Bloomberg BRIEF

# Calpers Expands Tobacco Divestment to Outside Funds

By Emily Chasan, Bloomberg Briefs
December 22, 2016

**California Public Employees' Retirement System,** the largest U.S. public pension fund, is widening its ban on tobacco-related investments, with a plan to quit about $550 million in tobacco assets overseen by outside managers.

The $303 billion pension fund's investment committee voted 9 to 3 to broaden the ban on Dec. 19, in a move against the advice of its own staff.

Calpers staff had *recommended* ending the near 15-year ban, ahead of the meeting on Monday. Since Calpers divested tobacco shares in 2002, the staff *estimated* it had given up 900 percent cumulative returns, costing the fund about $3 billion in potential returns.

When the fund instituted the original ban amid concerns about tobacco litigation, it sold off holdings it owned directly but permitted outside fund managers it invested with to continue holding tobacco-related securities. Investment committee members heard from experts and health advocates at the *meeting* who said that tobacco contributes to higher healthcare costs in California and the industry is still facing structural pressure on revenues.

"It's clearly not prudent to invest in tobacco companies under current circumstances that have been laid out for us," California State Controller **Betty Yee** said at the meeting.

Calpers' has been looking for ways to boost returns. The fund's annual returns have struggled in the past two years to keep up with its targets. The pension plan voted Dec. 21 to reduce its assumed return rate to 7 percent from 7.5 percent over the next three years amid long-term projections for slow growth and unfavorable demographics. Read more on the *Terminal.*

*— with assistance from John Gittelsohn, Bloomberg News*