

**Disclosure Policy
For
CalSTRS Alternative Investment Private Equity Partnerships**

In recognition that the access to information concerning the conduct of the people's business is a fundamental and necessary right of every person in California under Government Code §6250, the California State Teachers' Retirement System (CalSTRS) has adopted a disclosure policy for its alternative investment portfolio with respect to private equity partnerships balancing the public's right to know through the disclosure of public records subject to California's Public Records Act, Government Code §§6250 *et seq.*, with not disclosing when the release clearly would outweigh the public interest served by such disclosure as authorized under Government Code §6255(a).

CalSTRS is mandated under Education Code §22001 to provide a financially sound plan for retirement with respect to teachers in California's public schools and schools supported by the State of California and other persons employed in connection with these schools. Under Education Code §22203, the Teachers' Retirement Board (TRB) is authorized to invest the assets of CalSTRS through the purchase, holding, or sale thereof of any investment, financial instrument, or financial transaction when such action is prudent in the informed opinion of the TRB.

To maintain a financially sound investment portfolio, CalSTRS diversifies its investments among equities, fixed income, and real estate. These types of investments are transparent and ownership is a matter of public record through registries established for such transactions (e.g., stock exchange records and recording of property titles). CalSTRS also discloses on an annual basis such holdings measured at the end of every fiscal year. Said information is available on CalSTRS' internet website www.calstrs.com.

CalSTRS also maintains alternative investments consisting of private equity partnerships, which are not by their very nature either accessible to the public or transparent. These types of investments usually consist of limited partnerships privately established according to confidential specific investment strategies for a contemplated limited period of time. Partnerships have asserted that such strategies constitute trade secrets and proprietary information (thereby exempt from the Public Records Act under Government Code §62544(k)) and the release of which would damage and harm a partnership's ability to be competitive in venture capital markets. While the partnership's investment assets may be traceable to the specific partnership through regulated transactional activity should investment be made through such vehicles, the partnership itself is private.

CalSTRS recognizes there are interested persons who wish to access information about CalSTRS' private equity partnership holdings. Presently the extent of such disclosure of private equity partnership holdings by public pension plans like CalSTRS is an evolving issue that is being debated among members of the venture capitalist community as well in

legal arenas. At this time CalSTRS is attempting to balance the public policy of disclosure with the business needs of confidentiality to ensure that CalSTRS can participate successfully in the private equity marketplace. As a result, CalSTRS annually discloses a limited amount of information with respect to CalSTRS' partnership interests. The extent of that disclosure consists of releasing the name of the partnership investment, CalSTRS' capital commitment to the partnership, capital contributed to the partnership, capital distribution to CalSTRS from the partnership, and the internal rate of return (IRR) calculated by CalSTRS pertaining to its investment in the partnership.

The performance of CalSTRS' private equity partnership holdings is monitored and evaluated by the TRB's Investment Committee. Meetings of that committee are open to the public with the exception of "closed sessions" when dealing with confidential matters as authorized and permitted under California's Bagley-Keene Open Meeting Act, Government Code 11120 *et seq.* The public has access to the committee's agendas as well as to materials distributed in "open session" via CalSTRS' internet website. Among the items disclosed in "open session" are CalSTRS' new investment commitments to private equity partnerships that are made available in periodic reports.

Release of the Investment Committee's internal analysis or scoring of performance with respect to investments in private equity partnerships could impact a particular investment and be detrimental to CalSTRS' holdings. Furthermore, the release of CalSTRS' tiering or ratings of private equity partnership holdings could be very damaging to a partnership attempting to raise another capital fund. Potential investors viewing a CalSTRS rating on a general partner (GP) of a partnership where CalSTRS has invested that resulted in a lower ranking could interpret that rating as an indicator of future performance for the new fund when that ranking is applicable only to the existing CalSTRS investment. Given the possible misinterpretation of CalSTRS' internal rating system, CalSTRS will not release its tiering ratings.

CalSTRS will not release individual partnership agreements or any excerpts thereof. Each private equity partnership agreement contains specific confidential terms of investment participation, which results from the negotiation between the partnership's GP and the limited partners (which includes CalSTRS). If a GP's competitors in the fundraising market obtain documents containing such confidential negotiated terms, then a competing GP would be in an advantaged position in negotiating with potential partners at the expense of the partnership that CalSTRS has committed to. On the other hand, the GP may address concerns of a limited partner, such as CalSTRS, in ways that allow it to be competitive soliciting investment commitments. If such proprietary arrangements are known by competitors, such advantageous positioning may no longer exist. Furthermore, the list of investors in a particular partnership (including names, addresses and phone numbers) is of value to the GP. Such information could prove to be very valuable to a competing partnership seeking investors and /or for other potential limited partners trying to access investment opportunities with highly sought managers that would rival CalSTRS as investors.

CalSTRS will not release portfolio company information and valuation of an individual partnership. Disclosure of portfolio company information may not give a meaningful picture of the performance of a fund's investment. Frequently, an investment in a company will show a loss in value in the immediate time after the investment is made; however, over time the investment should become profitable as the GP implements operational and financial changes to improve the performance of the portfolio company. Hence, disclosing information at a critical time in a portfolio company's history may prove detrimental to the ultimate success of that company. Requirements to disclose portfolio company information could discourage GP's from disclosing such information to limited partners such as CalSTRS, which could result in CalSTRS receiving less information with which to manage CalSTRS' private equity investment activities. Restricting access to information by a GP could severely impair the ability of CalSTRS to properly monitor partnership performance.

The release of portfolio information and valuation of individual partnership interests further could harm the partnership and CalSTRS' own investment. By making valuation and other portfolio information publicly available, the possibility could exist that would allow each portfolio company's existing and prospective customers, suppliers, employees, competitors, and other business interests or rivals to learn about the status and financial health of the portfolio company. Such intimate knowledge could have harmful effects on a portfolio company's performance in the market place. Existing and prospective customers, suppliers, and employees could become anxious about the portfolio company's future and seek to do business with or employment from a competitor. If competitors became aware of such a valuation, they could have an advantage over the portfolio company in obtaining customers, suppliers and employees. That could result in permanent damage to the portfolio company and harm the partnership interest, which in turn would hurt CalSTRS' investment. Conversely, disclosure of a high valuation may attract more competitors to the Portfolio Company's industry thereby increasing competition and market share resulting in a disadvantage to the portfolio company, the partnership's interest and CalSTRS' investment. In addition, disclosing valuation information on a portfolio company could aid potential buyers of such companies. The buyer would have an advantage regarding with the worth of the company and could lower the value of a potential bid for that company.

The private equity marketplace is not accustomed at this time to operate in a totally transparent environment. Many venture capitalists seek to avoid disclosing investment strategies and private equity holdings of their partnerships for the reasons identified above. At this time, CalSTRS' limited disclosure practice for its private equity partnership holdings has not resulted in any significant avoidance with respect to investment opportunities. However, certain members of the private venture capitalist community have expressed displeasure and an unwillingness to enter into investment agreements with public pension funds out of concern over the extent of disclosure that could occur. CalSTRS is concerned that inappropriate disclosure beyond the current practice could lead to the exclusion of investment opportunities in this marketplace. Should that occur, then there could be limited and reduced private equity partnership investment opportunities available creating a smaller universe of potential investments

for CalSTRS. Under such a scenario, some of the top prospective companies could seek capital investment from partnerships that are not subject to disclosure because those partnerships have excluded public pension funds as limited partners.

Currently GPs work to maintain the confidentiality of a private equity partnership interest, including those of the partnership's portfolio company's business information when dealing with lenders, investors, accountants, insurers and others in the course of financing the business. Public disclosure would jeopardize these standard business efforts. CalSTRS maintains that its current limited disclosure practice with respect to private equity partnership investments balances public policy demands for disclosure with those business needs so as not to put CalSTRS' investments in a disadvantage. Further disclosure beyond that what is already practiced would seriously harm CalSTRS as discussed herein. Therefore, any release beyond the extent CalSTRS presently discloses would clearly outweigh the public interest that would be served by more disclosure. Thus, CalSTRS will not engage in further disclosure beyond its current practice based upon Government Code §6255(a).

Information that is subject to public disclosure discussed above is posted on CalSTRS' internet website at www.calstrs.com for the convenience of the public. The information posted is updated periodically when reports are made to the CalSTRS Investment Committee. There is no charge to individuals downloading this information from CalSTRS' website. Separate requests for copies of those public records also can be submitted in accordance with the California Public Records Act to CalSTRS Investment Office. Said act permits CalSTRS to charge for the production of any requested records.