
December 18, 2017

Item Name: Consultant Review of CalPERS' Divestments

Program: Total Fund

Item Type: Information

Executive Summary

Wilshire Associates' annual analysis of CalPERS' divestment activities as of June 30, 2017 are provided as Attachment 1.

Strategic Plan

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

Investment Beliefs

This item supports CalPERS Investment Belief 9 – Risk is multifaceted and not fully captured through measures such as volatility or tracking error and that, as a long-term investor, CalPERS must consider risk factors that emerge slowly over long time periods. Further, this item supports Investment Belief 4, that long-term value creation requires the effective management of financial, physical and human capital. Translated in terms of portfolio management, CalPERS is obligated to seek out and implement the portfolio construction methods that best serve our mission – the sustainable delivery of promised pension benefits. Periodic review of investment outcomes, including policy-level divestment programs, through disciplined processes supports accountability and provides an opportunity for corrective action if warranted.

Background

The attached report provides an update to the analysis provided at the February 2017 Investment Committee meeting.

Analysis

In addition to updated financial analysis of CalPERS' divestments, the report notes updates to Wilshire Associates' methodology in consideration of the "5-year affirmation" process for active CalPERS divestments, as adopted by the Investment Committee in the April 2017 revision of the Total Fund Policy. At this time, the report notes that several of CalPERS' divestment programs are pending review and affirmation by the Investment Committee. Staff plans to return to the Investment Committee for review and consideration of those programs in subsequent meetings. Additional information is provided 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

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

Attachments

Attachment 1 – Wilshire Associates Financial Analysis of CalPERS' Divestment Programs (as of June 30, 2017)

Katherine H. Crocker

Investment Director

Investment Compliance and Operational Risk

Wylie Tollette

Chief Operating Investment Officer