October 20, 2026

Mr. Kevin Palkki
Chair of the Investment Committee
California Public Employees' Retirement System
400 P Street
Sacramento, CA 95814

Re: Agenda Item 6c: Five-Year Divestment Review

Dear Mr. Palkki:

As requested, Wilshire is providing its opinion regarding Staff's Five-Year Divestment Review. The CalPERS Divestment Policy requires Staff, at least every five years, to review all in-force divestments, including an economic analysis of the projected impact on the risk-return profile of the affected portfolios, and to present that analysis to the Investment Committee for a determination of whether continuation of each divestment remains consistent with the Committee's fiduciary duties. Staff has presented two options, each of which it views as supportive of prudent stewardship: remove some or all Board-directed divestment restrictions or affirm continuation of the current divestments.

This letter complements Wilshire's annual Consultant Review of CalPERS Divestments (Agenda Item 7e). Here, we focus on the reasonableness of Staff's economic analysis and the considerations most relevant to the Committee's affirmation decision. As with our annual review, this letter addresses financial effects only and does not assess the broader societal, policy, or environmental outcomes of the programs.

Staff's Economic Analysis

The Divestment Policy specifies that the economic analysis should address one-time transaction costs, predicted tracking error, and risk-return trade-offs. Staff's analysis addresses each of these elements, drawing on Wilshire's historical return impact estimates, predicted tracking error for each active program, and estimated trading costs to reinvest. Wilshire finds the analysis complete relative to the Policy and appropriately framed for the Committee's decision. As part of our review, Wilshire independently calculated predicted tracking error for each active divestment program. Wilshire's results were in line with Staff's calculations, and we view Staff's estimates as reasonable and appropriate. Moreover, the results confirm that the forward-looking risk impact of the current divestments is modest.

Collectively, the divested securities represent approximately 0.62% of the public equity benchmark, and tobacco is the primary source of predicted tracking error at 0.130%. Iran and thermal coal contribute minimally, and firearms currently has no benchmark exposure. Tracking error indicates only that the restricted portfolio will differ from the broad market; it does not indicate whether that difference will be positive or negative. Consistent with Investment Belief 9, we also note that quantitative risk measures do not capture every relevant consideration, such as secular and regulatory pressures facing certain of the affected industries.

Return Impact and Costs

Since the March 2021 affirmation, the active divestment programs are estimated to have reduced the value of the PERF by approximately $1.475 billion, or 0.23% of the June 30, 2026 PERF market value, with tobacco and Iran detracting from returns and firearms and thermal coal contributing positively. Notably, this analysis is

not a forecast of future returns, and past results do not establish whether maintaining or removing a restriction will add value going forward.

Unlike future returns, transaction costs can be estimated with greater certainty. Staff estimates that reinvesting all active programs would cost between $19.4 million and $40.1 million, with tobacco accounting for $18.2 million to $37.6 million of that total. Consistent with Investment Belief 8, these known costs should be weighed against the uncertain direction and magnitude of any prospective return benefit from reinvesting.

Decision Authority

The Committee's discretion differs by program. Tobacco and firearms are Board-directed restrictions and may be reconsidered through the Board's governance and fiduciary process. Iran and thermal coal are legislative mandates, and the related statutes stipulate that the Board would need a good-faith determination that continued divestment is *not* consistent with fiduciary duty. We agree with Staff that the economic analysis does not, on its own, establish that the legislative mandates fail to meet those standards. Any action regarding these programs should be evaluated in consultation with Staff and the CalPERS Legal Office.

Wilshire's Perspective

Wilshire finds Staff's Five-Year Divestment Review to be thorough, consistent with the requirements of the Divestment Policy, and supported by reasonable estimates. We concur with Staff that, for the Board-directed programs, either option presented is consistent with prudent stewardship of the System's assets. Given the modest predicted tracking error, the certainty of reinvestment costs, and the uncertain direction of future relative performance, affirmation of the current divestments is a reasonable outcome, while preserving the Board's ability to revisit Board-directed restrictions should future evidence or circumstances provide a clearer basis for change. Whatever the Committee decides, we encourage documenting the investment and fiduciary rationale for the decision.

Wilshire looks forward to discussing this item with the Investment Committee. Please do not hesitate to contact us if you require anything further or have any questions.

Best regards,



Lauren Gellhaus
Vice President, Client Solutions
Wilshire Advisors