

California State Teachers Retirement System (CalSTRS)

March 6, 2024

Semi-Annual Private Equity
Executive Summary
(Open Session)



Industry Trends¹ and Notable Events

- Slower private equity fundraising environment.
 - Fundraising activity continued to slow in Q3, falling 16% relative to Q2.
- Challenging environment for both GPs and LPs.
 - A slowdown in exit volumes has weighed on LPs ability to deploy.
 - With over 10,000 PE funds in the market, GPs have been taking longer to raise funds.
- Exit activity is showing signs of a gradual recovery as public markets ease.
 - PE exit value increased by 13% in Q3 2023 relative to Q3 2022, but is down significantly from 2021 highs.
- Continued decline in median purchase price multiples.
 - From 13.2x EBITDA in 2021 to 10.4x EBITDA in 2023 YTD.
- 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.

¹ Source: Preqin Pro.



Performance (as of 9/30/23)

	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)	Since Inception (%)
CalSTRS PE Program	8.3	16.2	14.7	13.0	13.3
<i>Custom State Street Index¹</i>	6.9	15.8	13.7	12.6	13.6
<i>Custom Benchmark²</i>	21.9	8.2	7.9	9.0	NA
Excess vs. Custom State Street Index ³	↑ 1.4	↑ 0.4	↑ 1.1	↑ 0.5	↓ 0.3
Excess vs. Custom Benchmark ³	↓ 13.7	↑ 8.0	↑ 6.9	↑ 4.1	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.

¹ 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.

² 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.

³ Arrows indicate program outperformance or underperformance against the respective benchmark.



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Performance by Strategy

	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)	Since Inception (%)
Buyouts	↑ 10.4	↑ 17.4	↑ 16.0	↑ 13.9	↑ 12.9
SSGX - Custom Buyouts ³	9.1	16.7	14.1	12.8	12.3
Venture	↑ -4.2	↓ 8.5	↓ 12.2	↓ 14.0	↓ 23.9
SSGX - Custom Venture Capital ³	-8.3	13.8	16.8	16.0	34.7
Debt Related	↓ 9.3	↓ 12.1	↓ 7.4	↓ 7.9	↓ 9.9
SSGX - Custom Debt Related ³	11.0	13.1	9.0	9.1	10.3
Special Mandates	↓ -0.5	↑ 19.3	↑ 12.2	↓ 9.2	↓ 6.4
SSGX - Special Mandates ⁴	6.8	14.4	11.8	11.4	11.0
CaISTRs PE Program	8.3	16.2	14.7	13.0	13.3

→ 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.

¹ SSGX custom benchmark returns were calculated by State Street for each listed strategy.

² 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.

³ 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	7.4	16.3	14.3	12.7	13.5
Co-Investments	11.4	15.6	16.9	15.8	11.5
CalSTRS PE Program	8.3	16.2	14.7	13.0	13.3

→ 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	↑ 7.1	↑ 17.5	↑ 15.1	↓ 12.9	↓ 13.1
SSGX - US Funds ¹	4.4	16.8	14.5	13.9	13.3
Non-North America	↑ 12.3	↓ 12.1	↑ 13.6	↑ 13.5	↑ 14.1
SSGX - Non-US ¹	7.0	12.4	12.2	12.3	11.8
CaISTRs PE Program	8.3	16.2	14.7	13.0	13.3

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

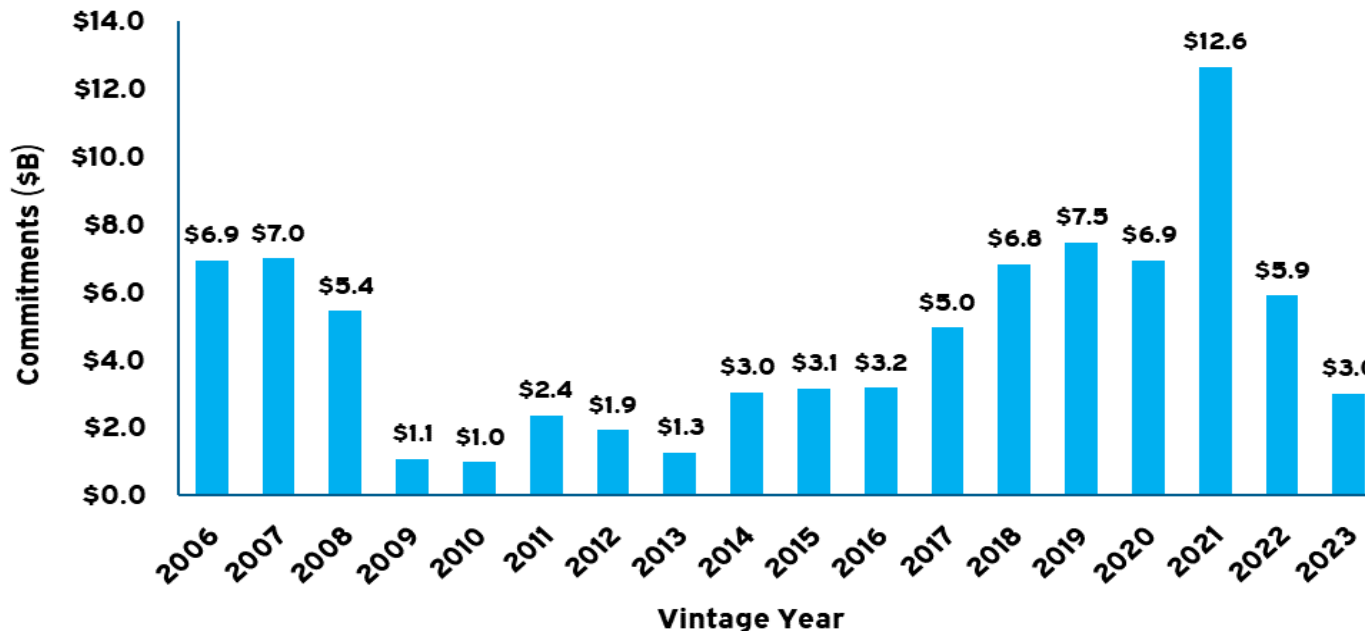
- Representing the largest proportion of capital.
- Outperformed over the 1-year, 3-year, and 5-year periods.
 - Slightly trailed the benchmark over longer periods despite strong absolute returns.

→ Non-North America investments have posted strong relative returns most time periods.

¹ 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 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 ^{1,2}	NAV (\$M)	Percent of Total NAV (%)	CalSTRS Interim Target (%)	Target Range (%)
Buyouts	39,180	77.0	75	60-85
Venture Capital	4,071	8.0	10	0-15
Debt Related	2,785	5.5	6	5-20
Longer-Term Strategy	1,420	2.8	2	0-10
Special Mandates	2,129	4.2	4	0-8
Multi-Strategy	1,314	2.6	3	0-5
Total Program	50,900	16.5 ³	14 ⁴	NA

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

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

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

³ Estimated PE exposure as of September 30, 2023.

⁴ CalSTRS has a long-term target of 14% for Private Equity, adopted in May of 2023.



Summary

- Long-term performance continues to outperform the benchmark.
 - Driven by the buyout segment of the portfolio.
- Current NAV (\$50.9 billion) is 16.5% 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.