Five-Year Divestment Review

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CalPERS Divestment Policy | Divestment Review

Purpose

To ensure that active divestments support the Committee's fiduciary duty to prudently steward the System's assets, action is requested to:

1. Affirm continuation of the current divestments, or
2. Direct staff to remove Board-directed mandates and/or take steps to remove Legislative mandates

Divestment Policy Requirements*

- Board's General Pension Consultant provides an annual report to the Committee on the estimated performance and risk impacts of divestment mandates (November 2026)
- Staff conducts an economic analysis of the projected impact on the risk-return profile and presents the analysis, at least every five years (review due 2026)

*Detailed within Attachment 2

Divestment Review | Active Mandates

#	Board-Directed	Since Inception
1.	Primary Tobacco Producers (Tobacco) - CalPERS' public equity and debt portfolios are prohibited from having holdings in companies identified as "primary tobacco producers" – companies whose primary business involves the production and sale of cigarettes.	2001
2.	Manufacturers of Assault-Style Weapons Illegal for Sale to Private Persons in California (Firearms) CalPERS' public debt and equity portfolios are prohibited from having holdings in companies identified as manufacturing assault-style weapons illegal for sale in California.	2013

#	Legislative Mandates	Since
3.	California Public Divest from Iran Act (Iran) - CalPERS must identify public equity/debt, and private equity holdings in companies with specified business operations in Iran, conduct specified engagement activities, and divest if statutory requirements are met.	2011
4.	Public Divestiture of Thermal Coal Companies Act (Thermal Coal) - CalPERS is prohibited from investing in public equity or debt securities of publicly-traded companies that generate 50% or more of their revenue from the mining of thermal coal.	2017

California Sudan Act divestment concluded in 2020 following federal actions that lifted U.S. sanctions on Sudan and removed Sudan from the list of state sponsors of terrorism.

Active Mandates | Economic Analysis Summary

- Impact to returns since inception and since last 5-Year Divestment Review (2021)
- Estimated future impact of active divestment mandates using predicted tracking error

Divestment	Wilshire's Return Impact (Million USD)		Public Equity Benchmark Dollar Exposure (Million USD)[1]	Public Equity Benchmark Weight[1]	Predicted Tracking Error[1,2]
	Since Last Review	Since Inception			
Tobacco	(942)	(6,986)	1,347	0.557%	0.130%
Firearms	25	49	0	0%	N/A
Iran	(627)	(273)	40	0.016%	0.005%
Thermal Coal	70	782	118	0.049%	0.013%
All	**(1,475)**	**(6,427)**	**1,505**	**0.622%**	**0.136%**

[1] As of June 30, 2026, PERF public equity portfolio notional value of $242 billion
[2] Predicted Tracking Error – annualized estimate based on cap-weighted benchmark; reviewed by Wilshire Advisors

Conclusion

Action is requested by the Committee to:

1. Affirm continuation of the current divestments, or
2. Direct staff to remove **Board-directed mandates** and/or take steps to remove **Legislative mandates**

Board-Directed Mandates

Board-directed mandates are carried out under the Board's plenary authority and fiduciary responsibility. Economic analysis suggests that either option—affirming or removing—would satisfy the Committee's fiduciary obligation to prudently steward the system's assets.

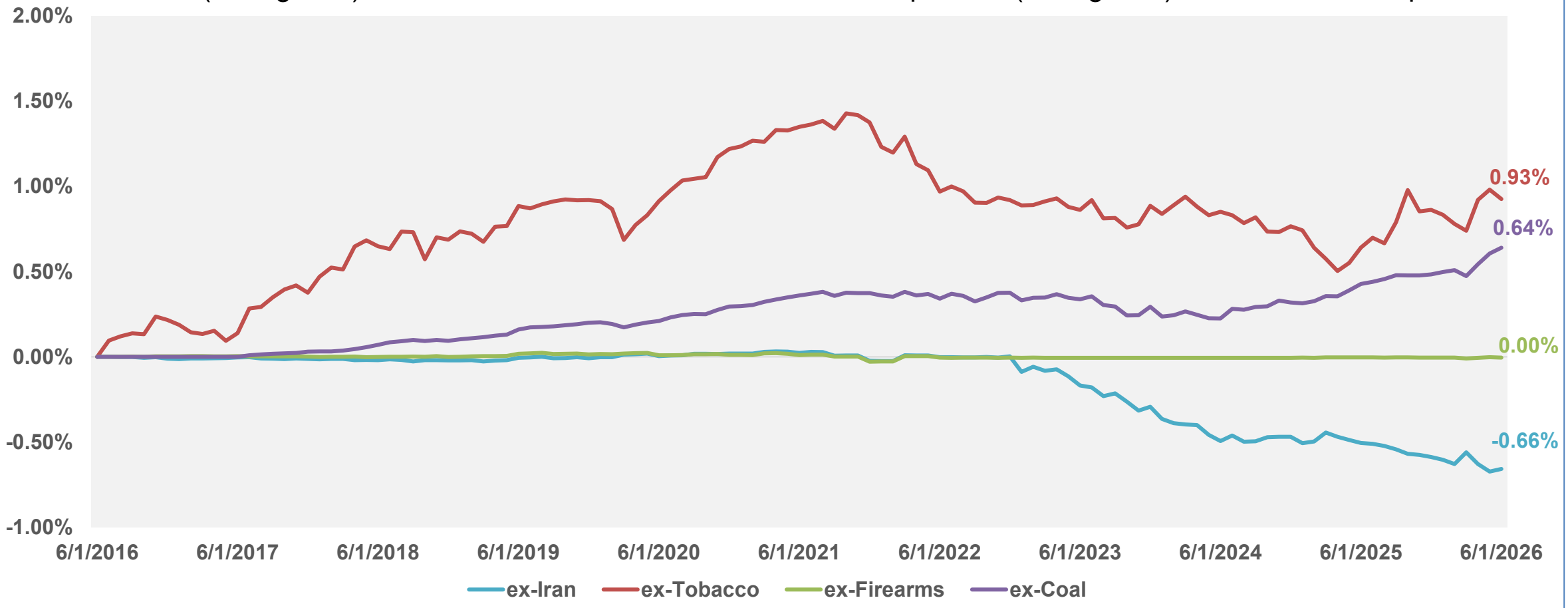
Legislative Mandates

Each legislative mandate references article XVI, section 17 of the California Constitution, which permits divestment only "where it is in the public interest to do so." Should the Board choose to discontinue any Legislative Mandates, discontinuation requires specific statutory criteria to be met. The Investment Office and the Legal Office would evaluate the actions required to discontinue the divestment.

APPENDIX

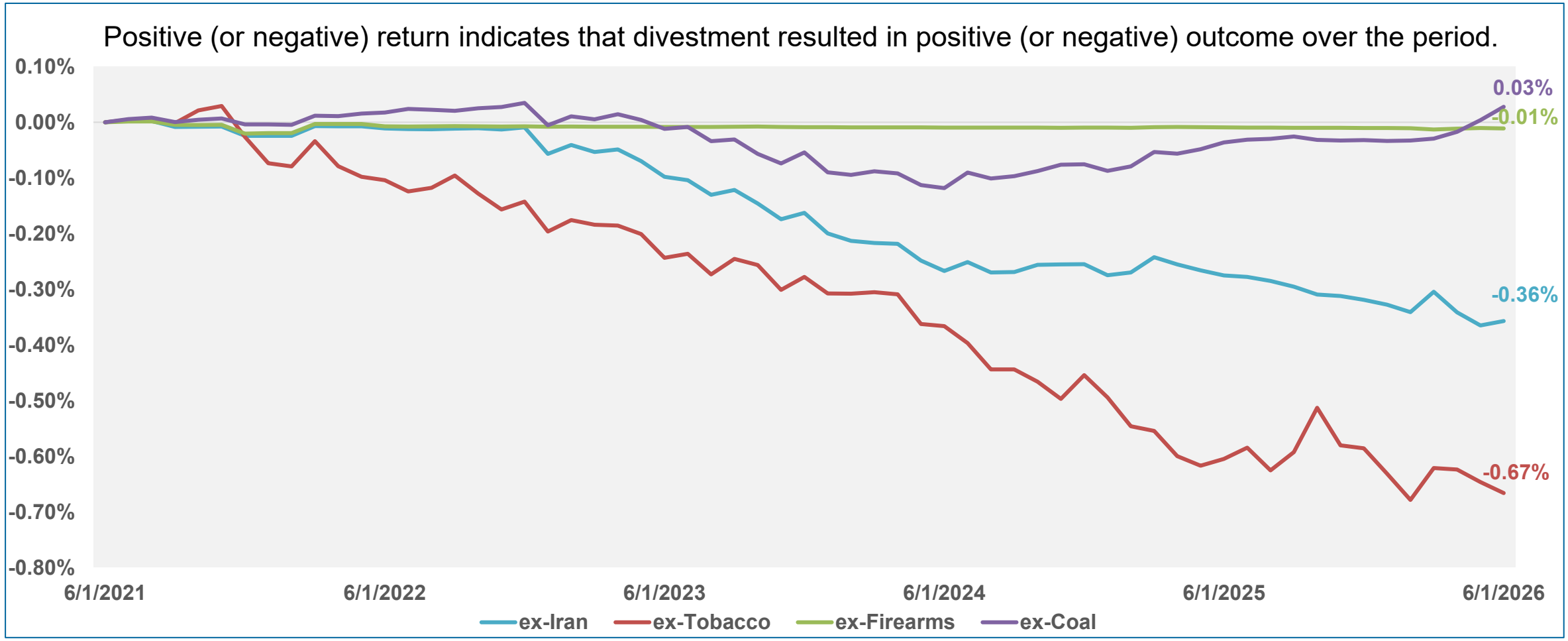
Public Equity 10-Year Cumulative Divestment Return

Positive (or negative) return indicates that divestment resulted in positive (or negative) outcome over the period.



Thermal coal divestment started in July 2017.

Public Equity 5-Year Cumulative Divestment Return



Re-Investment | Transaction Costs Estimates

- Based on public equity portfolio holdings as of 6/30/26
- Estimated using a normal day of liquidity
- Expressed in basis points of the divestment basket dollar value

Divestment Category	Total Market Value* ($mm)	Expected Trading Cost (bps)	Expected Trading Cost Low ($mm)	Expected Trading Cost High ($mm)
Tobacco	1347	144	18.2	37.6
Firearms[1]	0	0	0	0
Coal	118	76	.9	1.8
Iran	39	96	.3	.7
Total	**1504**	**220**	**19.4**	**40.1**

1 - As of 6/30/26, there are no securities in the benchmark subject to the Firearms divestment.