October 12, 2026

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

Re: Agenda Item 7e: Consultant Review of CalPERS Divestments

Dear Mr. Palkki:

At CalPERS' request, Wilshire reviewed the financial effects of the active divestment programs through June 30, 2026. This letter is intended to support the Investment Committee's periodic affirmation process by presenting the financial results and the principal considerations associated with either maintaining or changing the current approach. It does not assess the broader societal, policy, or environmental outcomes of the programs.

Wilshire's analysis should be interpreted as historical and comparative, not as a forecast. Past differences between the restricted and unrestricted portfolios demonstrate that divestment decisions can affect returns, but they do not establish whether maintaining or changing a restriction will add value going forward. Future outcomes depend on market conditions, index construction, and the relative performance of the affected securities.

Summary of Financial Analysis

Since the March 2021 affirmation, the active divestment programs are estimated to have reduced the market value of the PERF by approximately $1.475 billion in present value terms, or 0.23% of the June 30, 2026 PERF market value. The results vary by program: tobacco and Iran restrictions detracted returns, while firearms and thermal coal contributed to returns. These estimates reflect the cumulative difference between restricted and comparable unrestricted return streams, with prior-period impacts carried forward.

Active Divestment Programs (Last Affirmation to FY 2026)

	Present Value Estimate		Program	Estimates Begin in
	$MM	% PERF	Affirmation	Calendar Qtr.
Tobacco	(942)	(0.15%)	Yes	2Q 2021
Iran	(627)	(0.10%)	Yes	2Q 2021
Firearms	25	0.00%	Yes	2Q 2021
Thermal Coal	70	0.01%	Yes	2Q 2021
Active Total	**(1,475)**	**(0.23%)**		

Neutrality, Costs, and Decision Authority

The historical results do not, on their own, provide a sufficient basis to conclude that either continued divestment or reinvestment is more likely to improve future risk-adjusted returns. A change would

introduce implementation and transaction costs that are more certain than the direction or magnitude of any prospective return benefit.

Given these considerations, the current program is a reasonable starting point, and any proposed change should be evaluated against estimated costs.

Notably, 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. Those programs remain subject to applicable statutory requirements, and the Board cannot discontinue or materially revise them solely through an affirmation decision unless the governing law permits the change or is amended. The scope of any action should therefore be evaluated program by program in consultation with CalPERS Staff and legal counsel.

Wilshire's Perspective

Wilshire does not view the financial analysis as supporting a directional recommendation to expand or reduce the current divestment programs. Rather, it supports a neutral, process-based approach: distinguish Board-directed from legislatively mandated programs; evaluate known implementation costs; recognize that future relative performance is uncertain; and document the investment and fiduciary rationale for any decision. On that basis, affirmation of the current programs is a reasonable outcome, while preserving the Board's ability to revisit Board-directed restrictions if future evidence or circumstances provide a clearer basis for change.

Wilshire looks forward to discussing the analysis 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

Appendix

Divestment Programs, Inception Through June 30, 2026

For context, the table below presents Wilshire's inception-to-date present value estimates for the active and inactive programs included in the analysis.

Divestment Programs (Inception to FY 2026)

	Present Value Estimate $MM	% PERF	Active Dates
Active			
Tobacco	(6,986)	(1.1%)	1Q 2001 to Present
Iran	(273)	(0.0%)	3Q 2011 to Present
Firearms	49	0.0%	2Q 2013 to Present
Thermal Coal	782	0.1%	3Q 2017 to Present
Active Total	**(6,427)**	**(1.0%)**	
Inactive			
Sudan	436	0.1%	3Q 2010 to 1Q 2022
EM Principles	1,094	0.2%	1Q 2008 to 1Q 2021
EM Countries	(1,181)	(0.2%)	4Q 2002 to 4Q 2008
South Africa	(8,716)	(1.4%)	1Q 1988 to 4Q 1994
Inactive Total	**(8,366)**	**(1.3%)**	
Overall Total	**(14,793)**	**(2.3%)**	

Methodology and interpretation

Present value estimates show the estimated impact on the Total Fund through June 30, 2026, with prior-period gains and losses carried forward at the PERF total return. Percentage impacts express the present value amounts relative to the June 30, 2026 PERF market value of approximately $635.4 billion. Estimates are sensitive to benchmark construction and should not be interpreted as forecasts of future results.

Program classification

Board-directed programs: tobacco and firearms. Legislative programs: Iran and thermal coal. The inactive Sudan program was also legislative during its active period. Legislative mandates include statutory conditions governing implementation and discontinuation.