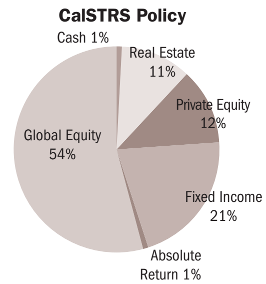
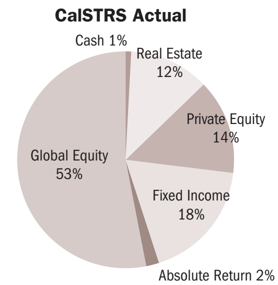
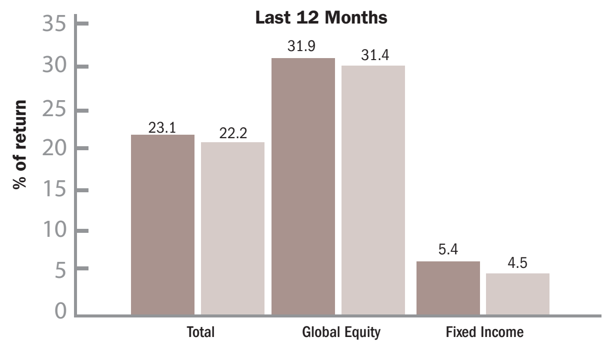
Pension Consulting Alliance, Inc
Los Angeles – Portland – New York



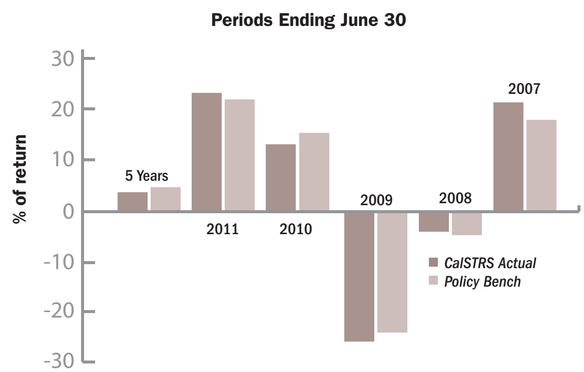


The CalSTRS investment portfolio increased by $25.6 billion over the past twelve months, ending with a value of $155.5 billion on June 30, 2011. As highlighted below, the CalSTRS portfolio is broadly diversified, holding investments ranging from publicly traded short-term bonds to privately held partnerships. Clearly, the scale and breadth of investments make the management and oversight of these assets highly complex. In light of these factors, CalSTRS has been effective in utilizing its resources in a cost-efficient manner to ensure that benefits continue to flow to CalSTRS participants.



Investment Allocation

The Board adopts long-term asset allocation targets to be implemented over several years. The fiscal year-end report reflects strategic allocation guidelines for the 2010–2011 fiscal year as adopted by the Board effective July 2010 (see left pie chart). The portfolio's actual allocation is slightly different from policy. The Private Equity, Real Estate, and Absolute Return asset classes are modestly overweighted, while Global Equity and Fixed Income are underweighted (see right pie chart). The allocation to Cash is in line with policy.



Investment Results

Over the last year, the CalSTRS investment portfolio produced an absolute return of 23.1%, ranking in the first quartile among its large public pension fund peers[1] (top bar chart). During this period, portfolio results outperformed the policy benchmark return by 90 basis points.[2] All asset classes, aside from Absolute Return, either matched or outperformed their respective benchmarks over the past twelve months.

During the last three years, CalSTRS' portfolio generated a 1.2% average annual return, underperforming the policy benchmark by (1.8%) per year and ranking in the fourth quartile versus their peer funds. Underperformance over this time period was largely attributable to the underperformance of Real Estate. Over the last five years, the CalSTRS investment portfolio produced an average annual return of 3.8%, trailing its policy benchmark by (50) basis points per year (bottom bar chart). These results are below CalSTRS' actuarial rate of return. Successive one-year periods are presented here as well. CalSTRS' portfolio has outperformed its policy benchmark in three of the last five fiscal year periods, ending June 30.[3]

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(1) *Per TUCS Universe of Master Trust Public Funds with assets in excess of $10 billion.*

(2) *The policy benchmark consists of passively managed asset class portfolios weighted by CalSTRS' policy allocations. The difference between actual results and the benchmark are due to two factors: i) deviations from policy and ii) active decisions on the part of CalSTRS and its investment managers.*

(3) *CalSTRS' investment performance is calculated using a daily time-weighted return geometrically linked to calculate a monthly return. Periods longer than one month are geometrically linked to calculate annualized "time-weighted" rates of return.*

The CalSTRS Investment Portfolio posted the highest investment return in 25 years. In the Fiscal Year 2010–11, the portfolio generated a 23.1 percent return. In addition CalSTRS was named Investment manager of the Year for Large Public Funds by Institutional Investor magazine. Both of these are a cause for a celebration; but we must balance the short term success with the longer term consequences of the 2008 global financial meltdown. The lingering effects of the global crisis weight heavily on the U.S. and global economy and our investment portfolio. Since we use a three year smoothing of investment results in our Actuarial calculation, the declines of 2008 continue to hurt our longer-term results and harm the defined benefit plan's funded status.

Despite consecutive double digit investment return results, the impact of the financial markets has been substantial. The lingering impact of the fall of 2008 on the U.S. economy cannot be ignored as unemployment has remained high and individual and government balance sheets remain constrained and over leveraged. As with the prior fiscal year, the U.S. stock market return can be divided into two time periods. First was a robust summer and fall, as we saw very strong corporate earnings growth and a steady climb in stock prices, followed by a flat to negative February to June, as the economy waned and suffered renewed job losses. The following pages briefly outline the investment portfolio as well as each asset line item in the financial statements. Over the 12 months ending June 30, 2011, the investment portfolio grew $25.5 billion in value, which resulted in a positive 23.1 percent annual return.

Asset Allocation as of June 30, 2011

Total investment portfolio of $155.5 billion

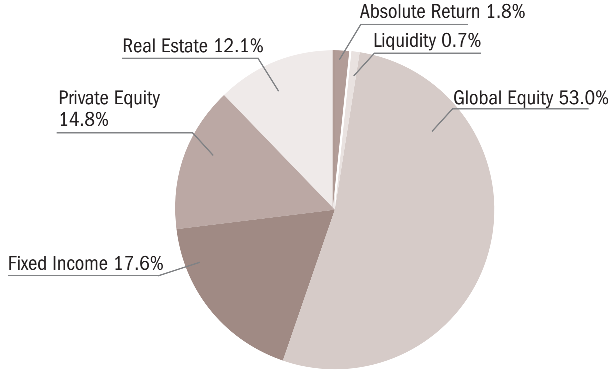
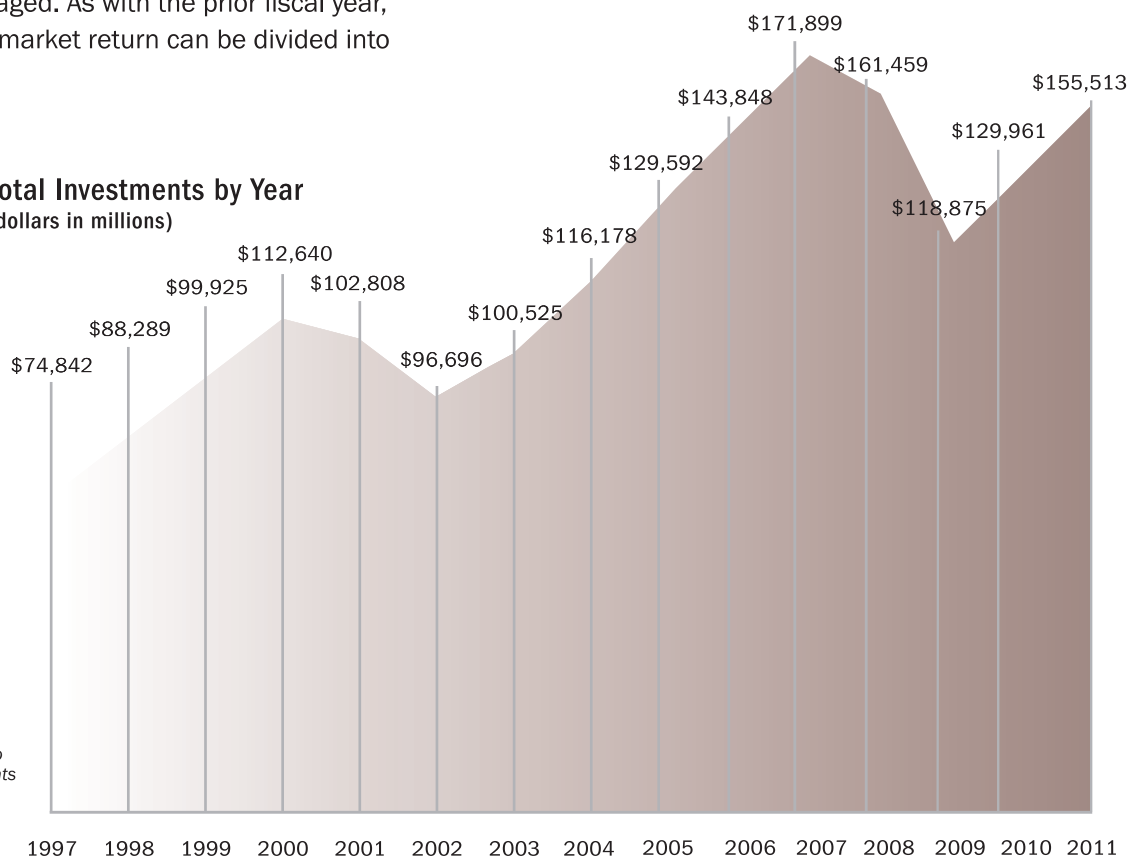


Table 1 | **Total Investments by Year**
(dollars in millions)



[1] "Portfolio values and performance results may vary from information presented in the Basic Financial Statements due to rounding, portfolio management requirements and Generally Accepted Accounting Principles."

While this annual report provides a great amount of detail into the CalSTRS Investment Portfolio, it only represents a point in time, June 30, 2011. The reader must understand that as a huge global investment portfolio, CalSTRS is exposed and experiences the volatility of these dynamic global financial markets. Subsequent to June 30, 2011, the U.S. Government's credit rating was downgraded by one particular Rating Agency and all investors experienced a significant move in the global financial markets of both equities and fixed income.

Table 2 | Total Returns by Year (percent)

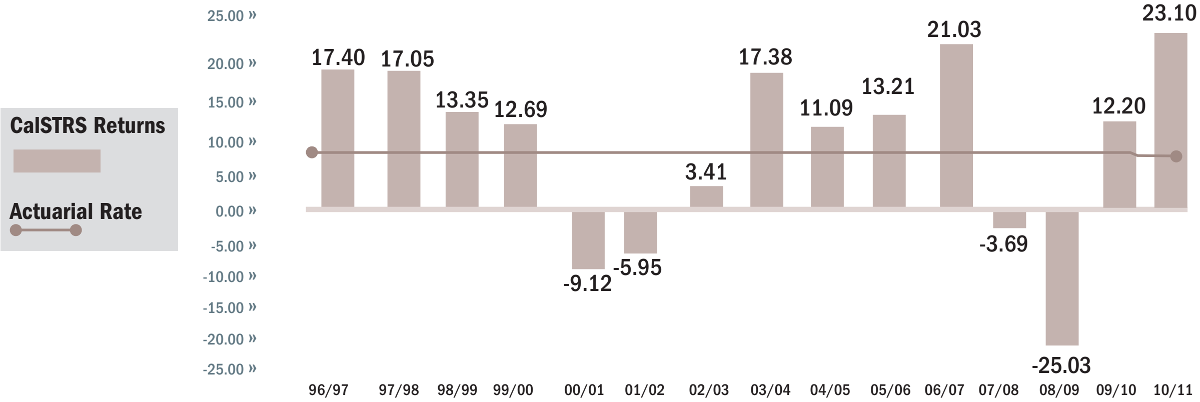


Table 3 | Time-Weighted Performance Returns for Major Asset Categories

PORTFOLIO TYPE / ASSOCIATED INDICES	1 YR	3 YR	5 YR	10 YR
Total Fund	23.10%	1.17%	3.84%	5.66%
Global Equity	31.88	2.72	3.70	4.99
Global Equity Custom [(1)]	31.35	2.49	3.43	4.73
U.S. Equity	32.91	3.90	3.27	3.55
Russell 3000	32.16	3.82	3.18	3.29
Non-U.S. Equity	29.60	0.37	4.41	7.70
MSCI All Country World Index ex-U.S.	29.59	(0.47)	3.64	7.62
MSCI Europe, Australia, Far East & Canada	30.18	(1.69)	1.90	5.85
MSCI Emerging Market	27.66	4.06	11.40	16.35
Fixed Income	5.44	7.35	6.94	6.33
U.S. Debt Custom [(2)]	4.45	6.82	6.66	6.20
Barclays Capital U.S. Aggregate	3.90	6.46	6.52	5.74
Barclays Capital High Yield Cash Pay	15.47	12.77	9.42	8.98
Real Estate	17.51	(16.30)	(2.72)	6.66
Real Estate NCRIEF (lagged 1 quarter)	16.03	(3.63)	3.47	7.54
Private Equity	22.47	2.54	8.96	11.27
Private Equity Custom [(3)]	20.66	6.83	6.40	6.74
Absolute Return	13.64	–	–	–
Barclays Global Inflation Linked	15.07	–	–	–
Liquidity [(4)]	12.03	(3.00)	0.77	3.81
Barclays Capital 3-Month Treasury Bill [(5)]	0.18	0.47	2.07	2.11

CalSTRS' investment performance is calculated using a daily time-weighted return geometrically linked to calculate a monthly return. Periods longer than one month are geometrically linked to calculate annualized 'time-weighted' rates of return.

(1) Weighted blend of Russell 3000 tobacco free and MSCI All Country World Index ex-U.S. tobacco free

(2) 95% Barclays Capital US Aggregate tobacco free + 5% US High Yield Cash Pay 2% Issuer Constrained Index tobacco free from 10/31/2008. Salomon LPF through 7/1/02; LB US Aggregate tobacco free through 4/1/07; a blend of LB US Aggregate and LB High Yield Cash Pay tobacco free through 10/31/08

(3) Blend of the Russell 3000 + 3% & State Street Private Equity Index cumulative pooled internal rate of return data weighted by sub-asset type; lagged 1 quarter. Previously Russell 3000 + 5% + 90 day T-Bill from 4/1/99 to 6/30/08; lagged 1 quarter

(4) Includes the Securities Lending Program loss incurred in FY 08-09 and income earned in subsequent years.

(5) Barclays Capital 3-Mo T-Bill from 10/31/2008; LB 3-Mo T-Bill from 7/1/06; Citigroup 3-Mo T-Bill prior to 7/1/06

Therefore, to get the most current information, we encourage you to visit our web site: www.calstrs.com and click on the Investments tab. Our website contains information on the entire investment portfolio and sections of each asset class. Additionally, every three months, the Investment Office posts quarterly reports to the website on all segments of the investment portfolio. These reports provide a picture of the changes in the investment portfolio that occur during the current fiscal year.

While fiscal year 2010–11 was an outstanding year on an absolute return basis, it was also a strong year relative to our Policy benchmarks. At the total fund level the investment staff and investment managers added almost one percent of additional return, which equates to $1.1 billion more for the Defined Benefit Fund. All of the asset classes, with the exception of one, produced double digit returns. Additionally, all except one beat their passive benchmark for the year. The highest returning asset class was Global Equities, up 32 percent. The next highest was Private Equity up 22 percent followed by Real Estate up 18 percent. On a relative basis, the best performing asset class was Private Equity, which beat its market benchmark by almost two percent. This was followed by Real Estate which beat its benchmark by one and one half percent. The only asset class to underperform its policy benchmark was our newly created Absolute Return, now called Inflation Sensitive, which is still in its development stage.

The following pages go into greater detail regarding each asset class and its respective performance. The CalSTRS investment Committee, investment staff and external consultants have thoroughly reviewed the results. During the fiscal year 2011-12, we will be making several changes to the portfolio, investment policies, internal investment management and internal procedures to help the Fund generate as much return as possible within acceptable risk parameters.

Innovation and Risk

The Innovation and Risk (IR) Unit's policy was approved in March 2009. The Innovation Portfolio's allocation is not to exceed the lesser of 1.5 percent of the total plan assets or $2 billion. IR's goal is to identify, research and incubate investment opportunities that currently are not utilized by the fund. Each new strategy that is pursued is expected to improve the risk/return efficiency of the total plan or an asset class by increasing its return, decreasing its risk or achieving both.

During the fiscal year 2010-11 staff continued to work on the implementation of three new strategies and completed a final research report on microfinance for a presentation to the Investment Committee in July 2011. Staff will be making its first capital deployments in fiscal year 2011–12 and is actively working on incubating the following investments: global macro hedge funds, commodities, a multi-asset class risk allocation strategy and microfinance.

Lastly, IR is building a fund-wide risk management process. This new framework will help CalSTRS monitor its investment portfolio sensitivities to changes in the macroeconomic and market environments. The framework will help improve CalSTRS' investment process and provide tools to lessen the impact of a severe macroeconomic or market event.

Absolute Return

CalSTRS Absolute Return portfolio is valued at $2.8 billion. Absolute Return assets are 1.8 percent of the total fund with a short-term target allocation of one percent. Global inflation protection securities make up 86 percent of the portfolio with the balance consisting of whole mortgage loans. At fiscal year-end the unfunded commitment to infrastructure totaled $146 million.

The Absolute Return is a strategic asset class that was adopted by the Teachers' Retirement Board during fiscal year 2009–10. It is not tied to

Table 4 | **Largest Fixed Income Holdings as of June 30, 2011**
(CalSTRS maintains a complete list of portfolio holdings)

ISSUE	MATURITY DATE	INTEREST RATE	PAR	MARKET VALUE	AVERAGE COST	UNREALIZED GAIN (LOSS)
US TREASURY N/B	5/31/14	2.250%	310,000,000	$323,103,691	$312,196,034	$10,907,657
US TREASURY N/B	2/28/17	3.000	295,000,000	310,413,768	309,443,125	970,643
US TREASURY N/B	12/31/16	3.250	280,000,000	298,743,180	287,223,416	11,519,764
US TREASURY N/B	11/30/13	2.000	266,000,000	274,884,389	272,387,075	2,497,314
US TREASURY N/B	8/15/28	5.500	215,000,000	255,288,846	241,135,987	14,152,859
US TREASURY N/B	9/30/13	3.125	240,000,000	253,888,807	243,579,012	10,309,795
US TREASURY N/B	1/15/13	1.375	250,000,000	253,827,478	249,666,619	4,160,859
US TREASURY N/B	11/30/12	0.500	250,000,000	250,584,985	249,579,711	1,005,274
US TREASURY N/B	2/15/20	3.625	225,000,000	238,000,500	226,758,759	11,241,741
US TREASURY STRIP	11/15/16	N/A	260,000,000	234,449,792	202,036,528	32,413,264

a specific asset, but is objective-oriented and was modeled using Inflation Protection Securities and Infrastructure. Over time it will likely evolve to include other asset classes and investment strategies. This asset class will consist of several asset types that, when combined, should produce a relatively stable return stream, with return level between equities and fixed income and an overall higher correlation to inflation than equity or fixed income.

The Absolute Return asset class objective is to produce inflation-protected income/returns over extended periods of time. The long-term target allocation will be 5 percent of the total portfolio split evenly between global inflation protection securities (GIPS) and infrastructure. GIPS are liquid and are actively traded. It was our funding strategy to implement GIPS and then methodically integrate the more illiquid infrastructure asset types. Additionally, the whole mortgage loan portfolio previously reported under fixed income was moved to this asset class at the beginning of the fiscal year.

The annualized one year return for the asset class was 13.6 percent and the comparable benchmark return is 15.1 percent. The GIPS portfolio annual return was 14.7 percent slightly below its benchmark at 15.1 percent primarily due to cash flow timing during the implementation throughout the year.

Fixed Income

At June 30, 2011, the Fixed Income portfolio amounted to $27.39 billion, representing 17.6 percent of the total fund. The primary, or core, function of fixed income is to provide diversification to the total investment portfolio, while maximizing the risk-adjusted return. The investment programs managed within the Fixed Income Unit are structured in such a way as to take advantage of the benefits/efficiencies of both internal and external asset management. More than three-quarters of the fixed income assets are managed internally by CalSTRS Investment staff and have been designed to generate market level returns with a low to moderate level of risk. The remaining quarter of the fixed income assets follow an Opportunistic Strategy, a portion of which is externally managed, with higher risk levels and higher expected returns.

The Fixed Income portfolio continued to generate positive returns across all of the strategies and sectors, outperforming the performance benchmark by 99 basis points for the twelve months ending June 30, 2011, and adding value over each of the longer term five- and ten-year time frames as well. The outperformance this past year can be attributed in large part to the overweight within the portfolio to spread (i.e., non- Government) assets which benefited from the accommodative policies that continued to support/encourage investor's risk appetite throughout the period. Looking forward over the next year, we will watch for signs that economic growth will become self sustaining, as the monetary and fiscal stimulus is being removed. Pending further clarity into the health of the global economy, efforts will be taken to reduce risk within the portfolio.

Two additional investment programs are managed by the Fixed Income team: Currency Management and Securities Lending.

CURRENCY MANAGEMENT PROGRAM

CalSTRS has recognized the need to implement strategies designed to address the management of currency risk because of the global nature of the Fund, and the impact that currency fluctuations can have on the return of dollar-based investors. The Currency Management Program is designed to add value to the investment portfolio by protecting the translation value of the Fund's non-dollar assets when there is the risk that the U.S. dollar will strengthen and preserving the diversification benefits of holding non-U.S. dollar assets when there is widespread U.S. dollar weakness.

High volatility relative to historical norms has provided additional challenges for the Program this past fiscal year. In effect, strategies designed to protect the Fund against the looming sovereign debt crisis in Europe didn't perform as expected. Within the Core (internally managed) Strategy, staff made the decision to protect the translation value of a portion of the Fund's European denominated assets by reducing exposure to the Euro through derivative products as an investment hedge. However, the Federal Reserve's Quantitative Easing policy put a strain on the U.S. dollar (USD), causing the dollar to weaken and the Euro to unexpectedly strengthen, even in light of significantly negative European economic and political activity. As a result of these activities, performance for this strategy was below expectations. Alternatively, as the Federal Reserve's actions emboldened investors to move into riskier assets, emerging market currencies performed very well for yet another year. Our external managers within the Opportunistic Strategy were able to take advantage of this environment, as they generally underweighted developed market currencies and overweighted the emerging markets over the period. The Euro hedge strategy within the Core component this past fiscal year hurt the total Program performance over the 1, 3, and 5 year time periods of -.50 percent, -.24 percent, and -.14 percent respectively, while the "since inception" return of the Program remains positive at .67 percent.

SECURITIES LENDING PROGRAM

The CalSTRS Securities Lending Program was established in 1988 as a low-risk strategy, designed to enable the Fund to use its existing asset base and investment expertise to generate incremental income. While the program has consistently added 4-5 basis points in value to the Fund over the past twenty-three years, the unprecedented volatility and illiquidity within the markets in late 2008 resulted in a loss to the Program for the first time since its inception.

The program has continued to recoup a majority of the losses taken during the financial crisis as the securities lending markets continued to stabilize. Importantly, there has been an increased sensitivity to managing cash collateral risk throughout the securities lending industry. To help further lessen this risk exposure, CalSTRS is looking into expanding its usage of non-cash collateral within the program to help improve liquidity, reduce cash collateral balances and to provide the opportunity to optimize our utilization rates. Furthermore, in order to strengthen the quality of our program income overall, focus has shifted from a cash collateral management emphasis to amplifying the intrinsic value of each loan. For the fiscal year ended June 30, 2011, the Securities Lending Program earned approximately $99.4 million in additional income for the Fund.

Home Loan Program

The CalSTRS Home Loan Program, established by legislation in 1984, provides the opportunity for home ownership to qualified participants while meeting CalSTRS investment goals by generating a mortgage asset. The Home Loan Program offers a variety of mortgage products while also providing “best in class” customer service to borrowers throughout the mortgage loan process.

New originations for the Home Loan Program were temporarily suspended on October 1, 2011, as CalSTRS seeks a new provider for program administration, master servicing, and compliance. CalSTRS intends to resume the program as soon as possible.

Private Equity

CalSTRS Private Equity portfolio is valued at $23.0 billion. Private equity assets are 14.8 percent of the total fund with a 12 percent target allocation. Unfunded commitments total $8.1 billion.

The Private Equity portfolio consists of three components: 1) limited partnership interests, 2) co-investments, and 3) secondary partnership interests. There are 231 partnerships, 48 co-investments and three secondary interests in the Private Equity portfolio. On a net asset value basis, limited partnerships comprise 91 percent of the portfolio, co-investments comprise 7 percent and other investments comprise 2 percent.

Annualized returns for the asset class have been 22.5 percent, 2.5 percent and 9.0 percent over one, three and five year periods respectively. Comparable benchmark returns are 20.7 percent, 6.8 percent and 6.4 percent respectively.

Credit Enhancement

CalSTRS enters into agreements with a number of domestic issuers of debt to provide credit support and/or liquidity support on specific debt obligations. In return, CalSTRS earns fee income for these commitments. As of June 30, 2011, the Credit Enhancement Program had commitments of approximately $2 billion and fee income earned during the fiscal year was approximately $13.3 million.

Real Estate

CalSTRS portfolio of real estate assets is valued at $18.9 billion. Real estate assets are 12.1 percent of the total fund with an 11 percent target allocation. Unfunded commitments total $8.7 billion.

At the June 2010 Investment Committee meeting a revision to the real estate policy was approved. The current policy divides the Real Estate portfolio into four segments: 1) Core, 2) Value Add, 3) Opportunistic and 4) Public.

The Core portfolio comprises 31 percent of the total Real Estate portfolio and primarily consists of investments in stabilized, income producing properties located principally in economically diversified metropolitan areas.

The Value Add portfolio comprises 18 percent of the total Real Estate portfolio and represents investments in properties and/or strategies that require specialized acquisition and management expertise to mitigate business and leasing risks associated with the investment strategy. The Value Add portfolio may include some international investments.

The Opportunistic portfolio is 49 percent of the total Real Estate portfolio and consists of investments aimed at capitalizing on tactical opportunities, mispricing or distress in the real estate and capital markets. Opportunistic investments may include international and emerging markets.

The Public portfolio is currently at 2 percent of the total Real Estate portfolio. With the June 2010 policy revision, the long-term goal will be to rebalance the portfolio to 50 percent, Core; 20 percent, Value Add; and 30 percent, Opportunistic.

The CalSTRS Real Estate portfolio has achieved gross annualized returns of 17.5 percent, negative 16.3 percent and negative 2.7 percent for the one-, three-, and five-year periods, respectively. CalSTRS returns outperformed the NCREIF benchmark by 1.5 percent for the one-year period, and underperformed the benchmark by 12.7 percent and 6.2 percent for the three and five year periods, primarily due to the unleveraged nature of the NCREIF benchmark.

Global Equity

At the end of Fiscal Year 2010–11, the $82.4 billion Global Equity portfolio represented 53 percent of the total fund. U.S. Equity accounted for 66 percent of the total equity allocation, while Non-U.S. Equity accounted for the remaining 34 percent.

The Global Equity portfolio outperformed its policy benchmark by 53 basis points (31.88 percent vs. 31.35 percent) for the fiscal year ending June 30, 2011. This out-performance was driven by the strong relative returns of the U.S. equity portfolio, which surpassed the Russell 3000 ex-Tobacco Index by 75 basis points (32.91 percent vs. 32.16 percent).

Although the Non-U.S. equity portfolio lagged the U.S. equity portfolio, it beat the MSCI ACWI ex-U.S. ex-Tobacco Index by 1 basis point (29.60 percent vs. 29.59 percent) during the fiscal year.

U.S. AND NON-U.S. EQUITY PROGRAMS

During Fiscal Year 2010–11, the Global Equity group completed the following key initiatives:

- Staff conducted a three-part study to identify the key factors that go into the decision of whether to implement an investment strategy using internal or external management. During the study, staff provided a historical context of how various strategies across the portfolio were implemented (i.e., internally vs. externally) over time, presented a peer comparison of CalSTRS' internal/external mix relative to similar organizations, and developed a criteria matrix to standardize the process of determining whether to implement a strategy internally or externally. The study concluded in June 2011 with the Teachers' Retirement Board's acceptance of the criteria matrix and approval to expand CalSTRS' range of internally managed strategies, including two passive strategies currently managed externally, Russell 3000 ex-Tobacco Index and MSCI EAFE + Canada ex-Tobacco Index portfolios.

Table 5 | **Largest Equity Holdings as of June 30, 2011**
(CalSTRS maintains a complete list of portfolio holdings)

ISSUE	SHARES	MARKET VALUE	AVERAGE COST	UNREALIZED GAIN/(LOSS)
EXXON MOBIL CORP	15,195,323	$1,236,595,386	$725,181,633	$511,413,753
APPLE INC	2,940,496	987,036,292	271,223,968	715,812,324
CHEVRON CORP	6,414,422	659,659,158	341,362,051	318,297,107
INTL BUSINESS MACHINES CORP	3,828,271	656,739,890	320,598,343	336,141,547
MICROSOFT CORP	22,969,580	597,209,080	456,578,210	140,630,870
JOHNSON + JOHNSON	8,933,809	594,276,975	393,953,685	200,323,290
AT+T INC	18,852,389	592,153,538	519,814,952	72,338,586
GENERAL ELECTRIC CO	30,921,092	583,171,795	605,576,797	(22,405,002)
PROCTER + GAMBLE	8,062,292	512,519,902	335,267,948	177,251,954
JP MORGAN CHASE	12,518,007	512,487,207	404,871,391	107,615,816

- Controlling costs is a high priority for staff, given the difficult economic and budgetary environment, especially with regard to external manager fees. While these management fees are favorable relative to peers, staff embarked on an effort to better align the cost structure. During this effort, most of the external managers agreed to lower fee schedules, which has resulted in roughly a 15 percent cost savings. Staff will continue to conduct fee negotiations with the remaining external managers with the goal of reducing costs even further.

Corporate Governance

During Fiscal Year 2010–11, CalSTRS staff voted on 66,572 proxy proposals submitted by 6,210 corporations that were held in the portfolio. Some companies had multiple meetings and the fund ended up voting at 6,568 meetings for portfolio companies. The 66,572 proposals represented a 9.9 percent increase from the 60,563 proposals voted on in 2009–10. The increase in the number of proposals is due to CalSTRS bringing all foreign proxies in-house to vote.

Importantly, the fund now accounts for each individual director as a separate proposal instead of as a slate as in previous years. This will allow CalSTRS to take full advantage of the majority voting standard that many companies have adopted.

The major proxy issues voted on are summarized below.

1. ***Election of Directors:*** CalSTRS generally votes in favor of a director unless the proxy statement shows circumstances contrary to policy. Examples of such circumstances include: potential conflict of interest due to other directorships or employment, providing legal or investment banking advice and poor board meeting attendance (less than 75 percent).

   » Number Voted: 17,179
   » Voted For: 9,919 (58 percent)
   » Voted Against: 7,260 (42 percent)

2. ***Selection of Auditors:*** CalSTRS will vote in favor of the independent auditors recommended by management unless the auditor provides services that run contrary to what CalSTRS policy allows. Examples of such services are: consulting, information system design and implementation, investment banking support and excessive non-audit fees (greater than 30 percent of the total fees billed).

   » Number Voted: 2,819
   » Voted For: 2,563 (91 percent)
   » Voted Against: 256 (9 percent)

3. ***Compensation Plans (Stock Option Plans, Employee Stock Purchase Plans, etc.):*** Companies provide a variety of compensation plans for executives, employees and non-employee directors. Many of these plans provide for the issuance of long-term incentives to attract, reward and retain key employees. Compensation plans are evaluated based on CalSTRS Financial Responsibility Criteria.

   » Number Voted: 1,263
   » Voted For: 622 (49 percent)
   » Voted Against: 641 (51 percent)

4. ***Advisory Vote on Compensation:*** More commonly known as Say-on-Pay, these are votes that provide shareholders the opportunity to ratify the compensation of the executives named in the proxy. CalSTRS votes on these proposals on a case-by-case basis.

   » Number Voted: 2,350
   » Voted For: 1,811 (77 percent)
   » Voted Against: 539 (23 percent)

5. ***Approve Merger/Acquisition—Management:*** CalSTRS evaluates mergers and acquisitions on a case-by-case basis utilizing a total portfolio view.

   » Number Voted: 151
   » Voted For: 141 (93 percent)
   » Voted Against: 10 (7 percent)

6. ***Corporate Actions/Corporate Governance Issues:*** These are issues related to spin-offs, incorporation, stock issuance and stock splits. CalSTRS votes on these proposals on a case-by-case basis.

    » Number Voted: 627
    » Voted For: 419 (67 percent)
    » Voted Against: 208 (33 percent)

7. ***Miscellaneous Issues—Management:*** CalSTRS will vote in favor of other miscellaneous business recommended by management unless the issue to be voted on is contrary to policy. These issues are voted on a case-by-case basis.

    » Number Voted: 571
    » Voted For: 270 (47 percent)
    » Voted Against: 301 (53 percent)

8. ***Frequency of Advisory Vote on Compensation:*** More commonly known as Say-When-On-Pay, this vote is a requirement of the Dodd Frank Act and allows shareholders to vote on the frequency of future advisory votes on compensation. Under the rule, shareholder can choose to vote every 1-, 2-, or 3-years. CalSTRS routinely supports annual Say-On-Pay votes.

    » Number Voted: 2,276
    » 1-year: 2,276 (100 percent)
    » 2-year: 0 (0 percent)
    » 3-year: 0 (0 percent)

9. ***Shareholder Proposals:*** CalSTRS votes on a variety of shareholder proposals. Examples of the issues voted on include: removing classified boards of directors, requiring an independent board chairman, eliminating poison pills, tying compensation plans to company performance and requiring shareholder approval for large severance packages.

    » Number Voted: 475
    » Voted For: 333 (70 percent)
    » Voted Against: 142 (30 percent)

The Corporate Governance unit continues to manage eight governance funds, accounting for a combined $3.9 billion in assets under management. All funds invest in governance-poor companies and engage management in securing governance and shareholder value improvement. For the year ending June 30, 2011, the Corporate Governance funds returned 36.3 percent.

Table 6 | Investment Summary for the Current and Previous Fiscal Year
(dollars in millions)

	June 30, 2010		June 30, 2011			
PORTFOLIO TYPE	**BOOK VALUE**	**NET ASSET VALUE**	**BOOK VALUE**	**NET ASSET VALUE**	**% OF NET ASSET VALUE**	**NET VALUE CHANGE**
Global Equity	$63,739	$67,059	$64,566	$82,365	53.0%	$15,306
Fixed Income	27,755	28,466	27,359	27,388	17.6%	(1,078)
Private Equity	20,251	19,158	21,224	22,987	14.8%	3,829
Real Estate	23,179	13,040	25,975	18,859	12.1%	5,819
Absolute Return	1,221	1,217	2,660	2,826	1.8%	1,609
Liquidity	1,021	1,021	1,087	1,088	0.7%	67
PORTFOLIO TOTAL	**$137,166**	**$129,961**	**$142,871**	**$155,513**	**100.00%**	**$25,552**
Adjustments:						
Securities Lending Collateral		$27,101		$25,200		
Accruals		223		842		
Cash & Cash Equiv		(212)		(343)		
PLAN ASSETS-INVESTMENTS		**$157,073**		**$181,212**		

CASH BALANCE BENEFIT PROGRAM

The Cash Balance Benefit Program contributions were invested into pooled funds from inception on February 1, 1997 through June 30, 2001. Sixty percent of the contributions were allocated to the S&P 500 Portfolio and 40 percent to the Government Index Portfolio. Beginning July 1, 2002, Cash Balance Benefit Program contributions are invested in the Teachers' Retirement Fund, excluding Private Equity and Real Estate investments. The market value, as of June 30, 2011, was $150.8 million. The rate of return for the Cash Balance Benefit Program for the fiscal year was 23.9 percent.

DEFINED BENEFIT SUPPLEMENT PROGRAM

The Defined Benefit Supplement Program contributions are invested in the Teachers' Retirement Fund excluding Private Equity and Real Estate investments. Contributions were first received in the Defined Benefit Supplement Program in January 2001.

The market value as of June 30, 2011, was $7.9 billion. Since the inception of the Defined Benefit Supplement Program, the annualized rate of return is 4.8 percent. The rate of return for the Defined Benefit Supplement Program for the fiscal year was 23.9 percent.

Table 7 | Schedule of Investment Expenses July 1, 2010 Through June 30, 2011 (dollars in thousands)

	NET ASSET VALUE	INVESTMENT EXPENSES	BASIS POINTS
Investment Categories			
Global Equity	$82,365,084	$93,290	11.3
Fixed Income	27,388,487	20,123	7.3
Private Equity	22,987,403	9,714	4.2
Real Estate	18,858,689	24,669	13.1
Liquidity	2,826,260	173	0.6
Absolute Return	1,087,569	521	4.8
TOTAL ASSETS AND EXPENSES	**$155,513,492**	**$148,490**	**9.5**

Table 8 | Global Equity Broker Commissions July 1, 2010 Through June 30, 2011

BROKER NAME	COMMISSION	SHARES	COMMISSION PER SHARE
J P Morgan	$3,244,425	399,681,058	$0.008
Credit Suisse Bank	2,687,387	302,566,314	0.009
Merrill Lynch	2,468,572	480,543,259	0.005
Citigroup	2,252,871	213,695,908	0.011
Instinet	1,976,848	100,689,757	0.020
Goldman Sachs	1,967,656	293,728,513	0.007
State Street Bank and Trust Company	1,865,037	275,378,218	0.007
UBS AG	1,553,544	223,577,276	0.007
Deutsche Bank	1,257,553	164,504,402	0.008
Ridge Clearing	963,636	94,006,403	0.010
Other Brokers	15,212,672	1,189,225,141	0.013
TOTAL COMMISSIONS	**$35,450,201**	**3,737,596,249**	**$0.009**