
February 13, 2017

Item Name: Consultant Review of CalPERS Divestments

Program: Total Fund

Item Type: Information

Executive Summary

This item provides Wilshire Associates analysis of CalPERS divestment activities as of June 30, 2016. As in prior years, the 2016 analysis provides estimates of the historical impact and potential future impact of divestments within the CalPERS Global Equity Portfolio, which has the largest strategic asset allocation for the Public Employees' Retirement Fund (PERF).

The 2016 Wilshire Associates analysis is provided as Attachment 1.

Strategic Plan

This item supports the CalPERS Strategic Plan's goal to improve long-term pension benefit sustainability. A periodic review of the existing CalPERS divestments supports the Investment Committee in evaluating investment strategies which aim to support the System's investment objectives.

Background

In October 2015, Wilshire Associates presented a review of CalPERS divestment activities affecting the Global Equity Program.

In April 2016, the CalPERS Total Fund Policy was revised to include a recurring annual review of CalPERS divestments, to be conducted and presented to the Investment Committee by the General Pension Consultant.

Analysis

Highlights from the 2016 Wilshire Associates analysis (Attachment 1) are outlined in the sections below:

- Methodology Enhancements
- Historical Impacts
- Forward-looking Estimates

Methodology Enhancements

The 2016 Wilshire Associates analysis features updated methodology including:

- Taking advantage of greater periodicity wherever available (including quarterly returns data and compounding compared to annual periodicity).
- Incorporating updated data from FTSE and Russell.

Historical Impacts

The 2016 Wilshire Associates analysis estimates CalPERS divestment activities have resulted in a \$7.8 billion loss (including transaction costs and foregone investment returns), or approximately 2.7% of the total market value of the PERF, as of June 30, 2016.

Forward-looking Estimates

In addition to historical impact estimates, Wilshire Associates has provided a forward-looking estimate on the “performance at risk” when comparing the constrained Global Equity index to the unconstrained index. It is important to note that the “constrained vs. unconstrained index” estimates do not imply either over or under performance, the resulting exposure variances could result in positive or negative investment returns.

Estimates for individual divestments, as well as a total for all active divestments are included in Attachment 1.

Budget and Fiscal Impacts

Not Applicable

Benefits and Risks

Benefits associated with this item are as follows:

- A routine annual review establishes a baseline against which trends and economic impacts to CalPERS portfolios can be systematically monitored
- Periodic review of CalPERS divestment decisions supports the committee members in meeting their fiduciary obligations
- An objective review of all divestments is consistent with the CalPERS Investment Beliefs
- These items serve as an opportunity for strategic dialogue among the Investment Committee, staff, and the Board’s Investment Consultants

Staff has not identified any risks associated with this agenda item.

Attachments

Attachment 1 – Wilshire Associates Divestment Analysis (as of June 30, 2016)

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Investment Compliance and Operational Risk

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