~~**EXHIBIT 2**~~

~~or company type, leverage, deal structure, deal components, and terms, make them truly active investments requiring resources capable of reviewing the fundamentals of the deal structure and capital to fund the deal. With internal management, recruiting investment professionals who have highly specialized skills in active strategies may be difficult. CalSTRS' compensation structure and the current environment of state budget cuts may provide a headwind to attracting new investment talent. There is also the potential for key investment staff turnover. This will always be a concern in both internal and external portfolios. CalSTRS, like external managers, would seek to construct a bench of talent for any strategy undertaken.~~

~~**Infrastructure/Resource Requirements**~~

~~Does CalSTRS have sufficient infrastructure and the resources to support the strategy? Technology and risk management systems, along with proper staffing levels (front and middle office) are a key ingredient to operating a successful investment management operation. CalSTRS has gained much of this experience over the last 20 years through the development of our own internal infrastructure, in terms of communications, specialized investment software, and analytical criteria needed to operate in the public fixed income and equity markets, as well as our exposure to external managers.~~

~~GLOSSARY~~

~~**ACTIVE MANAGEMENT** – An active manager seeks to outperform the benchmark by buying equities that they believe will provide superior performance versus a benchmark, making concentrated decisions to over or underweight a specific stock or sector of the market based on fundamental, technical, or other criteria.~~

~~**AMERICAN DEPOSITARY RECEIPTS (ADR)**. ADRs represent the ownership in the sharesof a foreign company trading on U.S. financial markets. ADRs are typically traded on a U.S. national stock exchange.~~

~~**BASIS POINT** – One hundredth of one percent or .0001 in decimal form.~~

~~**BENCHMARK** – A standard against which the performance of a security, mutual fund or investment manager can be measured. Generally, broad market and market-segment stock and bond indexes are used for this purpose.~~

~~**BEST NET EXECUTION** – Refers to executing client transactions so that the client's total costis the most favorable under the particular circumstances at that time. According to the U.S. Securities and Exchange Commission, some of the factors a broker must consider when seeking best execution of a client's order include: the opportunity to get a better price than what is currentlyquoted, the speed of execution, and the likelihood that the trade will be executed.~~

~~**BROKER** – Refers to a person or entity registered with the National Association of Security Dealers and provides investment services (research, etc.) and/or execution services.~~

~~**DERIVATIVE** – A derivative is a security whose price/return is dependent upon the price/returnof some other underlying asset. Futures contracts, forward contracts, options and swaps are the most common types of derivatives.~~

~~**DIVERSIFICATION** – Investing in a wide range of securities/or asset classes in order to reduce financial risk.~~

~~**EXCHANGE TRADED FUNDS (ETFs)** – ETFs are an investment vehicle traded on stock exchanges which hold assets such as stocks or bonds and trades at approximately the same price as the net asset value of its underlying assets. Most ETFs track an index, such as the Dow Jones Industrial Average or the S&P 500.~~

~~**EXPECTED ACTIVE RISK** – See forecast active risk.~~

~~**FORECAST ACTIVE RISK** – The expected standard deviation of the difference between portfolio returns and benchmark returns as measured by CalSTRS risk management system. Forecast active risk is also known as expected active risk.~~

~~**GLOBAL DEPOSITARY RECEIPTS (GDR)** – GDRs are certificates issued by a depository bank, which represent ownership of an underlying number of foreign shares. GDRs are commonlylisted on international stock exchanges such as the London Stock Exchange~~

~~**GROWTH STYLE** – This style of investment constructs portfolios that have more earnings potential than the benchmark and therefore have the potential to produce superior returns over the benchmark. These portfolios generally exhibit more risk than the benchmark.~~

~~**INDEXED PORTFOLIO** – This type of portfolio is structured to replicate a specific index. The objective is to generate a portfolio that will produce the same return as the index at the same levelof risk as the index.~~

~~**INVESTMENT GUIDELINES** – This is a document that establishes the parameters through which the investment manager will invest CalSTRS' assets. These guidelines specify validsecurities for the portfolio, the return expected from the manager, how the manager will be evaluated and the period over which the manager will be evaluated.~~

~~**INVESTMENT POLICY AND MANAGEMENT PLAN** – This document outlines CalSTRS general and financial objectives including specific investment strategy. This document is the resultof studies that include the assets and liabilities for CalSTRS.~~

~~**LARGE CAPITALIZATION STYLE** – Refers to the investment process that includes a range of styles, from value to growth, that provide active management using large capitalization stocks.~~

~~**LIQUIDITY** – Refers to availability of a stock to be traded. An issue that is readily available is considered to be liquid, an issue that does not trade very often is deemed illiquid.~~

~~**PASSIVE MANAGEMENT** – Passive managers utilize either a replication or optimization methodto track a benchmark's performance. With replication, every security in the portfolio is held in theexact proportion as the benchmark. Optimization seeks to mimic the risk and return characteristicsof a benchmark by only holding a subset of the benchmark's securities.~~

~~**PERFORMANCE OBJECTIVE** – Refers to each individual external manager's designated benchmark (example, Russell 1000) and their performance target (example, Russell 1000 + 1½ percent).~~

~~**POOL MANAGERS** – Refers to investment managers who have been selected to take the placeof funded managers that may be terminated. The pool managers will correct any imbalance causedby the termination of a manager and quickly correct possible unintended bets or tilts.~~

~~**REALIZED ACTIVE RISK** – The actual standard deviation of the difference between historical portfolio returns and benchmark returns.~~

~~**SMALL CAPITALIZATION STYLE** – Refers to an investment process that includes a range of styles, from value to growth, that provide active management using small capitalization stocks.~~

~~**SOFT DOLLARS** – Refers to directed brokerage credits created and used by an investment manager rather than a plan sponsor. The use of soft dollars by investment managers is only allowable under SEC Section 28(e) safe harbor requirements. The term and use of soft dollars hascreated controversy and criminal actions within the investment management industry as some managers used the client's credits for services beyond the SEC safe harbor limits.~~

~~**STRUCTURED NOTE** – A security with one or more special features, such as making payments based on an underlying index.~~

~~**SWAP AGREEMENT (SWAP)** – An arrangement between two parties to exchange one securityfor another, to change the mix of a portfolio or the maturities of the bonds it includes, or to alter another aspect of a portfolio or financial arrangement.~~

~~**VALUE STYLE** – Refers to the investment process which seeks to identify present value rather than future rewards, select stocks that will maintain their price in falling markets or periods of economic uncertainty, and look for stocks that are undervalued but fundamentally strong.~~

~~**WARRANT** – A security that gives the holder the right to purchase securities (usually equity) from the issuer at a specific price within a certain time frame.~~