Divestment Is Political, CalPERS' Fiduciary Duty Is Not

Over the years there have been calls for CalPERS to divest from specific sectors or companies for social or political reasons. Divesting for purposes unrelated to maximizing returns can adversely impact CalPERS, its members, and employers. No matter the issue, forced divestment creates a conflict for CalPERS, which has a constitutional and fiduciary duty to diversify investments to maximize returns and minimize risk.

The Costs of Divesting

» **It increases investment risk.** Divestment results in a less diversified portfolio by requiring CalPERS to remove itself from a company or even an entire industry. Diminished portfolio diversity leaves the fund more vulnerable to market volatility.

» **It increases cost volatility.** A more vulnerable fund, subject to wilder swings in investment returns, could intensify the volatility of pension funding. Cities, counties, employers, and other CalPERS partners could be faced with significant fluctuations in costs.

» **It loses money.** Forced divestment could—and already has—reduced past, present, and future portfolio value by several billion dollars due to foregone performance and transaction fees.

Keeping Our Vote and Our Voice

Our fiduciary duty obligates CalPERS to call for change when corporate behavior undermines the long-term health and value of our investments. CalPERS champions board independence, appropriate executive compensation, worker safety and risk preparation, and corporate transparency. As a major global shareholder, we use our "seat at the table" to speak up on these issues and others that impact our return on investment. Divesting eliminates that seat.

The companies we own should meet high corporate governance and ethical standards. Forced divestment is a blunt instrument that silences our voice and leads to costly, unintended, and often counterproductive outcomes. For all the good intentions of the divestment movement, it's important to think through what is gained or lost when politics and ideology encroaches on investment decisions. Our members' financial livelihoods are at stake.