

## California State Teachers Retirement System (CalSTRS)

September 25, 2024

Semi-Annual Private Equity  
Executive Summary  
(Open Session)



## Industry Trends<sup>1</sup>

→ Slower private equity fundraising environment.

- Fundraising activity continued to slow in Q1, falling 18% relative to prior quarter and 11% YoY.

→ Challenging environment for both GPs and LPs.

- A slowdown in exit volumes has weighted on LPs ability to deploy.
- With over 10,600 PE funds in the market, GPs have been taking longer to raise funds.

→ Slight increase in median purchase price multiples.

- From 13.0x EBITDA in 2022 to 13.3x EBITDA in 2023.

→ Moderate improvement in returns.

- Trailing one-year PE returns as of December 2023 were 6.7%, up from 5.1% at September 2023.
- While also up from the prior quarter, trailing one-year venture returns remained negative (-5.3%).

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



Semi-Annual Private Equity Executive Summary (Open Session)

Performance (as of 3/31/24)

	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)	Since Inception (%)
<b>CalSTRS PE Program</b>	<b>8.7</b>	<b>9.8</b>	<b>15.0</b>	<b>12.4</b>	<b>13.3</b>
<i>Custom State Street Index<sup>1</sup></i>	6.9	9.5	13.8	11.7	13.6
<i>Custom Benchmark<sup>2</sup></i>	24.4	8.3	12.5	9.8	NA
Excess vs. Custom State Street Index <sup>3</sup>	↑ 1.8	↑ 0.4	↑ 1.2	↑ 0.6	↓ 0.3
Excess vs. Custom Benchmark <sup>3</sup>	↓ 15.8	↑ 1.5	↑ 2.5	↑ 2.5	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.

→ Underperformance relative to the Custom 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>1,2</sup>

	KS PME
CalSTRS PE Program	
<i>MSCI ACWI IMI</i>	1.31
<i>MSCI ACWI IMI + 1.5%</i>	1.24

- 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 over \$50 billion of value relative to the MSCI ACWI IMI.

<sup>1</sup> Based on Kaplan-Schoar PME methodology. Analysis period covers August 1988 (first Program cash flow) through March 31, 2024.

<sup>2</sup> Represents MSCI ACWI IMI returns since June 1994 spliced with MSCI World returns from inception of the Program through May 1994. Calculated by Meketa. Does not represent customized benchmark exclusive of certain industries.



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

Performance by Strategy<sup>1,2</sup>

	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)	Since Inception (%)
Buyouts	↑ 9.7	↑ 11.5	↑ 16.3	↑ 13.1	↑ 12.9
SSGX – Custom Buyouts <sup>3</sup>	7.6	11.3	14.3	11.9	12.2
Venture	↑ 3.1	↓ -2.4	↓ 11.6	↓ 13.0	↓ 23.9
SSGX – Custom Venture Capital <sup>3</sup>	0.5	0.4	16.2	14.7	34.6
Debt Related	↓ 9.2	↓ 9.0	↓ 8.4	↓ 7.4	↓ 9.9
SSGX – Custom Debt Related <sup>3</sup>	10.1	10.1	9.6	8.6	10.3
Special Mandates	↓ 0.8	↑ 9.0	↑ 13.1	↓ 9.1	↓ 6.4
SSGX – Special Mandates <sup>4</sup>	5.4	9.0	12.0	10.6	10.9
<b>CalSTRS PE Program</b>	<b>8.7</b>	<b>9.8</b>	<b>13.0</b>	<b>12.4</b>	<b>13.3</b>

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

→ Venture and Debt Related strategies generally underperformed across trailing periods.

<sup>1</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>2</sup> Arrows indicate program outperformance or underperformance against benchmarks.

<sup>3</sup> SSGX custom benchmark returns were calculated by State Street for each listed strategy.

<sup>4</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	7.9	9.4	14.8	11.9	13.5
Co-Investments	11.6	11.6	16.3	15.4	11.5
<b>CalSTRS PE Program</b>	<b>8.7</b>	<b>9.8</b>	<b>15.0</b>	<b>12.4</b>	<b>13.3</b>

- Investments in the Fund structure continue to dominate the portfolio and its performance.
- Co-Investment exposure grew from 21% one year ago to 22% 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	↑ 8.7	↑ 10.4	↑ 15.2	↓ 12.2	↓ 13.1
SSGX – US Funds <sup>1</sup>	7.3	9.4	14.6	13.0	13.2
Non-North America	↑ 8.7	↑ 8.1	↑ 14.4	↑ 12.9	↑ 14.1
SSGX – Non-US <sup>1</sup>	4.6	7.0	12.0	11.3	11.6
<b>CaSTRS PE Program</b>	<b>8.7</b>	<b>9.8</b>	<b>15.0</b>	<b>12.4</b>	<b>13.3</b>

→ Program has been primarily driven by the North America investments.

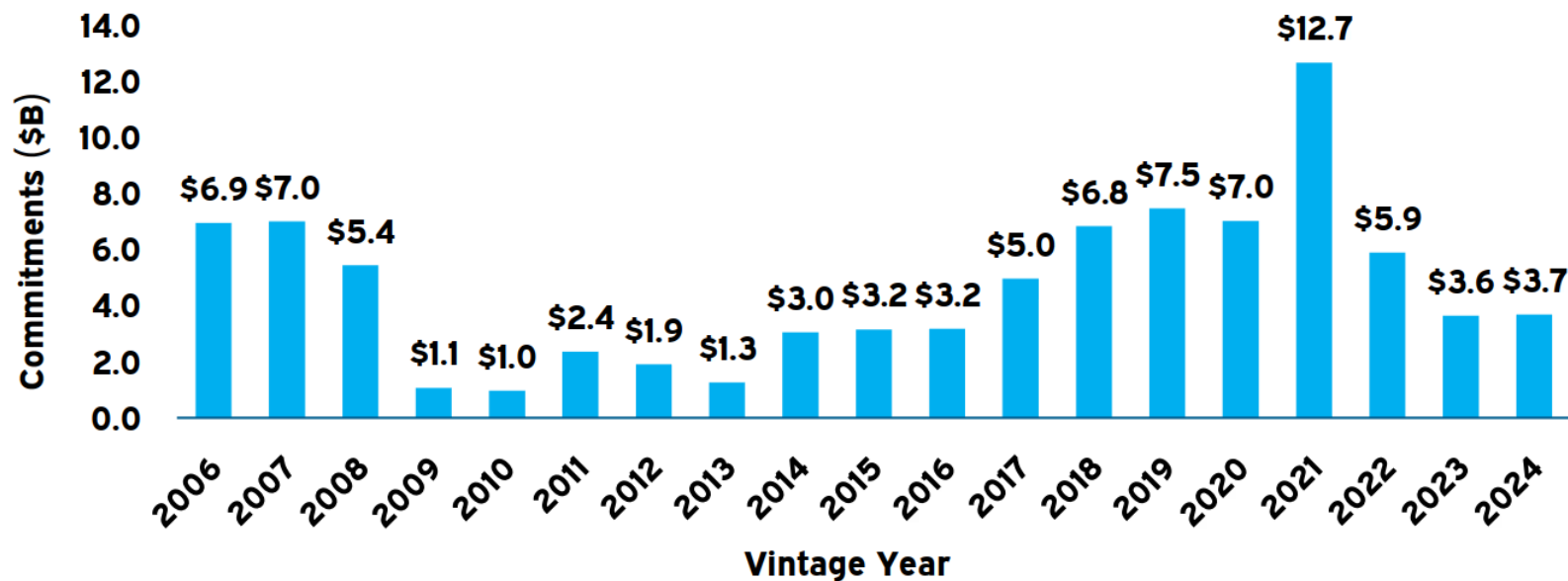
- Representing the largest proportion of capital.
- Outperformed over the 1-year, 3-year, and 5-year periods.
  - Slightly trailed the benchmark over longer periods despite strong absolute returns.

→ 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 has adjusted its annual commitments to reflect portfolio and market dynamics.

- Annual pacing target for 2024 remains 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>12</sup>	NAV (\$M)	Percent of Total NAV (%)	CalSTRS Interim Target (%)	Target Range (%)
Buyouts	40,894	77.1	75	60-85
Venture Capital	4,135	7.8	10	0-15
Debt Related	2,985	5.6	6	5-20
Longer-Term Strategy	1,495	2.8	2	0-10
Special Mandates	2,154	4.1	4	0-8
Multi-Strategy	1,367	2.6	3	0-5
<b>Total Program</b>	<b>53,030</b>	<b>15.8<sup>3</sup></b>	<b>14<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, 2024.

<sup>4</sup> CalSTRS has a long-term target of 14% for Private Equity.



## Summary

- Long-term performance continues to outperform the benchmark.
  - Driven by the buyout segment of the portfolio.
- Current NAV (\$53.0 billion) is 15.8% of the Total Fund, versus the long-term target of 14%.
- 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.