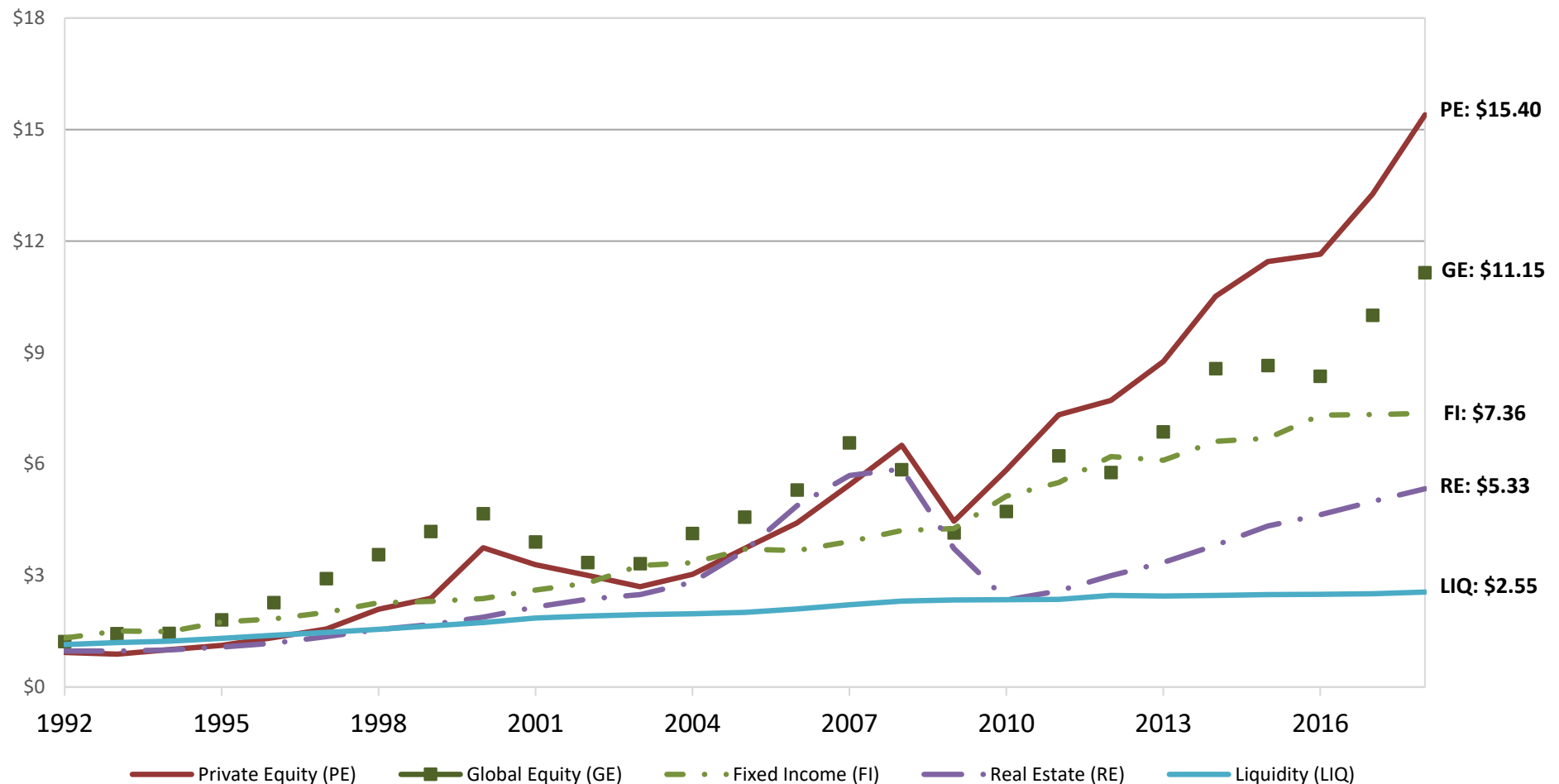


# Summary of Private Equity Business Models

Investment Committee  
February 19, 2019

# Value Added From Private Equity

Cumulative Net-of-Fee Returns based on \$1 Invested (a)



(a) Source: StateStreet – Based on annual data for 28 fiscal years ending June 30, 2018; Inflation-sensitive, Infrastructure and Forestland asset classes were excluded due to data limitations

# Impact of Private Equity on Total Fund Return

Asset Allocation of Theoretical Candidate Portfolios			
Asset Class Component	Existing ALM Policy Portfolio	0% Weight in Private Equity	16% Weight in Private Equity
Global Equity	50%	55%	46%
Private Equity	8%	0%	16%
Fixed Income	28%	31%	25%
Real Assets	13%	13%	12%
Inflation Assets	0%	0%	0%
Liquidity	1%	1%	1%
Expected Return/Discount Rate	7.00%	6.70%	7.30%
Employer Contribution Rate <sup>1</sup>	31%	34%	29%

<sup>1</sup> Contribution Rate was interpolated from  $\pm 1\%$  Discount Rate Sensitivity Study for State Miscellaneous Members

## Why Allocate to Private Equity?

- Private Equity (PE) is an increasingly important part of global equity capital markets
- Private Equity Program is the only asset class that is expected to exceed the actuarial rate of 7% (based on 2017 ALM)
- Provides drawdown mitigation as a result of the lag in valuations and market inefficiencies
- Historically improved the funded ratio
- Decreases volatility of contribution rates
- Many attributes of Focus #3 (Comparative Advantages)
  - Scale and brand
  - Long term investment horizon
  - Innovation

## Why Pillar II and Pillars III & IV

- CalPERS needs to continue to invest in and explore additional options within Pillar II (expand capabilities in co-investments, secondaries and separate accounts)
- Adding Pillars III and IV will provide CalPERS with the ability to;
  - Scale the PE Program and, over time, increase the allocation to PE
  - Improve the capabilities in less efficient markets (Focus #1, Investment Capabilities)
  - Have more control, reduce costs, improve CalPERS' transparency and better align interests with CalPERS investment objectives
- Pillar III
  - Takes advantage of companies staying private for longer
  - Accesses a higher growth segment of the capital markets
- Pillar IV
  - Allows for long term investing
  - Decreases friction costs and helps avoid redeeming from ourselves (Focus #4, Long-Term)

# Transparency for Pillars III and IV

- Transparency to Staff would be greater than what is currently received from comingled funds
- Transparency to the Public is the same as it is for existing Private Equity Fund Investments

Strategy	Transparency to CalPERS	Transparency to the Public
Comingled Funds	<ul style="list-style-type: none"> <li>• Financial Statements</li> <li>• Quarterly Templates</li> <li>• Annual Meeting Materials</li> <li>• Capital Calls and Distribution Notices</li> <li>• Limited Portfolio Company Information</li> <li>• Limited visibility on costs</li> </ul>	<ul style="list-style-type: none"> <li>• Commitment and Performance Information</li> <li>• Annual Management Fees and Expenses</li> <li>• Carried Interest Distributed</li> <li>• Pro rata share of fees and expenses paid by portfolio companies</li> </ul>
Pillars III & IV	All of the above plus <ul style="list-style-type: none"> <li>• Detailed Portfolio Company Information</li> <li>• Budget – full details on costs</li> <li>• Periodic Meetings between Senior INVO Staff and the Investment Manager</li> <li>• Detailed Investment Pipeline Information</li> </ul>	<ul style="list-style-type: none"> <li>• Commitment and Performance Information</li> <li>• Annual Management Fees and Expenses</li> <li>• Carried Interest Distributed</li> <li>• Pro rata share of fees and expenses paid by portfolio companies</li> </ul>

## Pillar III & IV Implementation

