



Agenda Item 7a

October 19, 2015

ITEM NAME: Review of CalPERS Divestments

PROGRAM: Total Fund

ITEM TYPE: Asset Allocation, Performance & Risk – Information

EXECUTIVE SUMMARY

This item provides a review (Attachment 1) of CalPERS divestment activities as completed by Wilshire Associates. Staff seeks direction from the Investment Committee (Committee) as to whether it wishes to reevaluate any of the current divestment activities. Staff plans to provide a similar review in 2016, with analysis updated for the most recent Fiscal Year.

In addition, staff proposes to present the following at the Committee's February 15, 2016 meeting:

1. Review, and proposed revisions as needed, to *Section VII. Divestment* of the Board's *Total Fund Investment Policy* (Policy, Adopted by the Investment Committee March 16, 2015).
2. Updated staff procedures in alignment with the Investment Office's (INVO) Investment Policy Revisions Project to ensure a robust internal control oversight and governance framework for Policy implementation.

STRATEGIC PLAN

This item supports the CalPERS Strategic Plan to improve long-term pension and health benefit sustainability. Providing in-depth reviews supports the Committee in evaluating investment strategies which aim to improve the risk-return profile of the CalPERS Total Fund.

BACKGROUND

CalPERS has diligently and comprehensively implemented divestment requirements beginning with South African securities in the 1980s to the present day, including tobacco-related securities, emerging markets countries and companies, the California Iran and Sudan Acts, and most recently firearm-related companies.

While divestment activities related to South African securities and emerging markets countries are no longer in place today, the CalPERS Board, senior management and staff continue to devote significant time and attention to ensuring that divestment provisions around tobacco, the Iran and Sudan Acts, certain emerging markets companies, and certain firearm-related companies are fully implemented.

ANALYSIS

The Wilshire Associates' analysis (Attachment 1) presents the cumulative estimated impacts of CalPERS divestment activities related to:

- South African securities
- Tobacco-related securities
- Emerging markets countries and Principles
- California Iran and Sudan Act lists, and
- Firearm-related companies.

Wilshire Associates calculates the total present value of historical exclusions to date:

- High Estimate: -\$8.315 billion
- Low Estimate: -\$3.790 billion

BUDGET AND FISCAL IMPACTS

Not Applicable

BENEFITS/RISKS

Wilshire Associates concludes that the generally accepted academic argument is that limiting the opportunity set for investments has a deleterious impact on performance over long periods of time. For example, over a market cycle, a portfolio that can choose from all 500 stocks in the S&P 500 should outperform one that can only select from 450 stocks. The analyses contained in this report generally confirm this argument, with a few exceptions.

ATTACHMENTS

Attachment 1 – Wilshire Associates' Divestment Analysis

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