



Investment Committee

Agenda Item 8a

December 17, 2018

Item Name: Consultant Review of CalPERS' Divestments

Program: Total Fund

Item Type: Information

Executive Summary

CalPERS' Total Fund Investment Policy requires a comprehensive review of CalPERS divestments by the Board's General Pension Consultant on an annual basis. Wilshire Associates' annual analysis of CalPERS' divestment activities as of June 30, 2018 is 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 – that 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

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.

Analysis

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, 2018)

Katherine H. Crocker
Investment Director
Investment Compliance & Operational Risk

Elisabeth Bourqui
Chief Operating Investment Officer