Investment Committee

Agenda Item 6c

November 16, 2026

Item Name: Five-Year Divestment Review

Program: Total Fund

Item Type: Action

Recommendation

For consideration and action by the Investment Committee (Committee), this item identifies options related to the continuation of the current divestment mandates. The following two options are supportive of prudent stewardship and consistent with the Committee's fiduciary obligations:

1. Remove some or all Board-directed divestment restrictions; or
2. Affirm the continuation of divestments

Executive Summary

The CalPERS Divestment Policy requires that at least every five years staff conduct an economic analysis of active divestment mandates to understand the projected impact on the risk-return profile. These divestments comprise Board-directed mandates and mandates required by California Legislature and are described in more detail within Attachment 1. The results of the analysis are presented to aid the Committee's determination whether continuation of the divestments is consistent with fiduciary duties. A copy of the analysis is provided in Attachment 1. The Divestment Policy in its entirety is provided as Attachment 2.

Strategic Plan

A periodic review of existing CalPERS' divestments promotes the CalPERS Strategic Plan Goal to strengthen the long-term sustainability of the pension fund by supporting the Committee in evaluating whether existing mandates continue to support the System's investment objectives.

Investment Beliefs

This item supports the following Investment Beliefs:

- Investment Belief 2 – A long investment time horizon is a responsibility and an advantage.
- Investment Belief 4 – Long-term value creation requires effective management of three forms of capital: financial, physical and human.
- Investment Belief 7 – CalPERS will take risk only where we have a strong belief we will

be rewarded for it.
- Investment Belief 9 – Risk is multi-faceted and not fully captured through measures such as volatility or tracking error.

Background

The Divestment Policy states “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 fiduciary responsibility under the California Constitution to “diversify the investments of the system so as to minimize the risk of loss and 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).)”

To ensure that prior divestment decisions remain supportive of the fiduciary duties of loyalty and prudence, the Divestment Policy requires:

1. The Board’s General Pension Consultant (Wilshire) to monitor and provide reports to the Committee on the estimated performance and risk impacts of all then in-force divestments; and
2. Staff to review all in-force divestments, to include an economic analysis, and present findings to the Committee for affirmative action at least every five years.

Wilshire currently provides the report to the Committee on an annual basis. The most recent review was for period ending June 30, 2026, and will be presented at the November 2026 Investment Committee.

Analysis

Investment Office team members from Investment Controls & Operational Risk, Global Public Equity, and Investment Performance collaborated on the economic analysis presented in Attachment 1. The analysis includes:

- Historical impacts since last affirmation and since inception for each mandate
- Benchmark exposure and estimated tracking error associated with maintaining divestment policies
- Estimated transaction costs should the Committee choose to discontinue a mandate

Observations and findings were reviewed with the CalPERS Legal Office and the Board’s consultants. The Consultant’s opinion letter is included as Attachment 3.

Budget and Fiscal Impacts

If the Committee takes action to affirm divestments, there are no budgetary costs anticipated. If the Committee takes action to discontinue any divestment, program costs would include investment transaction and administrative costs. Analysis of the estimated fiscal impact of transaction costs is listed in Attachment 1.

Benefits and Risks

Benefits**:**

- Each option presented is supportive of the prudent stewardship of the System's assets consistent with the Committee's fiduciary obligations

Risks:
Dependent upon the option selected:

- Potential increased reputational risk
- Potential financial impact
- Investors that divest lose their ability as shareowners to influence a company to act Responsibly

Attachments

Attachment 1 – Five-Year Divestment Review presentation

Attachment 2 – CalPERS Divestment Policy

Attachment 3 – General Pension Board Consultant Opinion Letter – Wilshire Associates

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