

Private Debt Annual Program Review

As of Quarter Ending on March 31, 2024

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Private Debt

June 10, 2024

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Program Overview



Market Environment



Portfolio Performance and Risk Analysis



Business Updates and Key Initiatives



Program Overview

Role

- Private Debt seeks to harvest premiums from the illiquid nature and the structure complexity of private loans while generating current income

Key Metrics

- Capital Commitment at \$33B with NAV at \$13B and Unfunded Commitment at \$21B as of March 31, 2024
- NAV for Direct Lending at \$10B, Specialty Lending at \$2B and Real Estate Financing at \$1B as of March 31, 2024
- Commitment to North America is 47%, Europe is 16% and Global is 37% as of March 31, 2024

Investment Beliefs

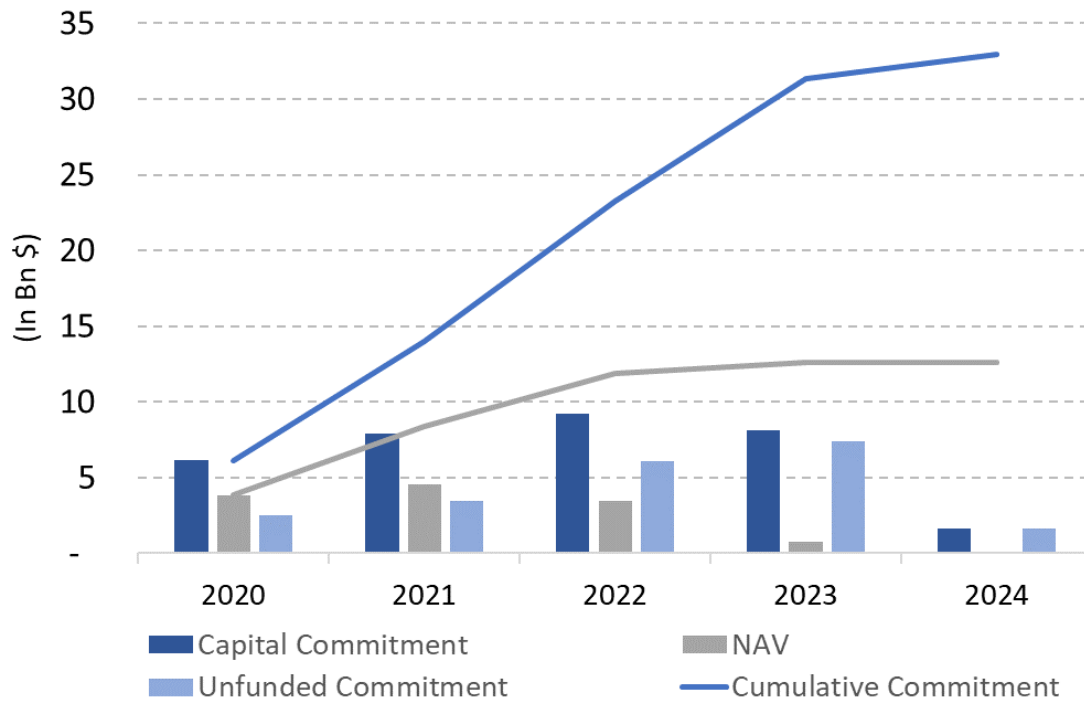
- A long investment horizon is a responsibility and an advantage (IB 2)
- CalPERS will take risk only where we have a strong belief we will be rewarded for it (IB 7)
- Costs matter and need to be effectively managed (IB 8)
- Strong processes and teamwork and deep resources are needed to achieve CalPERS goals and objectives (IB 10)



Strategy and Portfolio Positioning

Commitment and NAV

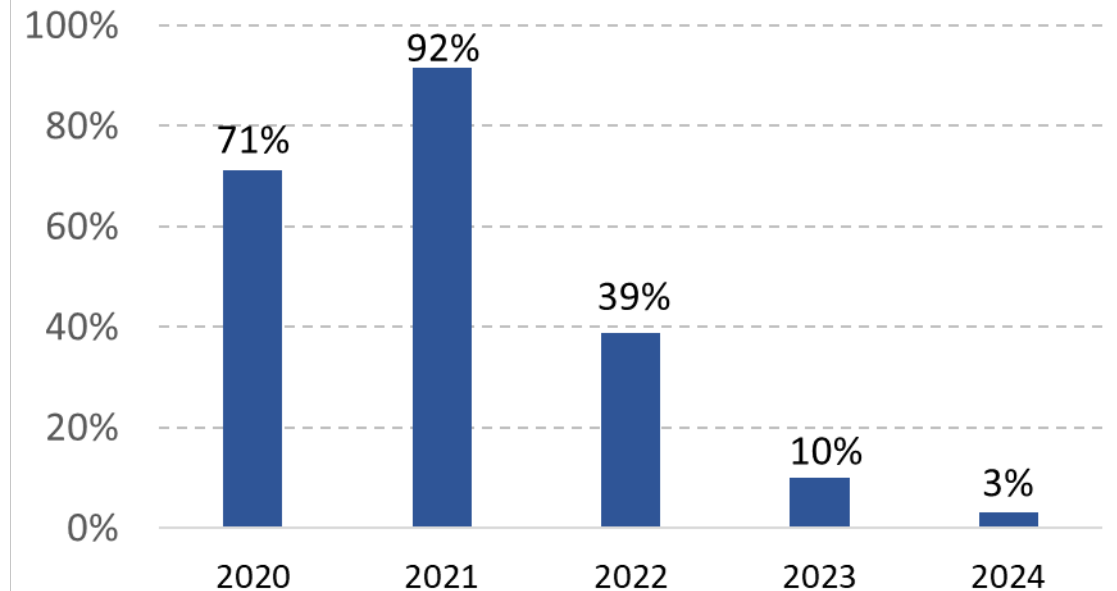
As of March 31, 2024



- Commitment has been consistent over vintage years

Vintage Year Fund/ CIA Deployment

As of March 31, 2024



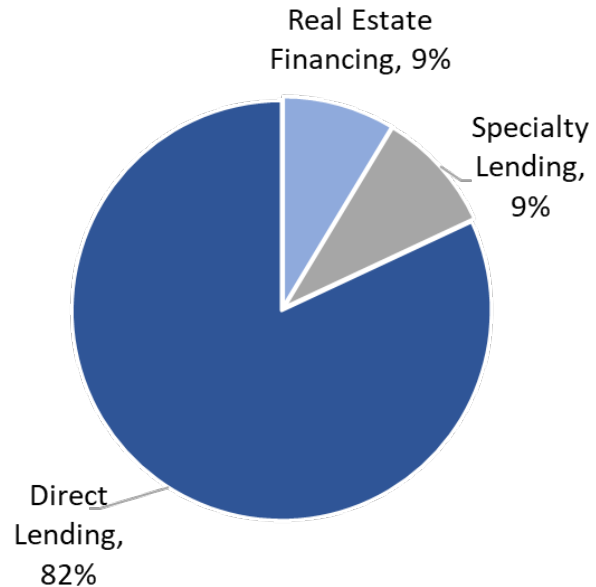
- Portfolio deployment is in line with expectations



Strategy and Portfolio Positioning

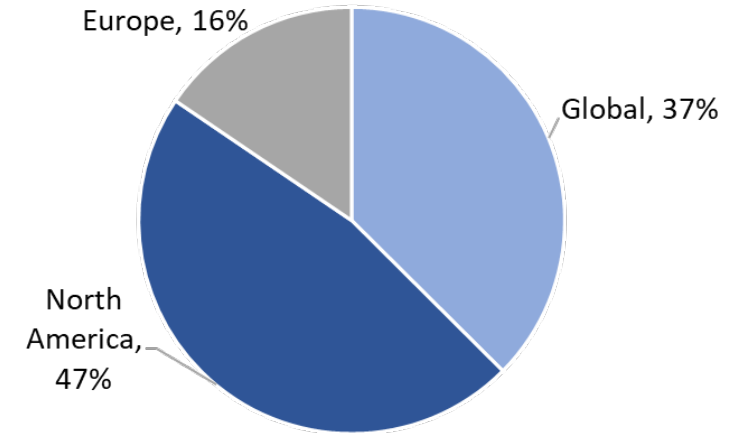
Commitment By Strategy

As of March 31, 2024



Commitment By Geography

As of March 31, 2024



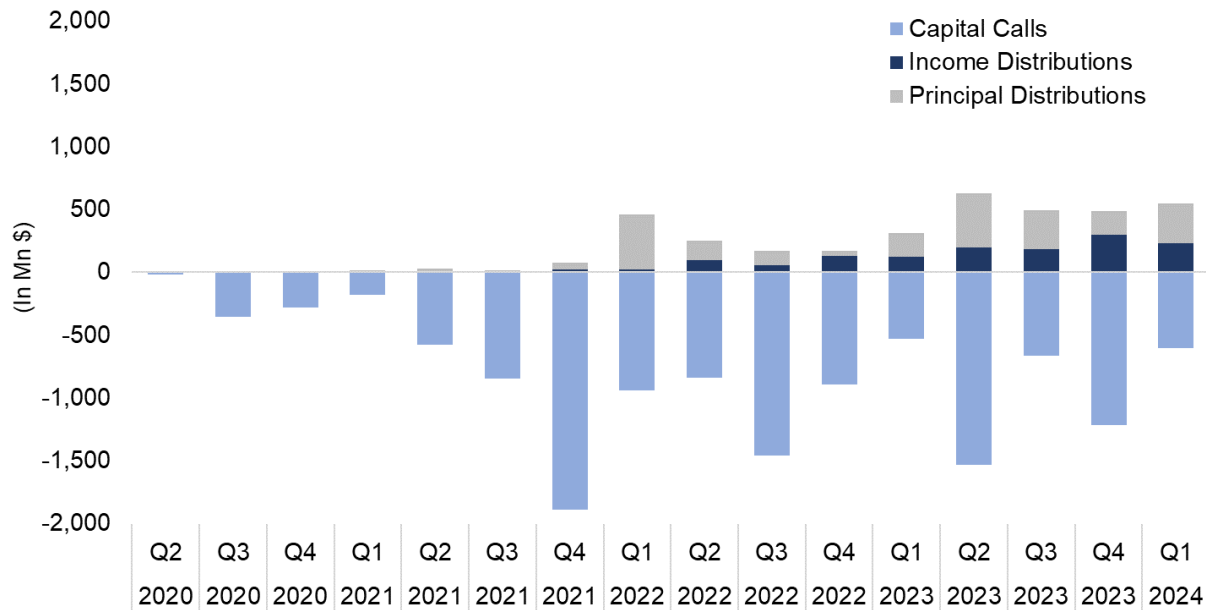
- Majority of Private Debt commitment is in Direct Lending
- Historically, Real Estate Financing and Specialty Lending have smaller opportunity
- Fund commitment exposure to North America is 47%, Europe is 16% and Global is 37%



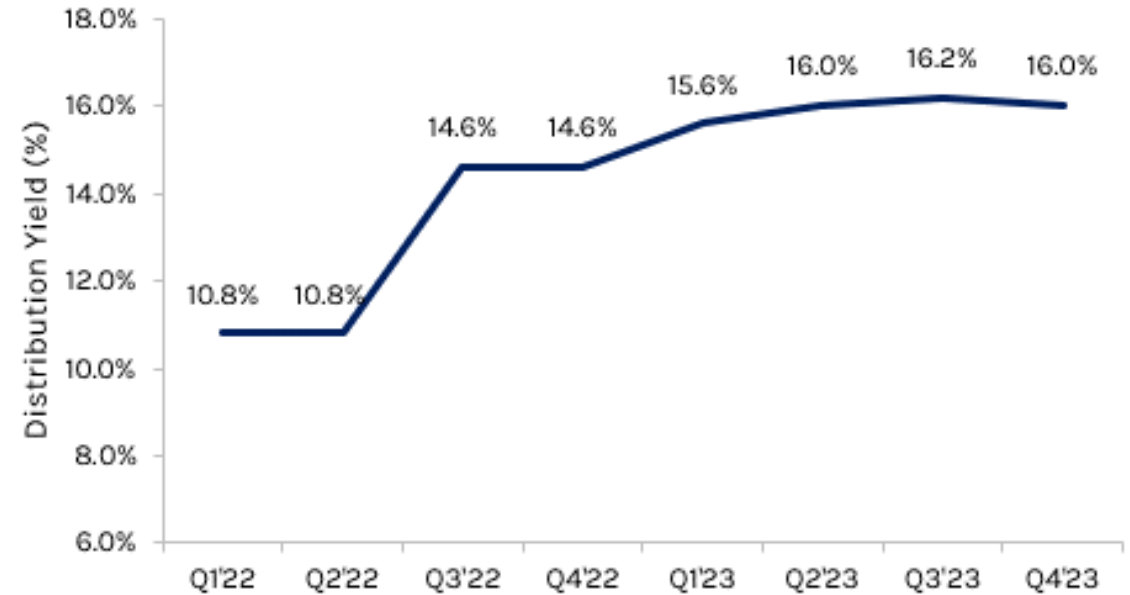
Strategy and Portfolio Positioning

Capital Calls and Distributions - Funds/ CIA

As of March 31, 2024



Example of Distribution Yield¹



- Private Debt portfolio is receiving quarterly Income and Principal distributions from Funds/ CIA
- US Direct Lending Funds have recent Distribution Yields of 16% for the last twelve months

¹Distribution Yield is defined as the distribution earned during the last twelve-month period divided by the weighted average total outstanding drawn capital during last twelve-month period



Market Environment

Observations from the Prior Year

- Interest rates remain high
- Higher spread in Corporate due to lack of competition in public market
- Better quality companies tapped the Direct lending market for financing

Current Concerns

- Low US Private Equity M&A volume may slow down deployment in Direct Lending
- Competition from public loan market in the large company space will likely compress spread of direct lending
- Low transaction volume in real estate market may dampen deployment in real estate financing
- Higher for longer interest rates may cause stress on borrowers

Investment Themes

- Diversify exposure to capitalize on opportunities due to bank lending retrenchment
- Diversify geographical exposure by exploring opportunities outside of North America
- Continue to negotiate no fee, no carry co-investment funds that will invest alongside Main funds
- Continue to commit in large sizes to key high quality managers who can deploy in scale
- Emphasis on current income distribution



Business Updates and Key Initiatives

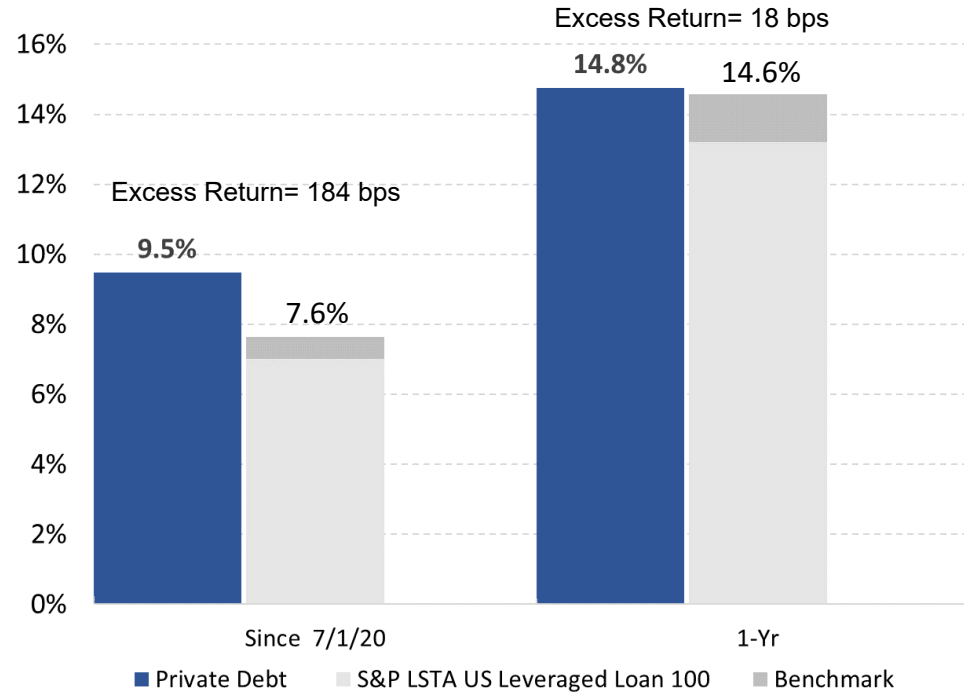
- The team continues to grow and recruit investment staff
- More efficient credit underwriting process
- Continued to deploy co-investments
- Built up portfolio monitoring capabilities



Portfolio Performance and Risk Analysis | Total Return

Private Debt Return¹

As of March 31, 2024



- Private Debt’s Since 7/1/20 and 1-Yr returns outperformed the Benchmark
- Private Debt return can largely be attributed to the higher base rates
- Most of the underlying loans are floating rate



Key Initiatives | Integration of Governance and Sustainability

Sustainable Investment Activities	Description / Status
<h2>Climate Market Mapping</h2>	<ul style="list-style-type: none"> • Learn of the various climate themed fund offerings in Private Debt • Understand the competitive landscape of managers/funds in this space • Status: on-going
<h2>External Manager ESG Engagement</h2>	<ul style="list-style-type: none"> • Understanding manager-specific views on asset materiality • Learn best practices for integration of ESG into credit selection • Customization of integration approaches • Status: on-going
<h2>Data Pipeline for ESG</h2>	<ul style="list-style-type: none"> • Identify relevant ESG metrics/KPI • Establish data channels for ESG sharing • Status: on-going