CalPERS Divestment Policy

Effective Date

This investment policy statement is effective July 1, 2026.

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Introduction

CalPERS' investment in a company does not necessarily signify that it approves of the company's policies, products, or actions. CalPERS, nevertheless, wants companies in which it invests to meet high corporate governance, ethical, and social standards of conduct. The Committee believes that this generally will promote superior long-term investment performance.

The Board and its Staff have fiduciary duties of loyalty and prudence, pursuant to the California Constitution, Article XVI, Section 17, and Government Code (GC) Section 20151, to invest "with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with those matters would use in the conduct of an enterprise of a like character and with like aims." (GC Section 20151(c).). The Board and Staff also have a fiduciary responsibility under the California Constitution to "diversify the investments of the system so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly not prudent to do so." (Cal. Const., Art XVI, Sec. 17, subdiv. (d).).

These fiduciary obligations generally preclude CalPERS from sacrificing investment performance for the purpose of achieving goals that do not directly relate to CalPERS operations or benefits. Divesting appears to almost invariably harm investment performance, such as by causing transaction costs (e.g., the cost of selling assets and reinvesting the proceeds) and compromising investment strategies.

In addition, there appears to be considerable evidence that Divesting is an ineffective strategy for achieving social or political goals, since the usual consequence is often a mere transfer of ownership of divested assets from one investor to another. Investors that divest lose their ability as shareowners to influence the company to act responsibly.

This Policy, therefore, generally prohibits Divesting in response to Divestment Initiatives, but permits CalPERS to use constructive engagement, where consistent with fiduciary duties, to help Divestment Initiatives achieve their goals.

Approaches & Parameters

A. CalPERS' Preferred Approach is Engagement

As reflected by CalPERS Investment Belief 3, CalPERS uses the following prioritization framework in considering whether to engage on issues raised by stakeholders:

- Principles and Policy – to what extent is the issue supported by CalPERS Investment Beliefs, Governance and Sustainability Principles, or other Investment Policy?
- Materiality – does the issue have the potential for an impact on portfolio risk or return?
- Definition and Likelihood of Success – is success likely, in that CalPERS action will influence an outcome that can be measured? Can we partner with others to achieve success or would someone else be more suited to carry the issue?
- Capacity – does CalPERS have the expertise, resources, and standing to influence an outcome?

Consistent with the foregoing, CalPERS will undertake constructive engagement in support of Divestment Initiatives to the extent the Committee determines to be appropriate or as required by law, but CalPERS will not sell investments in Targeted Companies or refrain from investing in them in response to Divestment Initiatives except as follows:

1. CalPERS will sell Targeted Company investments or refrain from making them to the extent investment in the Targeted Company is imprudent and inconsistent with fiduciary duties. CalPERS recognizes that the prudence of an investment may depend on its purpose.
2. To the extent required by law and consistent with fiduciary duties, CalPERS will comply with federal and constitutional California state laws that require Divesting.

B. Divestment Review

The following processes will be used to ensure that prior divestment decisions remain supportive of the prudent stewardship of the System's assets consistent with the Committee's fiduciary obligations:

1. The Board's ***General Pension Consultant*** will monitor and provide reports to the Committee on the estimated performance and risk impacts of all then in-force divestments for the affected portfolios. (See Responsibilities section.)
2. For so long as any divestments remain in effect for any of the portfolios, staff shall conduct a review of all such in-force divestments at least every five years, to include an economic analysis of the projected impact on the risk-return profile of the affected portfolios, and present such analysis to the Committee for a determination whether continuation of the divestments is consistent with fiduciary duties.

C. Notice and Voting Protocol

For each divestment included in a regularly scheduled review as described above, continuation of the divestment will require an affirmative roll-call vote of the Committee.

In addition, any determination by the Committee that a divestment activity required pursuant to state legislative mandate would be, or, in the case of an in-force divestment, has become, inconsistent with the Committee's fiduciary duties, such that divestment is precluded or reinvestment is required, will include:

1. A presentation and discussion of relevant findings in open session at a properly noticed meeting of the Committee.
2. A roll-call vote of the Committee.

Appendix 1 - Reporting

General Pension Consultant Reporting

1. Consultant shall present to the Committee a comprehensive review and analysis of divestment activities to date, no less than annually.

Investment Office Staff Reporting

1. Staff shall prepare and submit to the Committee any divestment activity reports required by statute to be submitted to the California Legislature (e.g., Iran, Sudan etc.), no less than annually.

2. Staff shall report to the Committee on (a) implementation activities undertaken pursuant to statutory divestment mandates from the state legislature, as applicable, and (b) any corresponding divestment decisions that may be required, no less than annually.

3. Staff shall present to the Committee a comprehensive review and recommendation, consistent with the Divestment Section, on all in-force divestments for the Committee's consideration and action at a minimum every five years.

Appendix 2 - Responsibilities

Investment Committee Responsibilities

1. If necessary, engage an independent consultant to provide an analysis of the economic impact on the portfolio of any contemplated divestment activity, to include one-time transaction costs, predicted tracking error, and risk-return trade-offs, in order to aid the Committee in determining whether divestment is both appropriate and consistent with the Board's fiduciary duties. Staff can help facilitate this process as requested.

Investment Office Staff Responsibilities

1. Provide the Committee with an analysis of the economic impact on the portfolio of any contemplated divestment activity, or of any in-force divestments subject to review pursuant to

the Divestment Section, to include one-time transaction costs, predicted tracking error, and risk-return trade-offs, in order to aid the Committee in determining whether divestment is both appropriate and consistent with the Board's fiduciary duties.

2. Implement any required divestments or prohibitions on future investments.

3. Staff shall present to the Committee a comprehensive review and recommendation, consistent with the Divestment Section, on all in-force divestments for the Committee's consideration and action at a minimum every five years.

4. Maintain the lists of companies subject to potential divestment.

5. Monitor the implementation, or required reconsideration, of any divestments or prohibitions on future investments as required by the Policy.

6. As applicable in connection with a given divestment mandate, and with any proposed reinvestment in previously divested securities, implement an appropriate plan of engagement with the targeted portfolio companies.

Appendix 3 - Divestment Policy Document History

Summary of Change	Approval Date
Established CalPERS' Investment Beliefs	September 13, 2013
Created standalone Divestment Policy as part of the 2026 Investment Policy redesign. Only administrative changes incorporated to the policy document (e.g., document history, effective dates, table of contents).	June 15, 2026