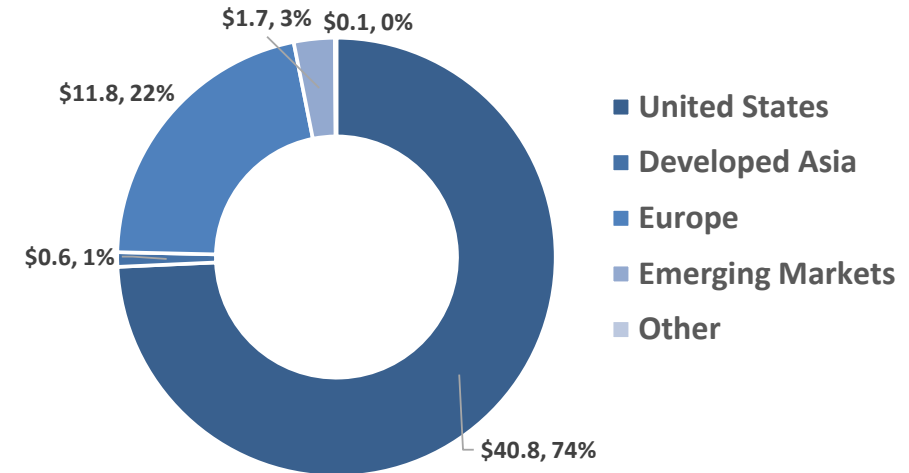
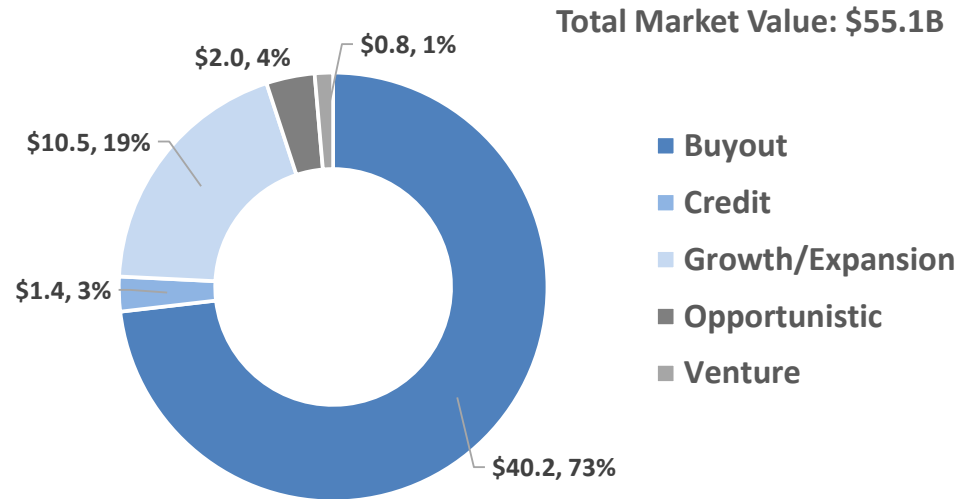
- Portfolio NAV is \$55.1B
- Unfunded (funds and co-investments) is \$25.5B



Strategy and Portfolio Positioning

Strategy NAV at March 31, 2023 (\$B)

Geography NAV at March 31, 2023 (\$B)



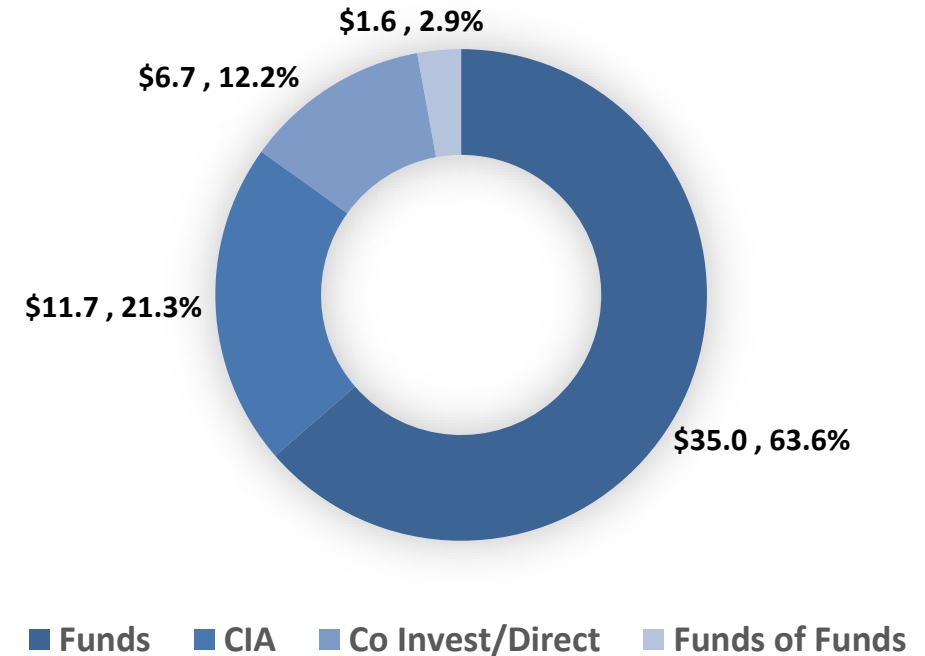
- The portfolio is diversified across managers, industries, and underlying portfolio companies
- The portfolio is not as diversified by vintage year, geography, and strategy
- Long-term priorities for the asset class include vintage year consistency, forming deep partnerships with high-quality managers, ramping the co-investment program, building out a venture program, and integrating data analytics more deeply into all aspects of the program



Structure of Portfolio

- The portfolio remains biased towards commingled funds and fund-like customized investment accounts
- Ramping co-investment is a CalPERS priority

NAV at March 31, 2023 (\$B)





Market Environment

Current Concerns:

- Uncertain macro environment with high inflation, rising interest rates, and banking sector stress
- Public market decline in 2022 resulted in lower deal volume in private markets – both for new investments and realizations

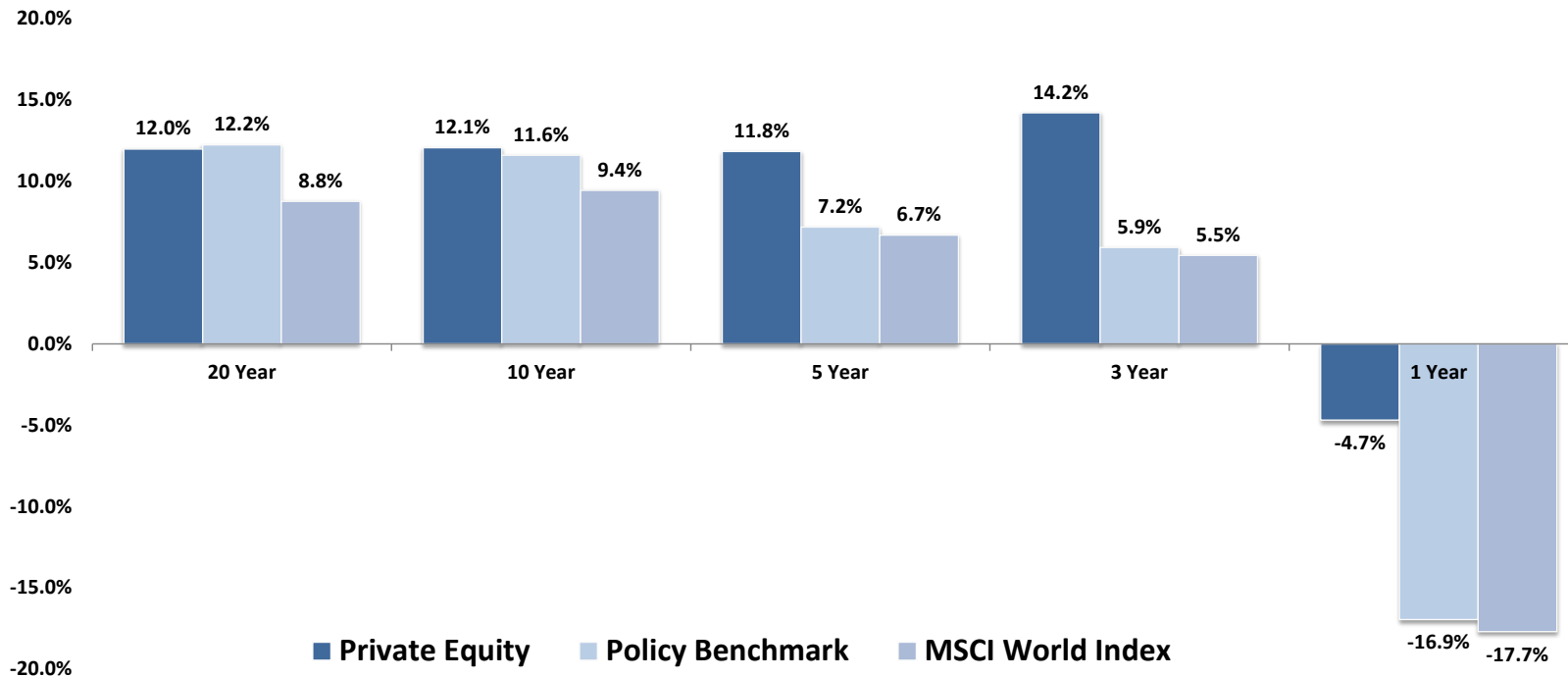
Deployment Themes:

- Stay the course: consistent deployment by vintage year
- Focus on managers that employ ESG frameworks
- Shift structure of portfolio toward co-investment with no management fees or carry
- Partner with historically hard-to-access managers and become a preferred solution provider in a period when some LPs are pulling back commitments



Portfolio Performance

Time Weighted Rates of Return (As of March 31, 2023)

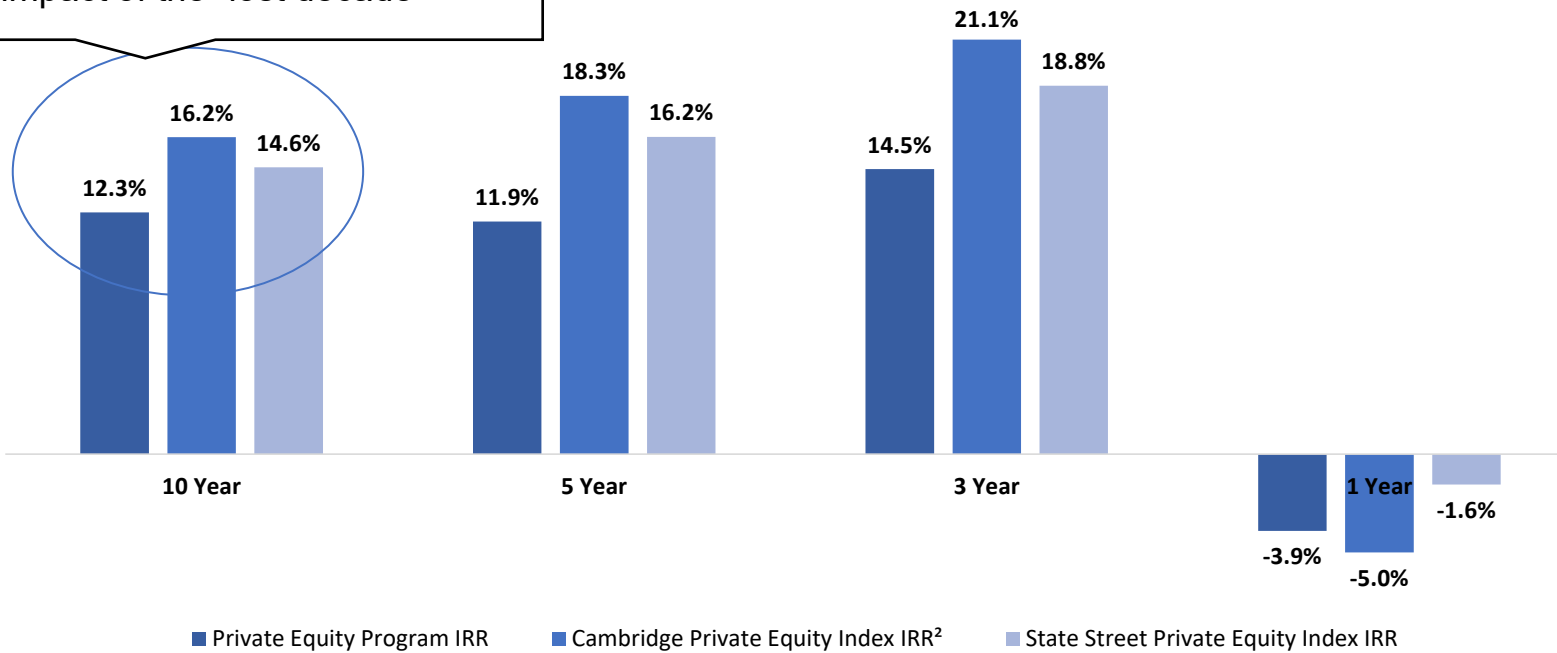


The CalPERS Private Equity portfolio is outperforming the public benchmark for the one, three, five, and ten-year time periods

Portfolio Performance

Internal Rates of Return at September 30, 2022¹

The ten-year IRRs illustrate the impact of the “lost decade”²



- Inconsistent allocation by vintage year and under-allocation to the venture strategy contributed to CalPERS PE underperformance over the last 10 years

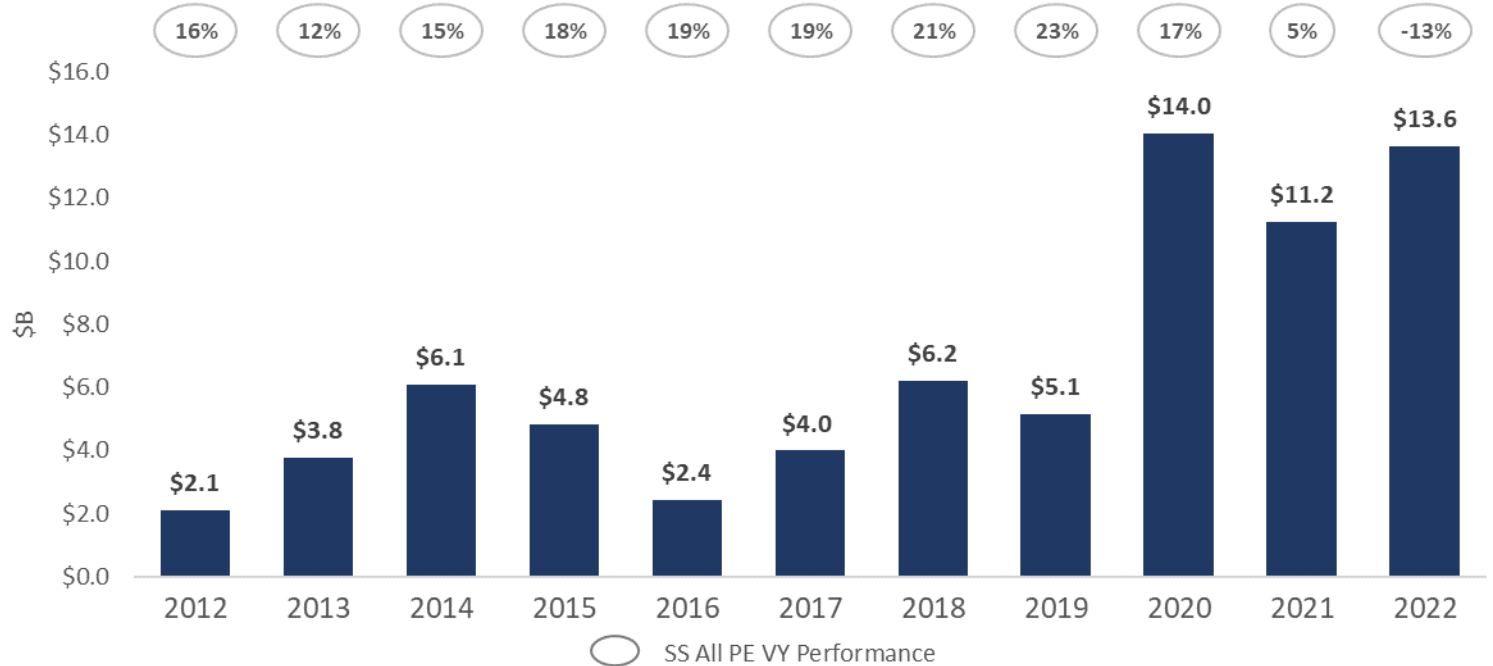


Vintage Year Breakdown

VY NAV at March 31, 2023 (\$B)

Vintage Year	NAV	% of NAV
2000-2011	\$2.4	4.4%
2012	\$0.6	1.1%
2013	\$2.1	3.8%
2014	\$2.0	3.7%
2015	\$3.0	5.5%
2016	\$2.4	4.4%
2017	\$3.4	6.2%
2018	\$4.0	7.2%
2019	\$7.3	13.2%
2020	\$9.9	18.0%
2021	\$11.5	21.0%
2022	\$3.9	7.1%
2023*	\$2.4	4.4%
Total	\$55.1	100.0%

VY Commitments From 2012 Through 2022 (\$B)



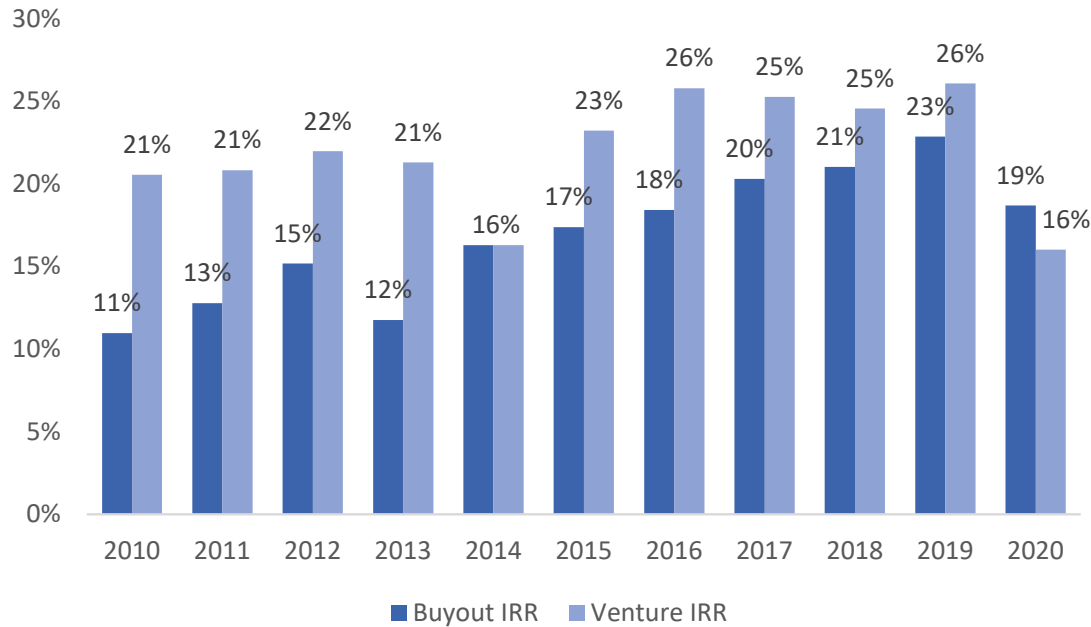
- CalPERS under-committed to vintage years that have delivered strong investment returns
- Commitments from 2009 through 2019 were too low to maintain PE target allocation



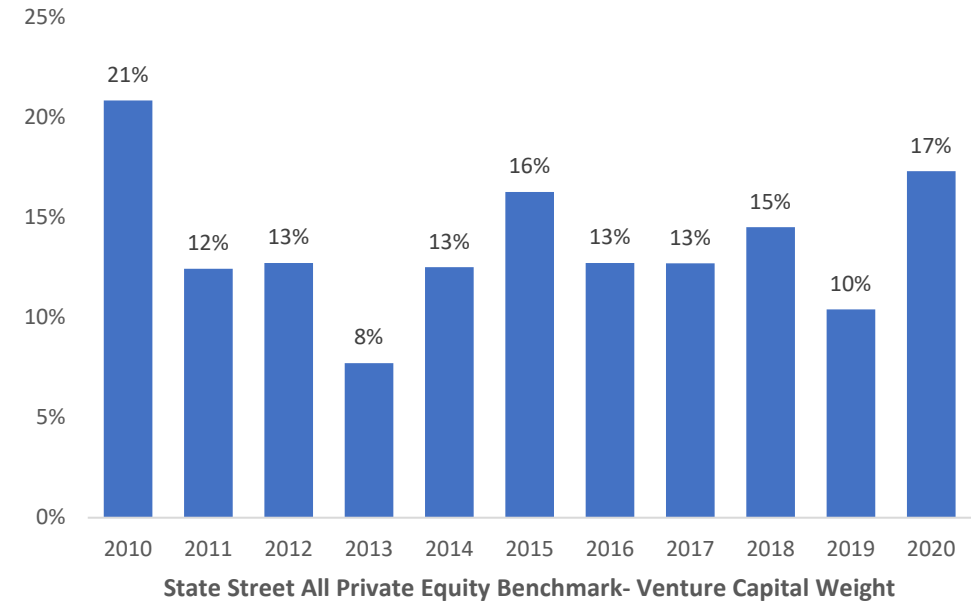
Private Equity Strategy Performance and Weights

State Street All Private Equity Benchmark Characteristics

State Street Pooled IRR Per Vintage Year to Dec. 31, 2022



Venture Capital Weight by Capital Raised¹



- Venture outperformance: venture returns have largely outperformed buyout returns since 2010
- Benchmark weighting: venture averaged 14% of the State Street All PE benchmark by capital raised between 2010-22
- CalPERS underweight: CalPERS had less than 0.5% of the PE portfolio in venture for all listed years
- Path forward: CalPERS PE is implementing a comprehensive venture strategy

Note: The 2021 and 2022 vintage years are too young for meaningful performance comparison

¹ The shown venture weights are based on capital raised. However, for governance purposes, CalPERS uses pooled return venture weighting, which is driven by both commitments and performance. The pooled return methodology would result in a higher weighting for venture than shown for the vintage years covered in the exhibit

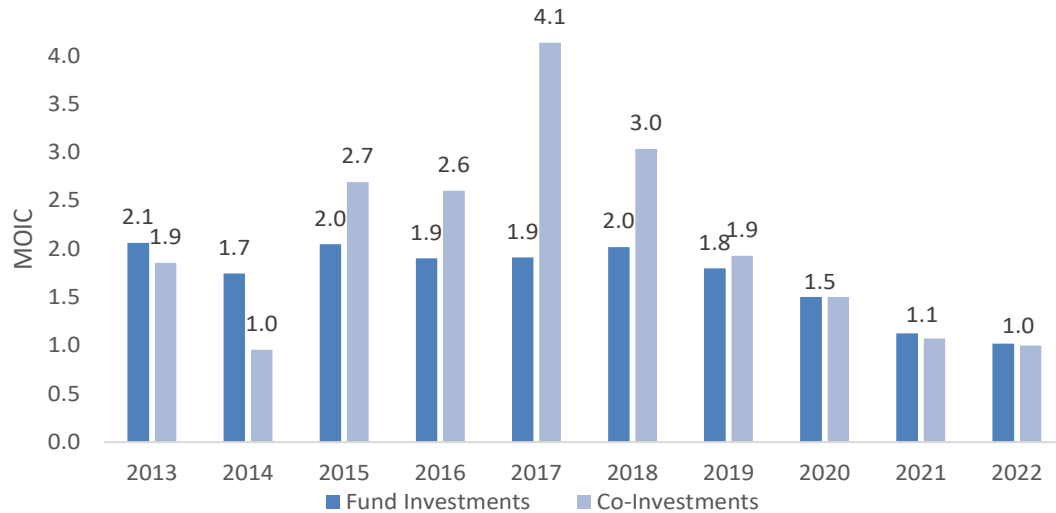
Portfolio Performance

Funds Versus Co-Investments

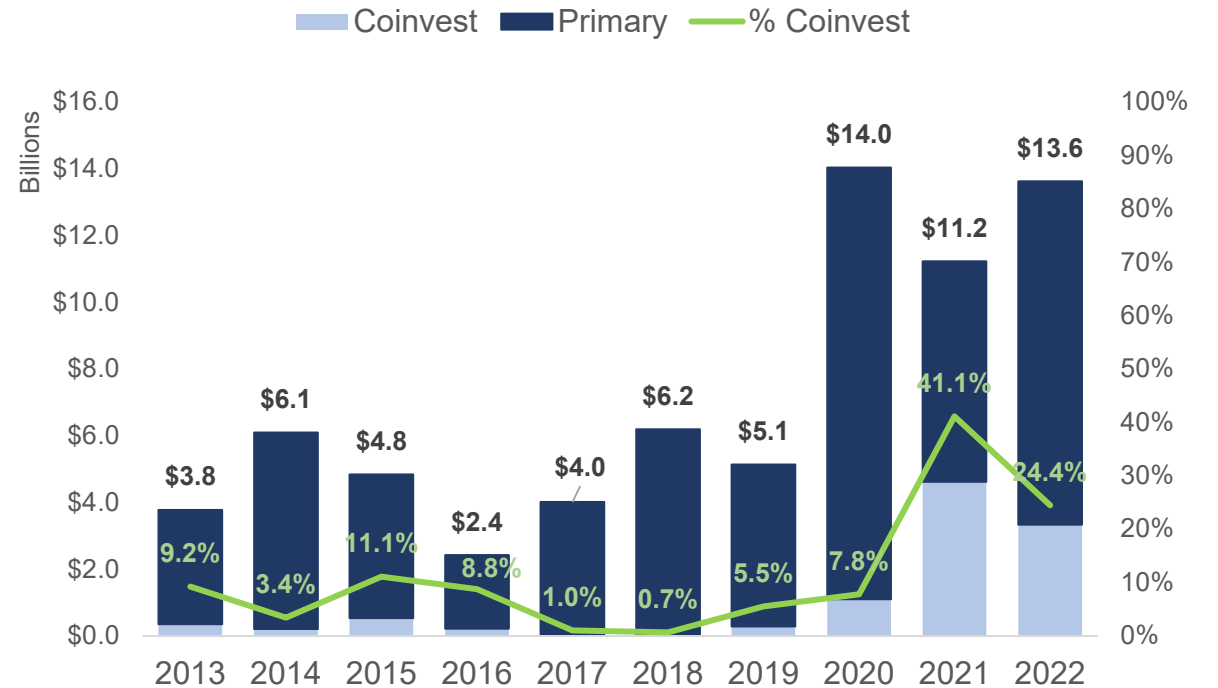
Takeaways:

- Co-Investment performance has been accretive to total CalPERS PE performance
- However, CalPERS commitments to co-investment have been subscale
- Right sizing co-investment's share of total commitments should lower costs and boost net returns

Gross MOIC ("Multiple on Invested Capital")



Commitments by Year





Private Equity – Additional Information

Outsourcers Policy and Status of Absolute Return Strategies (“ARS”)

- Restricting Private Equity Investments in Public Sector Outsourcers Policy:
 - To the best of CalPERS knowledge, the Policy has been effective in limiting our General Partners investments in public sector outsourcers, as CalPERS has not received any waiver requests in the last 12 months and all of our GPs have agreed to make good faith efforts to comply with the Policy
 - This Policy has had no negative impact on PE Program investment opportunities
- Status of Absolute Return Strategies (ARS) winddown/composition:
 - ARS legacy portfolio NAV of \$147.9M (as of 3/31/2023), remaining interests held in a liquidating trust
 - Staff continues to monetize residual interests prudently



Governance & Sustainability | Private Equity

The Private Equity program has embedded sustainability in our program in the following ways:

- Integration of ESG factors into our investment and monitoring processes
- Catalyzing and leading the ESG Data Convergence Initiative to standardize ESG metrics. Learn more at:

https://ilpa.org/ilpa_esg_roadmap/esg_data_convergence_project/

- Promoting broad shared employee ownership models in Private Equity through our work with Ownership Works. Learn more at: <https://ownershipworks.org/>



Key Initiatives | Integration of Governance and Sustainability

DEI	Today	Near Term Priorities	
External Engagement	<ul style="list-style-type: none"> DIVE Leadership Conference Catalyst Conference Thought leadership at emerging and diverse manager stakeholder events (SEO AICON, TIDE, AAAIM, Milken DEI, NAIC) 	<ul style="list-style-type: none"> Convening of allocators and increased market participation Board education Creation of a digital investor entrepreneur manual for first time funds 	<ul style="list-style-type: none"> Re-establish CalPERS industry leadership in the DEI space Explore partnerships with peers or organizations with synergy potential Ensure PE asset class has a diverse and inclusive leadership and team
Internal process	<ul style="list-style-type: none"> 2023 DEI external manager survey – full PE roster AB 890 data collection and reporting Process to assess incoming emerging and diverse manager submissions Evaluate DEM IV for consideration 	<ul style="list-style-type: none"> Leveraging strategic partners - shadow and monitoring Internal diversity survey – staff metrics Embed diversity KPIs in fund diligence 	<ul style="list-style-type: none"> Improve manager selection and PE processes on risk monitoring Develop ability to better identify opportunities and outcomes Better visibility and data on diversity KPIs on active portfolio and pipeline
Portfolio investment impact	<ul style="list-style-type: none"> Project Mosaic development and sourcing from strategic partners Invest directly in diverse managers Familiarize and use current portfolio diversity data – Lenox Park diversity scores 	<ul style="list-style-type: none"> Strategic partner knowledge transfer through collaboration Explore co-investing with TPG / GCM into managers Diversity integration into DD & monitoring processes 	<ul style="list-style-type: none"> Accretive alpha generation and risk-adjusted returns Partnerships with world-class managers Finding and backing the next generation investors Enviably diverse PE portfolio
ESG	Today	Near Term Priorities	
External Engagement	<ul style="list-style-type: none"> Individual meetings with GPs, LPs, strategic stakeholders and industry experts EDCI Steering Committee membership Thought leadership at ESG conferences (PEI Responsible Investing Forum, COP, UN PRI Conference, etc) 	<ul style="list-style-type: none"> Most impactful conferences participation (COPs, Milken), press coverage (Bloomberg, WEF), collaboration with CalPERS sustainability team Collaborate with sustainability and PR teams to author thought leadership pieces on ESG 	<ul style="list-style-type: none"> Re-establish CalPERS industry leadership in the ESG space Monitoring market to share learnings after years (academia, other relevant actors), continued participation in conferences and panels to drive market convergence and exchange best practices
Internal process	<ul style="list-style-type: none"> 1:1 interviews and conversations with each strategic GP Board Reporting on key KPIs Embed standardized ESG KPIs in due diligence 	<ul style="list-style-type: none"> Data requests and collection from each GP directly Board reporting on key KPIs 	<ul style="list-style-type: none"> Full integration of ESG metrics into CalPERS reporting systems; streamlined GP submission alongside financial performance data Clear visibility into ESG risk factors in fund and direct investments
Portfolio investment impact	<ul style="list-style-type: none"> Shifting engagement from stories to data: engaging on ESG with each strategic GP and encouraging them to measure ESG quantitatively (EDCI) 	<ul style="list-style-type: none"> Full understanding of existing portfolio via data (100% strategic buyout GPs participation in EDCI) Adopting ESG KPIs to board material 	<ul style="list-style-type: none"> Incorporating ESG data into investment decisions & measuring progress and performance both pre and post investment Investments in funds and directs with ESG angles



Key Initiatives | Integration of Governance and Sustainability



Key Figures

\$1B

Commitment from CalPERS

20+

Expected GPs

3+ years

Long-term investing horizon

Mission

1. Catalyze change within the private equity industry and accelerate the development of underrepresented managers
2. Generate attractive returns for the CalPERS portfolio

Goal and Approach

- Explore partnerships with organizations and focus on making seed investments into small, emerging, and diverse private equity managers
- Provide suite of capital solutions to new managers and lower barriers to entry for investor entrepreneurs
- Provide strategic advise and business building expertise to the underrepresented
- Generate compelling risk-adjusted returns through multiple equity value creation levers

CalPERS Involvement

- In January 2023, CalPERS announced a \$1 billion commitment to supporting diverse and underrepresented managers through partnerships with TPG Next and GRM Grosvenor Elevate. The announcement generated significant coverage and has created a rich pipeline of managers for TPG Next and GCM Elevate to evaluate

Target Results

- Partnerships that will generate returns outpacing traditional fund of fund commitments
- Future investments directly into leading private equity firms at discounted economics
- Emerge as leading investor for diverse and emerging managers



Key Initiatives | Integration of Governance and Sustainability



**ESG Data
Convergence
Initiative**

Key Figures

300+

GPs and LPs

\$26T

AUM by Members

2000+

Portfolio
Companies
In Benchmark

Mission

1. Driving convergence around meaningful environmental, social, and governance (ESG) metrics for the private equity industry.
2. Generating useful, performance-based, comparable ESG data.

Goal and Approach

- GPs collect six ESG metric data from portfolio companies. As members of EDCP, GPs submit their standardized data to the benchmark aggregator, BCG - BCG aggregates the data and sends to participating GPs and LPs a benchmark
- The anonymized portfolio company data (GP fund level and benchmark) empowers LP to understand the ESG risk factors and their progress in their portfolios specifically and contextualize it within the benchmark BCG provides

CalPERS Involvement

- In September 2021, the founding members led by CalPERS and Carlyle, who became the inaugural Co-Chairs, announced the launch of the initiative. The EDCI has since experienced tremendous growth, with more than 300 GPs and LPs now part of the initiative.
- Yup Kim serves as CalPERS Senior Steering Committee Member

Target Results

- Simplified data-sharing process with investors
- Benchmarking capability against peers
- Translating ESG into material impact
- Shaping the future of our industry



Key Initiatives | Integration of Governance and Sustainability



Key Figures

\$20B

Wealth generation for-low/moderate Households in five years

100Ks

New employee-owners

78+

Number of participating partners

Mission

1. Catalyze a movement to establish employee ownership as the new standard of socially responsible business and investing – one that creates great places to work and generates superior financial returns for businesses, investors, and employees alike

Goal and Approach

- *Structuring and Implementing Broad Based Ownership Programs* that provide every employee with the opportunity to participate in the value they help create
- *Developing a Culture of Ownership* that addresses employee engagement issues
- *Creating a Financially Inclusive and Resilient Workforce* through programs that address financial illiteracy
- *Sharing Data, Best Practices and Insights* on the impact of shared ownership

CalPERS Involvement

- On April 2022, Ownership Works, a new nonprofit with a mission to increase prosperity through shared ownership at work, launched with the support of over 60 partners across the private, public and non-profit sectors
- Yup Kim serves as CalPERS Founding Council Member

Target Results

- Create hundreds of thousands of new employee-owners
- Generate at least \$20 billion of wealth for low- and moderate-income households and people of color



Key Initiatives | Fiscal Year 2023-24

- *Continue prioritizing ESG initiatives*
- *Increase co-investments*
- *Improve geographic diversity of the portfolio*
- *Begin building a venture program*
- *Refine investment processes to focus staff time on performance-enhancing tasks*
- *Enhance career development for team members*