

CalPERS Investment Committee

Divestment Calculations

March 14, 2016

Measurement of Divestment Actions

1. Calculation will be against GE Internal investments. External investments will be excluded.
2. Divestment impact on the full index will be measured against the divested index.
3. An expected rate of return will be used.

General Process

Individual Divestment Mandates

- A loss at or above \$750 million for 12 consecutive quarters will trigger reinvestment. Staff will notify the Committee prior to the reinvestment, so that the Committee may approve an exception to the loss mitigation policy if desired.

Cumulative Divestment Mandates

- A cumulative loss at or above \$2.5 billion will trigger reinvestment. Staff will notify the Committee prior to the reinvestment, so that the Committee may approve an exception to the loss mitigation policy if desired.
 - The \$2.5 billion number will be a net calculation that includes gains and losses.
- Any divestments that have benefited the fund with net gains, will not be subject to reinvestment.

General Process

Reporting

- Wilshire will provide to the Committee an annual comprehensive review and analysis of the divestment program, to include aggregate net program gains/losses and any losses at or above \$750 million on a per-mandate basis.

Timing

- The loss reporting provided to the Committee will be “reset” to July 1, 2016. Reporting will no longer be presented from inception to date.
 - The last inception-to-date report will be presented in the Fall of 2016.

Sample Calculation – Individual Mandate

Individual Mandate Example

| Individual Divestment Gains or Losses in millions for 12 Consecutive Quarters (7/1/16 - 7/1/19) | | | | | | |
|---|--------------|--------------|--------------|--------------|--------------|-----------|
| Divestment A | Divestment B | Divestment C | Divestment D | Divestment E | Divestment F | Total |
| (\$760) | (\$300) | (\$300) | (\$600) | (\$600) | \$100 | (\$2,460) |

- If “Divestment A” produces investment losses over \$750 million for 12 or more consecutive quarters, it will trigger reinvestment under the divestment policy.
- The Committee will be kept informed of the status when a divestment is at or near \$750 million.

Sample Calculation A – Cumulative Trigger

Cumulative Trigger Example

| Individual Divestment Gains or Losses in millions for 12 Consecutive Quarters (7/1/16 - 7/1/19) | | | | | | |
|---|--------------|--------------|--------------|--------------|--------------|-----------|
| Divestment A | Divestment B | Divestment C | Divestment D | Divestment E | Divestment F | Total |
| (\$760) | (\$400) | (\$300) | (\$600) | (\$600) | \$100 | (\$2,560) |

- Even though “Divestment F” has a positive return, it is included in the cumulative calculation.
- While “Divestment A” can be considered for reinvestment on its own (>\$750 million individual threshold), it will also be included in the cumulative calculation.
 - Similarly, following reinvestment, the losses associated with “Divestment A” at the time of reinvestment will continue to count toward the cumulative threshold.
- Since the cumulative calculation has surpassed the \$2.5 billion threshold, all divestments, except for “Divestment F,” will be considered for reinvestment.

Sample Calculation B – Cumulative Trigger

Cumulative Trigger Example

| Individual Divestment Gains or Losses in millions for 12 Consecutive Quarters (7/1/18 - 7/1/21) | | | | | | | |
|---|--------------|--------------|--------------|--------------|--------------|-----------------------------------|-----------|
| Reinvestment A | Divestment B | Divestment C | Divestment D | Divestment E | Divestment F | Sub-Total (Active Divestments) | Total |
| (\$760) | (\$400) | (\$500) | (\$600) | (\$600) | \$200 | (\$1,900) | (\$2,660) |

- Prior “Divestment A” has now been reinvested. The loss at the time of the reinvestment was \$760 million.
- The losses associated with “Divestment A” at the time of reinvestment will now reduce the cumulative threshold for the remaining divestments. The new threshold will be \$2.5 billion less \$760 million, or \$1.74 billion.
- On an annual basis, Wilshire will provide the Committee with a comprehensive analysis of divestment activities.