

# MEKETA

INVESTMENT GROUP

## California State Teachers Retirement System (CalSTRS)

September 13, 2023

Semi-Annual Private Equity  
Executive Summary  
(Open Session)



## Industry Trends<sup>1</sup> and Notable Events

- Slower private equity fundraising environment
  - 35% decline in aggregate capital raised in Q2 2023 from prior year
- Challenging financing environment
  - Higher interest rates combined with less availability of debt
- Lower transaction volume with reduced private equity exits
  - Despite Q2 up-tick, still a 28% year-over-year decline from the same quarter last year
- Decline in median purchase price multiples
  - From 11.6x EBITDA in 2021 to 10.3x EBITDA in 2022
- Write-downs over the latest year across strategies
  - With venture capital and growth equity exhibiting the largest declines in value
- SEC voted to approve Private Fund Advisers rule in August
  - Focused on increased disclosures and restricted activities

<sup>1</sup> Source: Preqin Pro.



## Semi-Annual Private Equity Executive Summary (Open Session)

## Performance (as of 3/31/23)

	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)	Since Inception (%)
CalSTRS PE Program	-1.5	22.7	15.6	13.7	13.4
<i>Custom State Street Index<sup>1</sup></i>	-1.1	22.3	14.9	13.4	13.9
<i>Custom Benchmark<sup>2</sup></i>	-5.7	16.7	8.4	9.8	NA
Excess vs. Custom State Street Index <sup>3</sup>	↓ 0.3	↑ 0.4	↑ 0.7	↑ 0.2	↓ 0.4
Excess vs. Custom Benchmark <sup>3</sup>	↑ 4.2	↑ 6.0	↑ 7.2	↑ 3.9	NA

→ Performance exceeding the benchmarks over the 3-, 5-, and 10-year time periods

- Investment selection and partnering with high quality firms has contributed to outperformance

→ Slight underperformance relative to the Custom State Street Index Benchmark over the latest year

- Not meaningful given the long-term nature of the Private Equity Program

<sup>1</sup> Reflects the customized PE Index methodology discussed in the updated Private Equity Investment Policy. Utilized to assess Program performance for periods less than 10 years. Calculated by State Street.

<sup>2</sup> Custom Benchmark as of July 2019 is MSCI ACWI IMI plus 1.5%. Calculated by State Street. Utilized to assess Program performance for periods of 10 years or more. The Custom Benchmark is customized for certain investment restrictions such as tobacco.

<sup>3</sup> Arrows indicate program outperformance or underperformance against the respective benchmark.



### Public Market Equivalent (“PME”) Analysis<sup>1</sup>

	KS PME
CalSTRS PE Program	
MSCI ACWI IMI <sup>2</sup>	1.36
MSCI ACWI IMI + 1.5%	1.29

- CalSTRS’ strategic allocation seeks to maximize risk-adjusted returns with private equity’s primary role to enhance returns
- PME evaluates private equity performance relative to a public market index
  - Seeks to answer: *What if the same cashflows (size and timing) of a private market portfolio were instead invested in a public market index?*
- Kaplan-Schoar PME, an industry standard methodology, is expressed as a ratio of the over-/underperformance relative to an index (with <1.0 signifying outperformance)
  - Since inception, the PE portfolio has added almost \$47 billion of value relative to the MSCI ACWI IMI

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<sup>2</sup> Custom Benchmark as of July 2019 is MSCI ACWI IMI plus 1.5%. Calculated by State Street. Utilized to assess Program performance for periods of 10 years or more. The Custom Benchmark is customized for certain investment restrictions such as tobacco.



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## Performance by Strategy

	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)	Since Inception (%)
Buyouts	↓ 0.3	↑ 24.4	↑ 16.8	↑ 14.4	↑ 13.0
SSGX – Custom Buyouts <sup>1</sup>	1.5	23.2	15.3	13.7	12.5
Venture	↑ -16.9	↓ 16.5	↓ 14.8	↓ 16.3	↓ 24.0
SSGX – Custom Venture Capital <sup>2</sup>	-18.2	24.6	19.8	17.4	35.1
Debt Related	↓ 3.2	↓ 14.5	↓ 7.1	↓ 8.2	↓ 10.0
SSGX – Custom Debt Related <sup>2</sup>	5.0	15.3	8.6	9.4	10.3
Special Mandates	↓ -6.0	↑ 23.6	↑ 14.0	↓ 9.3	↓ 6.6
SSGX – Special Mandates <sup>3</sup>	-0.8	21.1	13.0	12.1	11.1
CaISTRs PE Program	-1.5	22.7	15.6	13.7	13.4

→ Buyouts (approximately three-fourths of the Program's assets) outperformed their custom benchmark over all time periods except the trailing 1-year

→ Venture and Debt Related strategies generally underperformed across trailing periods

<sup>1</sup> SSGX custom benchmark returns were calculated by State Street for each listed strategy.

<sup>2</sup> Strategy classifications reflect the newly adopted categorizations and the Customized PE Index methodology discussed in the updated Private Equity Investment Policy. Multi Strategy and Longer-Term Strategy performance is not included as performance is not yet meaningful.

<sup>3</sup> SSGX – Buyouts Index (not customized) minus 200 basis points.



### Investment Structure (Fund / Co-Investment)

	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)	Since Inception (%)
Fund Investments	-1.9	23.0	15.2	13.4	13.6
Co-Investments	0.7	21.4	17.9	16.1	11.5
CalSTRS PE Program	-1.5	22.7	15.6	13.7	13.4

→ Investments in the Fund structure continue to dominate the portfolio and its performance

→ Co-Investment exposure grew from 19% one year ago to 21% currently

- The Co-Investment program has been a strong contributor to results over the past ten years



## Geographic Exposures

	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)	Since Inception (%)
North America	↑ -1.3	↓ 23.6	↓ 15.8	↓ 13.5	↓ 13.2
SSGX – US Funds <sup>1</sup>	-3.6	23.8	16.1	14.6	13.4
Non-North America	↑ -1.7	↑ 19.8	↑ 14.8	↑ 14.4	↑ 14.3
SSGX – Non-US <sup>1</sup>	-1.8	19.4	13.3	13.4	12.2
CalSTRS PE Program	-1.5	22.7	15.6	13.7	13.4

→ Program has been primarily driven by the North America investments

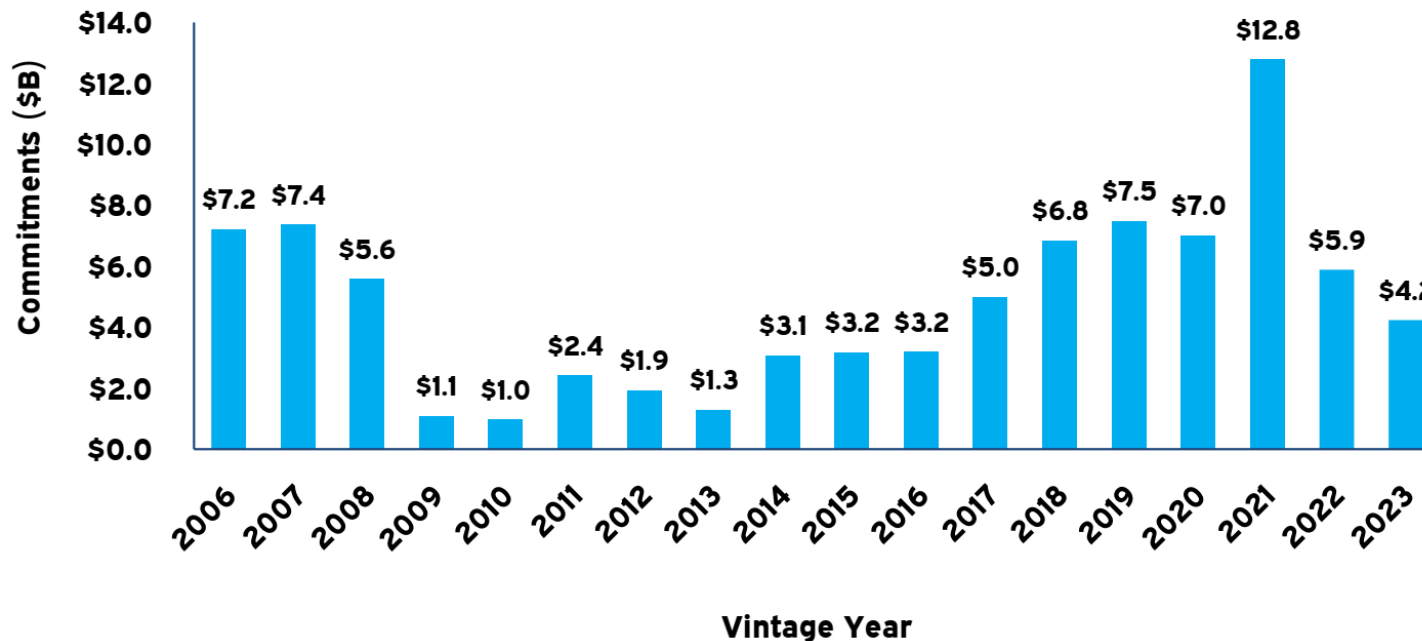
- Representing the largest proportion of capital
- Outperformed over the 1-year period but slightly trailed the benchmark over longer periods
  - Despite strong absolute returns

→ Non-North America investments have posted strong relative returns over each time period

<sup>1</sup> SSGX benchmark returns were calculated by State Street for each listed region. Matching SSGX benchmarks for Developed (Non-US) and Non-Developed market investments are not available.



### Implementation



→ CalSTRS had increased its commitments to the asset class in recent years

- Annual pacing target for 2023 has been reduced
  - The year of CalSTRS commitment to an investment may not match its ultimate vintage year designation, which is based on when the manager first calls/invests capital





## Key Policy Parameters

Strategy <sup>1,2</sup>	NAV (\$M)	Percent of Total NAV (%)	CalSTRS Interim Target (%)	Target Range (%)
Buyouts	37,135	76.2	75	60-85
Venture Capital	4,028	8.3	10	0-15
Debt Related	2,851	5.8	6	5-20
Longer-Term Strategy	1,374	2.8	2	0-10
Special Mandates	2,108	4.3	4	0-8
Multi-Strategy	1,270	2.6	3	0-5
<b>Total Program</b>	<b>48,766</b>	<b>15.9<sup>3</sup></b>	<b>13<sup>4</sup></b>	<b>NA</b>

→ The Portfolio is compliant with key parameters related to strategy diversification

<sup>1</sup> Strategy classifications reflect recently adopted categorizations. Updated interim targets and ranges were adopted in February 2022 and will be reflected in future reports.

<sup>2</sup> Commitments to secondary, private liquidation, co-investments, and other sub-strategies are allocated based on their strategy.

<sup>3</sup> Estimated PE exposure as of March 31, 2023.

<sup>4</sup> CalSTRS has a long-term target of 13% for Private Equity.



## Summary

- Long-term performance continues to outperform the benchmark
  - Driven by the buyout segment of the portfolio
- Current NAV (\$48.8 billion) is 15.9% of the Total Fund, versus the long-term target of 13%
- Portfolio is compliant with key parameters related to strategy diversification
- CalSTRS faces challenges in building the Program, but also has unique opportunities given its scale, experience, and large investment team
  - Investment selection and partnering with high quality firms has contributed to outperformance
- Staff continues to focus on deploying capital through lower cost investment structures
  - Changes to the private equity policy adopted in February 2022 expanded the range of investment opportunities and empowered CalSTRS staff to more fully pursue the Collaborative Model
    - Investment activity has remained consistent since the policy update