



# Investment Committee

## Item Number 6c – Open Session

**Subject:** Receive Private Equity Semi-Annual Performance Report, Period Ending March 31, 2021

**Presenter(s):** Meketa Investment Group – Steve Hartt and Stephanie Sorg

**Item Type:** Information

**Date & Time:** September 1, 2021 – 15 minutes

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**Attachment(s):** Attachment 1 – Meketa Investment Group’s Q1 2021 Semi-Annual Performance Report Summary for the Private Equity Program

Attachment 2 – Meketa Investment Group’s Q1 2021 Semi-Annual Report for the Private Equity Program

**PowerPoint(s):** None

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### **PURPOSE**

This item required and governed under the reporting guidelines of the [CalSTRS Private Equity Investment Policy](#), (Teachers’ Retirement Board Policy Manual, Section 1000, Page H-1) and is a crucial part of the Investment Committee’s annual work plan.

### **HISTORY**

On a semi-annual basis, the Private Equity Consultant reviews the performance report for the CalSTRS Private Equity Portfolio. Due to the nature of the investments and the timing of partnership reporting, this report is lagged and therefore covers periods ending March 31, 2021. The semi-annual reporting packet has been condensed to align with the new investment reporting guidelines approved in [June 2016](#). This report is critical to the monitoring and oversight responsibility of the Investment Committee.

### **PURPOSE**

Due to the specialized nature of this asset class, the Investment Committee has retained a specialty consultant, Meketa Investment Group (Meketa), who prepared a summary, written report (Attachments 1 & 2), and PowerPoint presentation. While the report includes one-year returns, as a long-term investor coupled with the long-term nature of the asset class, the Investment Committee is encouraged to focus on the ten, five, and three-year results because they are more indicative of

the performance trend of the underlying portfolio. One-year results are less insightful in an asset class where the typical holding period for a portfolio company is four to five years.

- Meketa, the Investment Committee’s Private Equity Consultants, will present an oral report highlighting key issues across the CalSTRS Private Equity Portfolio.
- The portfolio data in the report is prepared by State Street Bank’s Alternative Investment Solutions Group with input from Meketa; it is fully customizable to meet the Investment Committee’s needs.
- Meketa will use this opportunity to alert the Committee of any areas of concern, needed policy revisions, or issues that warrant further review.

**RECOMMENDATION**

Staff recommends that, upon the oral report from Meketa, the Investment Committee receive the report for the record.

**Executive Summary**  
**Private Equity Report – Open Session**

**Key Topics in Report<sup>1</sup>**

- The Program's performance has rebounded significantly post the height of the COVID-19 pandemic and is strong on an absolute and relative basis. Aside from the one-year return, the Program is outperforming both the Custom State Street Index and the Custom Benchmark. While striking, we do not believe the one-year returns are meaningful.
  - The Program's outperformance against the Custom State Street Index was largely driven by strong Buyouts performance (particularly in Europe) and Co-investments.
- The Program's NAV increased by \$7.3 billion (net of cash flows) during the prior six months, and \$12.5 billion since March 31, 2020.
- Staff has made significant progress in reaching the 13% long-term allocation target. Private Equity currently makes up 12.5% of the Total Plan, compared to 11.3% six months ago. The Program's NAV, currently \$36.4 billion, grew by 58% since March 31, 2020.
- Investment pacing has increased substantially in recent years. Continued strong investment pace will be required to achieve and maintain the long-term target.
  - Staff has increased its pace to Co-investments, which now represent nearly 16% of the Private Equity Program.
- The Portfolio remains well diversified across Strategy and Geography type, and is in line with sub-asset and diversification targets.

<sup>1</sup> Performance is based on data as of March 31, 2021.

## MEMORANDUM

**TO:** Members of the Investment Committee, CalSTRS  
**FROM:** Meketa Investment Group  
**DATE:** September 1, 2021  
**RE:** Semi-Annual Private Equity Performance Review as of March 31, 2021 – OPEN SESSION

In our role as the Board Private Equity Consultant, Meketa Investment Group (“Meketa”) conducted a semi-annual performance review of the Private Equity Portfolio (“the Portfolio”) for the period ended March 31, 2021 based on data provided by State Street and selected reports from staff. This memorandum provides the Portfolio performance data and information on key policy parameters, along with observations on staff activities during the time period.

### Performance

Private Equity, as well as other asset classes, rebounded further over the trailing six months ended March 31, 2021, with both the CalSTRS’ Portfolio and the Benchmarks generating very strong positive returns for the 1-year period. Performance of the Portfolio and the Benchmarks across longer time periods have also increased in recent periods. The Program’s performance exceeds the Custom State Street Index Benchmark for each time horizon below.

	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)	Since Inception (%)
<b>CalSTRS PE Program</b>	<b>52.8</b>	<b>19.5</b>	<b>17.8</b>	<b>12.7</b>	<b>13.6</b>
<i>Custom State Street Index<sup>1</sup></i>	48.4	17.2	16.0	12.4	13.4
<i>Custom Benchmark<sup>2</sup></i>	59.8	14.6	15.6	9.9	NA
Excess vs. Custom State Street Index <sup>3</sup>	↑ 4.4	↑ 2.3	↑ 1.8	↑ 0.3	↑ 0.2
Excess vs. Custom Benchmark <sup>3</sup>	↓ -7.0	↑ 4.9	↑ 2.2	↑ 2.8	

Given the long-term nature of the Private Equity Program, we believe the 1-year performance figures are not meaningful. As we have noted in other reports, private equity performance is reported with a significant delay compared to publicly traded assets. Additionally, private equity asset values tend to be less volatile, both in up as well as down markets, compared to publicly traded asset values. In other words, private equity assets tend to fall less in declining public equity markets and increase more slowly in rapidly rising public equity markets.

<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.

In recent years, the Private Equity Program performance has steadily improved against both Benchmarks, with the “positive spread” generally increasing over time. There remains relatively little capital remaining in vintages prior to 2011, while performance of the more recent vintages have been strong. As such, the Private Equity Program’s performance could continue to show improving relative performance in coming years.

The Portfolio’s NAV as of March 31, 2021 was \$36.4 billion, an increase of \$7.3 billion (net of cash flows), compared to the September 30, 2020 NAV of \$28.8 billion. Overall, the Portfolio had generated \$12.5 billion of value in the year since March 31, 2020. The current NAV represents 12.5% of the Total Fund, compared to the current target of 9%, and the long-term target of 13%. The Private Equity Program has grown nearly 58% since March 31, 2020.

### Strategy<sup>1,2</sup>

	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)	Since Inception (%)
Buyouts	↑ 53.9	↑ 20.1	↑ 18.5	↑ 13.2	↑ 13.0
SSGX – Custom Buyouts <sup>3</sup>	48.4	17.3	16.6	12.7	12.5
Venture	↓ 75.4	↓ 29.9	↓ 23.5	↓ 17.7	↓ 24.3
SSGX – Custom Venture Capital <sup>3</sup>	86.5	33.9	24.5	18.0	35.9
Debt Related	↓ 26.0	↓ 6.0	↑ 9.8	↓ 8.5	↓ 10.0
SSGX – Custom Debt Related <sup>3</sup>	26.9	7.5	9.3	9.3	10.2
Special Mandates	↓ 37.8	↓ 12.7	↓ 10.7	↓ 6.8	↓ 5.4
SSGX – Special Mandates <sup>4</sup>	45.8	15.0	15.1	11.4	11.3
<b>CalSTRS PE Program</b>	<b>52.8</b>	<b>19.5</b>	<b>17.8</b>	<b>12.7</b>	<b>13.6</b>

The performance rebound from COVID-19 is evident across the portfolio with all strategies experiencing significant increases compared to six months as well as one year ago. On an absolute basis, all strategies generated strong double-digit returns over the most recent 1-year period. While Buyouts and Venture have generated double-digit returns over all time periods, Debt Related and Special Mandates have not had strong absolute performance over longer time periods.

On a relative basis, Venture, Debt Related, and Special Mandates strategies have generally underperformed across trailing periods. Notably, though, Buyouts – which have driven portfolio returns and account for the majority of the program’s assets – have outperformed their custom benchmark over all time 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.

### Structure

	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)	Since Inception (%)
Fund Investments	52.8	18.7	17.1	12.5	13.8
Co-Investments	53.0	25.3	24.0	15.0	11.5
<b>CalSTRS PE Program</b>	<b>52.8</b>	<b>19.5</b>	<b>17.8</b>	<b>12.7</b>	<b>13.6</b>

The Funds portfolio is the largest portfolio by structure, and the key driver of overall performance. The Co-Investment program has been a strong contributor to performance for all periods up to 10 years. Co-Investments have been steadily increasing as a percent of the total Program, increasing from 11.0% one year ago to 15.9% currently.

### Performance by Geography

	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)	Since Inception (%)
United States	↓ 52.1	↓ 19.1	↓ 17.2	↓ 12.7	↓ 13.3
<i>SSGX – US Funds<sup>1</sup></i>	56.3	20.8	18.3	14.5	13.8
Developed (Non-US)	↑ 55.8	↑ 23.7	↑ 22.4	↑ 13.9	↑ 15.7
<i>SSGX - Europe<sup>1</sup></i>	46.8	17.5	18.3	12.8	13.4
Emerging Markets	↑ 55.0	↓ 13.7	↓ 13.3	↓ 9.8	↓ 10.6
<i>SSGX – Rest of World<sup>1</sup></i>	49.6	16.9	16.0	12.6	11.4
<b>CalSTRS PE Program</b>	<b>52.8</b>	<b>19.5</b>	<b>17.8</b>	<b>12.7</b>	<b>13.6</b>

While the Program has been primarily driven by the US investments, which have slightly trailed the US fund benchmark, Developed (Non-US) investments have been a strong contributor to absolute and relative returns over time. Emerging markets had outperformed the general Rest of World benchmark over the trailing 1-year period, but have generally underperformed over longer periods.

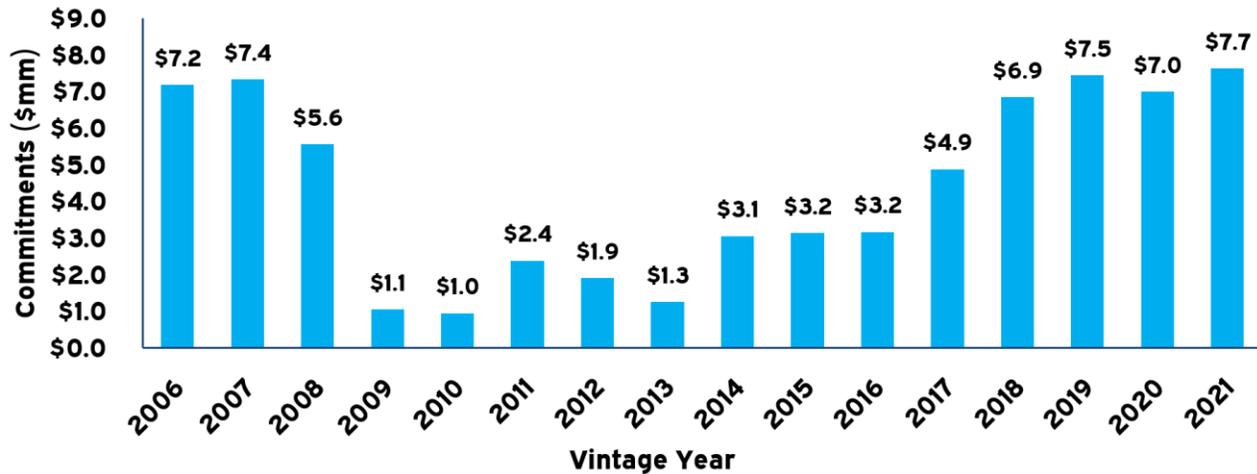
### Implementation

For the first half of 2021, Staff completed 36 commitments totaling \$4.7 billion<sup>2</sup>, and 52 commitments totaling \$9.1 billion from July 2020 through June 2021. Staff continues to increase its emphasis on no/low fee co-investments by leveraging CalSTRS' size, scale and reputation.

<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.

<sup>2</sup> See Appendix for list of investments completed in the first half of 2021.

The chart below shows CalSTRS' commitments by vintage year, with 2021 reflecting commitments completed through March 31, 2021.



Overall, CalSTRS has increased its commitments to the asset class significantly in recent years. Staff has sought to maintain diversification across a number of dimensions while maintaining a focus on high quality managers. Note that several of the investments Staff completed in later part of 2020 are recorded as 2021 commitments.

### Key Policy Parameters

The Portfolio is compliant with key parameters related to strategy diversification as demonstrated in the table below.

Strategy <sup>12</sup>	NAV (\$ mm)	Percent of Total NAV (%)	CalSTRS Interim Target (%)	Target Range (%)
Buyouts	26,653	73.3	71	60-85
Venture Capital	4,226	11.6	10	0-15
Debt Related	2,367	6.5	10	5-20
Longer-Term Strategy	875	2.4	2	0-5
Special Mandates	1,674	4.6	6	0-8
Multi-Strategy	570	1.6	1	0-5
<b>Total Program</b>	<b>36,366</b>	<b>12.5<sup>3</sup></b>	<b>9<sup>4</sup></b>	<b>NA</b>

<sup>1</sup> Strategy classifications reflect the newly adopted categorizations.

<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, 2021.

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



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## Conclusion

The Private Equity portfolio's recent performance shows continued recovery from the COVID-19 pandemic as highlighted by the approximately \$7.3 billion of gains since our prior report, and \$12.5 billion of gains since March 31, 2020. Private equity industry transaction volume and fundraising have reached new peaks, despite complications from COVID-19. Staff has maintained a high level of engagement while being in a work-from-home status. The Program's investment pace remained strong and Staff has focused on remaining highly disciplined with manager selection, while increasing their emphasis on no/low cost co-investments as part of the Collaborative Model. CalSTRS faces challenges in building the Program, but also has opportunities given its scale, experience, and large investment team. Staff's continued focus on deploying capital through lower cost investment structures will help mitigate overall fees.

The Appendix includes a list of investments completed during the first half of 2021, as well as some data and commentary on the private equity asset class for the first quarter of 2021.

Please do not hesitate to contact us if you have questions or require additional information.

SH/JH/LR/jls



## Attachment

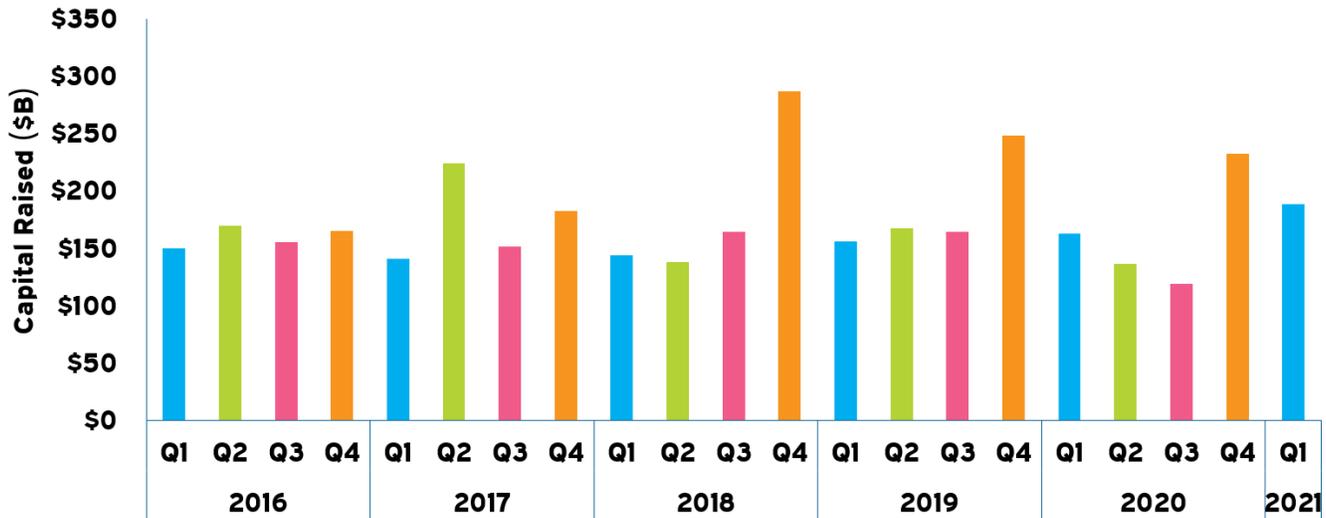
## CalSTRS Private Equity Completed Investments – H1 2021

Investment	Date Signed	Geography	Strategy	Commitment <sup>1</sup> (\$ mm)
AlpInvest Co-Invest Fund (Onshore) VIII	January 2021	Global	Buyout	50
JMI Equity X	January 2021	North America	Venture Capital	170
Valor V	January 2021	North America	Buyout	40
Lilly Asia Ventures VI	January 2021	Asia	Venture Capital	32
Lilly Asia Opportunity Fund	January 2021	Asia	Venture Capital	16
Co-Investment	January 2021	North America	Venture Capital	30
Co-Investment	January 2021	North America	Buyout	40
Co-Investment	January 2021	North America	Buyout	60
Co-Investment	January 2021	North America	Multi-Strategy	60
Oak HC/FT Fund IV	February 2021	North America	Venture Capital	100
AlpInvest C. Fund II (SSMA)	February 2021	Global	Buyout	300
Tiger Iron Redwood Fund	February 2021	North America	Venture Capital	200
Co-Investment	February 2021	Europe	Buyout	36
Oak HC/FT Fund IV Co-Investment SMA	February 2021	North America	Venture Capital	75
ICG Strategic Equity Fund IV	March 2021	Global	Buyout	250
Blackstone Capital Partners Asia II	March 2021	Asia	Buyout	250
Co-Investment	March 2021	Global	Buyout	7
Peak Rock Capital SMA	April 2021	North America	Buyout	250
SVB Capital Partners V	April 2021	North America	Venture Capital	30
FountainVest China Growth Capital IV	April 2021	Asia	Buyout	150
IVP XVII	April 2021	North America	Venture Capital	100
Hellman & Friedman Capital Partners X	April 2021	Global	Buyout	600
Co-Investment	April 2021	Europe	Buyout	50
Co-Investment	April 2021	Global	Buyout	150
Co-Investment	April 2021	North America	Buyout	45
Co-Investment	April 2021	North America	Buyout	150
Co-Investment	April 2021	Global	Buyout	62
IVP XVII Co-Investment SMA	April 2021	North America	Venture Capital	75
TA XIV	May 2021	Global	Buyout	400
TA Select Opps II	May 2021	Global	Buyout	100
Co-Investment	May 2021	Europe	Buyout	49
KKR North American Fund XIII	June 2021	North America	Buyout	300
Co-Investment	June 2021	North America	Buyout	18
Co-Investment	June 2021	Asia	Buyout	60
Co-Investment	June 2021	North America	Multi-Strategy	250
Vista Co-Invest Fund 2021-2 L.P.	June 2021	North America	Buyout	100

<sup>1</sup> Commitments for Discretionary Co-Investment SMAs represent approved amounts. This includes Oak HC/FT Fund IV Co-Investment SMA, IVP XVII Co-Investment SMA, and Vista Co-Invest Fund 2021-2 L.P. Co-Investments represent committed rather than approved amounts.

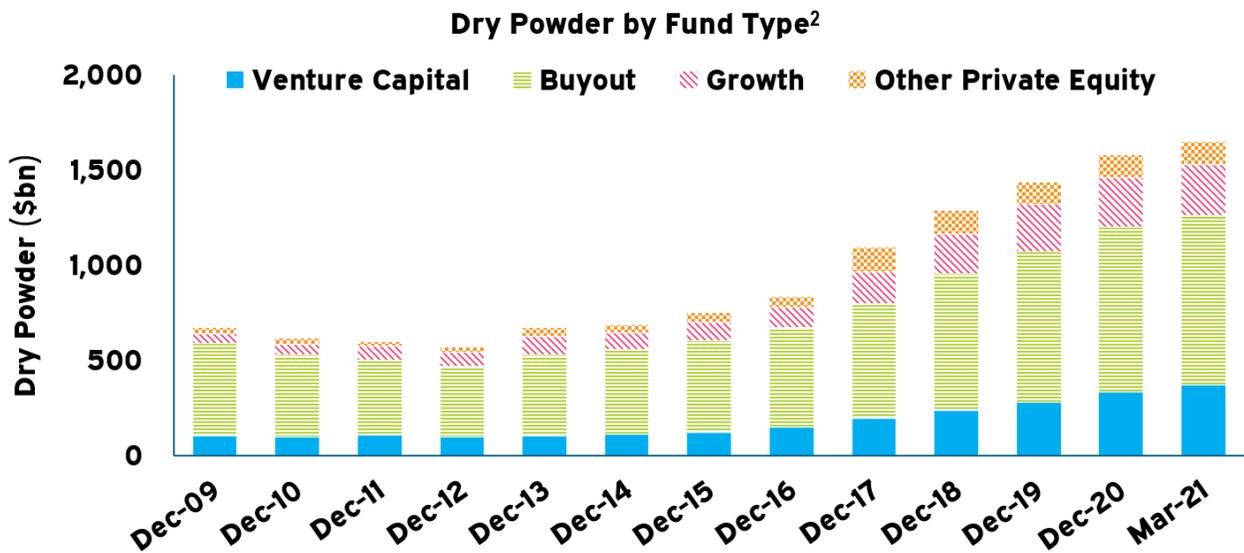
Private Equity Market Commentary – Q1 2021

Global Fundraising<sup>1</sup>



Fundraising activity for private equity funds in the first quarter of 2021 decreased compared to the previous quarter, with \$188.5 billion raised, but still marks the highest fundraising total for Q1 over the last five years. First quarter fundraising in 2021 is up 16% from the same period last year. The number of fund closings also increased 5% to 452 funds, relative to Q1 2020. In general, fundraising is typically slower during the first quarter as managers are generally eager to close funds before yearend. The immediate impact of COVID-19 on global financial markets prompted some investors to reassess their allocations to private equity, but it appears fundraising has recovered to some extent in the past two quarters. That said, the annual growth rate of private equity fundraising has been declining since 2017, so a longer-term slowdown could be the prevailing trend. Fundraising also demonstrated signs of further capital consolidation with larger, more established managers gradually increasing their market share. The average size of funds still in the market has been declining, indicating that smaller funds are hardest hit by the challenging conditions and have had difficulty establishing new LP relationships.

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

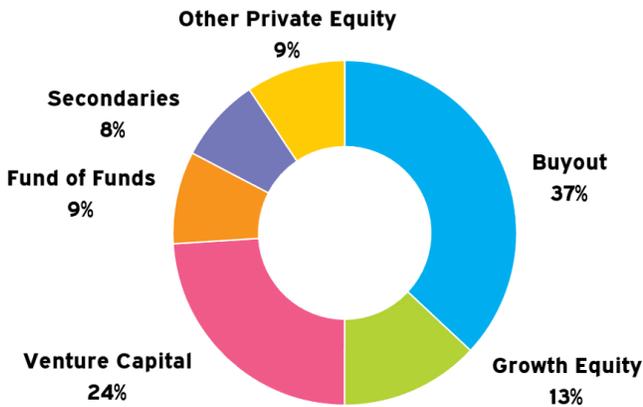


Private equity purchase price multiples in the first quarter of 2021 increased compared to 2020 and extended all-time highs to 11.9x. Equity contribution (relative to total purchase price) decreased slightly to 48%, causing total purchase prices to comprise slightly more debt than equity. Elevated prices during the first quarter were supported by a continued record level of dry powder, which surpassed the year-end level in 2020. Dry powder levels will remain high as long as more capital is being raised than is being deployed, and investors may expect to continue to see high purchase prices as a result of the high levels of capital competing for deals. TMT (48%), Retail (13%), Building Materials (7%), and Healthcare (7%) were the four largest sectors targeted for LBOs, collectively making up approximately 75% of all LBO deals during the first quarter of 2021.<sup>1</sup>

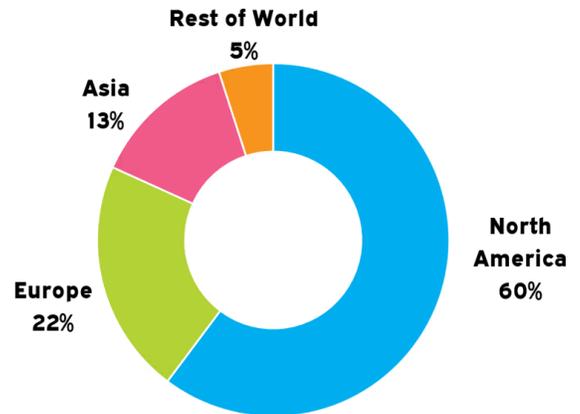
<sup>1</sup> Source: S&P.

<sup>2</sup> Source: Preqin.

**Capital Raised by Strategy<sup>1</sup>**



**Capital Raised by Geography<sup>1</sup>**



Buyout funds continued to be the most popular private equity sub-strategy category, despite a decrease from 44% of all private equity capital raised in 2020 to 37% dedicated to Buyout funds in the first quarter of 2021. Alternatively, Venture Capital strategies, as a percentage of total capital raised, increased from 2020, rising from 21% to 24% in the first quarter of 2021. Growth Equity funds also increased from 11% to 13%. Secondaries strategies experienced a decrease in capital raised from 13% in 2020 to 8% in the first quarter of 2021. Other Private Equity, which includes co-investment and hybrid vehicles, increased from 3% in 2020 to 9% in Q1 2021. Fund of Funds stayed relatively consistent through the first quarter.

North America-focused vehicles continued to be a majority of all funds raised during the first quarter, representing 60% of capital raised. This is relatively consistent with the prior year, despite private equity investors favoring commitments to Europe in Q3 2020, as the COVID-19 pandemic disproportionately affected North America in fundraising totals during the middle of last year. The geographic diversification in fundraising totals during the first quarter of 2021 closely mirrored that of 2020 with Europe-focused funds remaining at 22% of capital raised, Asia-focused funds decreasing slightly from 15% to 13%, and Rest of World inching from 4% to 5%. Overall, private equity investors continued to favor commitments to developed markets in North America- and Europe-focused funds over Asia and Rest of World during the first quarter of 2021.

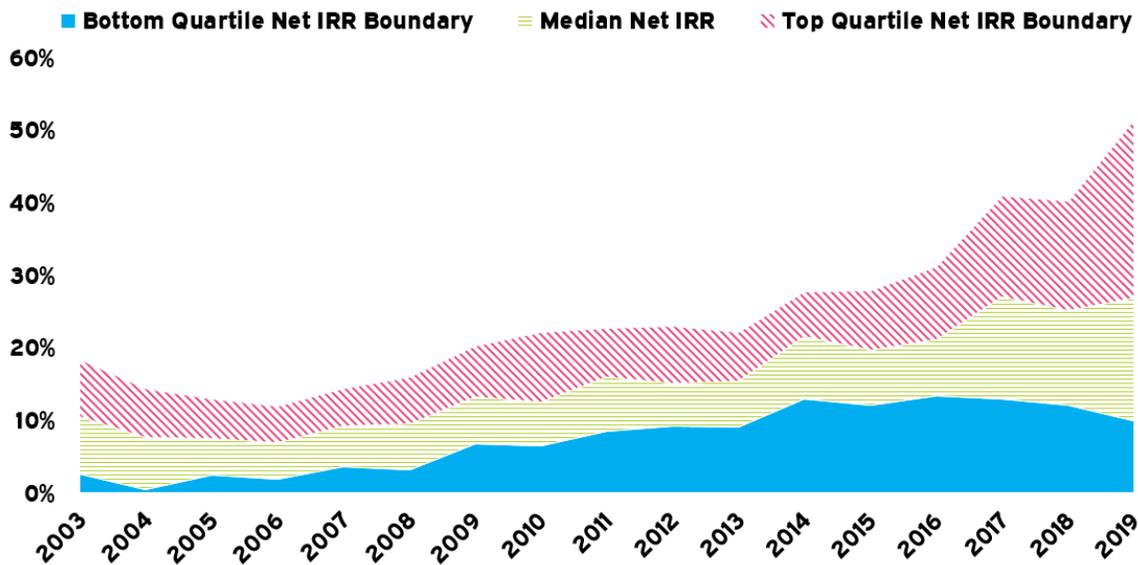
<sup>1</sup> Source: Preqin.



### Private Equity Market Performance by Horizon<sup>1</sup>

Horizon	Private Equity (%)	Buyout (%)	Venture Capital (%)	Fund of Funds (%)
1 Year to 3/2021	58.0	47.0	81.9	65.2
3 Years to 3/2021	22.8	17.9	32.9	22.9
5 Years to 3/2021	19.7	17.8	23.6	17.1
10 Years to 3/2021	14.9	13.7	19.0	12.6

### Private Equity Market Performance by Vintage Year<sup>2</sup>



Recent private equity returns have been very strong, with all Private Equity generating a 58.0% IRR over the past year following the outbreak of the COVID-19 pandemic in Q1 2020. One-year performance of Venture Capital was particularly impressive, at an 81.9% IRR. In general, performance has been strong in each vintage year since the Global Financial Crisis. Buyout and Venture Capital funds have generally both performed well over the various horizons on an absolute basis, with Venture funds significantly outperforming Buyout funds over the one-year and three-year time horizons. The spread between first and third quartile performance in private equity has grown consistently since the Global Financial Crisis; 2007 vintage funds reported a 10.7% spread while 2019 vintage funds reported a 41.5% spread.

<sup>1</sup> Source: Cambridge Associates Preliminary Global Pooled Returns as of 3/31/2021. Buyout, Venture Capital, and Growth Equity returns are published. Fund of Funds and Secondaries data is preliminary.

<sup>2</sup> Source: Cambridge Associates Preliminary Global Quartile Returns as of 3/31/2021. Buyout, Venture Capital, and Growth Equity returns are published. Fund of Funds and Secondaries data is preliminary.