

# 2013–14 Sustainability Report

*The Next 100 Years*



CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM



# TABLE OF CONTENTS

<b>04</b> / A WORD FROM CEO JACK EHNES	
<b>06</b> / TEACHERS' RETIREMENT BOARD	
<b>07</b> / CALSTRS EXECUTIVE STAFF	
<b>08</b> / ABOUT THIS REPORT	
Report Profile .....	9
Stakeholder Engagement and Materiality Process .....	11
<b>14</b> / CALSTRS: OUR ORGANIZATION, OUR VISION	
Mission and Vision .....	15
Office Locations.....	15
Organizational Profile.....	15
Annual Retirement Statistics.....	16
Teachers' Retirement Board .....	16
Workforce Profile.....	18
Employee Engagement.....	21
Workforce Development and Training.....	23
Core Values, Sustainability Vision and Guiding Beliefs .....	24
Leading the Direction in Sustainable Finance..	27
Sustainable Procurement Practices .....	28
<b>30</b> / SUSTAINING RETIREMENT SECURITY	
Member Services and Engagement.....	31
Annual Member Engagement Survey Results...	35
CalSTRS Plan Funding .....	36
<b>40</b> / INVESTMENT-BASED IMPACTS	
Sustainability and Risk Management .....	41
Carbon-Based Investment Risk Management ..	42
Investment Impact Study .....	43
<b>48</b> / TRANSPARENCY AND PRIVACY IN OUR BUSINESS PRACTICES	
Ethics and Transparency .....	49
Teachers' Retirement Board Training and Disclosures.....	49
Hotlines and Compliance.....	50
Member Privacy and Information Security .....	53
<b>54</b> / ENVIRONMENTAL EFFORTS AND PERFORMANCE	
Water Resource Stewardship.....	55
Headquarters Environmental Performance.....	59
<b>63</b> / G4 CONTENT INDEX	

## A Word From CEO Jack Ehnes



### Sus-tain-a-bil-ity

- » To maintain
- » For the long-term
- » Protecting the rights of future generations
- » Caring for and respecting the ecosystem and for the people within

#### **Sustainability is the very essence of CalSTRS.**

We are one of the oldest and largest pension systems in the world and we are here in perpetuity.

We **provide** financial resources for generations of educators.

We have a **long-term** focus looking out for the financial well-being of our membership.

We are **committed** to providing a work environment for our staff and visitors that is stimulating, healthy and supportive.

We are a **responsible** investor that recognizes that societal and environmental risks such as climate change can have significant financial impact.

We **diversify** our portfolio with holdings throughout the world to maximize our returns and mitigate risk.

We are an **engaged** investor that pursues shareholder rights to ensure we protect the value of our investments.

#### **OUR MISSION**

**Securing the financial future and sustaining the trust of California's educators.**

CalSTRS is the first U.S. public pension plan to embark upon sustainability reporting in accordance with Global Reporting Initiative guidelines.

In our 2013–14 fiscal year, we experienced two major milestones—CalSTRS celebrated 100 years of serving California educators and we succeeded in passing legislation to fully fund the plan.

As I stand at the crossroads, having led the organization through the tail end of the first century and now guiding it into its second century, the Global Reporting Initiative provides a framework to establish a sustainable pathway forward to ensure CalSTRS' viability for the next hundred years.

Our long-term goal consists of acceleration into a fully sustainable, global organization. However, sustainability is more than a reporting feature of our business model; it is the very essence of CalSTRS.

With successful environmental programs instituted within our organization, our vision seeks to align our sustainability beliefs with every facet of our business plan. By putting additional sustainability initiatives in place, we ensure the integrity of our system and strengthen the fund.

The mission of CalSTRS is to secure the financial future and sustain the trust of our members. Most recently, our mission was the driving force behind a nearly 10-year effort to address the CalSTRS funding shortfall. It took many years to cultivate the alignment of interests necessary to construct a legislative plan.

The succession of complex issues that surrounded this effort placed tremendous importance on our transparency. CalSTRS conducted extensive legislative, media and stakeholder briefings, and engaged in public discussions with a consistent message: absent any changes in contribution rates or liabilities, current calculations projected that the program would deplete its assets in about 30 years.

Finally, on June 24, 2014, the need to stabilize CalSTRS' funding was acknowledged with the enactment of the funding solution detailed in California Assembly Bill 1469-Bonta, Chapter 47, Statutes of 2014. The shared-responsibility plan gradually increases contribution rates from all plan contributors by an amount that is projected to fully fund the Defined Benefit Program in roughly 32 years.

Success in enacting this plan would not have been possible without the support and participation of our stakeholders. In fact, our collaboration in this effort illustrates the importance of long-term thinking for the benefit of future generations. This is a key sustainable tenant.

CalSTRS is one of the nation's largest and oldest educator pension funds created in perpetuity to serve California's hard-working educators. CalSTRS began in 1913 with 16,020 active and retired members, and has since grown to 879,000 members. In 2013 CalSTRS celebrated 100 years of service to California's educators.

In that time, barriers were broken in space exploration, science, technology and social equality. Man walked on the moon. People from diverse backgrounds, ethnicities and genders commanded leadership positions, and diseases that once crippled generations before them were eradicated with life-changing medicine such as penicillin.

We are a responsible investor who recognizes that societal and environmental risks such as climate change can have a significant financial impact. We diversify our portfolio with holdings throughout the world to maximize our returns and mitigate risk and we are committed to provide a stimulating, healthy and supportive environment for our staff, our members and our business partners.

As we move into the future, indicators of past challenges and successes live in our rich history. Since our inception, CalSTRS has never missed a retirement payment to our beneficiaries, even during the Great Depression and most recent Great Recession. It is our solid commitment to provide dependable financial resources that generations of educators have come to depend upon.

Today's challenges offer us opportunities to respond to changes in everything from our climate to evolving business practices and new technologies. We are developing ways to meet the financial needs of the system, balanced with a responsible investment strategy. Strength in long-term value creation promoted through environmental stewardship, diversity and recognition of human rights guide our efforts.

One hundred years ago, CalSTRS was founded upon the principle that hard-earned retirement benefits reward decades of classroom service. This principle remains constant throughout our history, and sustains our business model both now and in the future.

## Teachers' Retirement Board



**Harry M. Keiley**  
*Board Chair*  
K-12 Classroom Teacher



**Sharon Hendricks**  
*Board Vice Chair*  
Community College Instructor



**Michael Cohen**  
*Director of Finance*  
Ex-Officio Member



**John Chiang**  
*State Treasurer*  
Ex-Officio Member



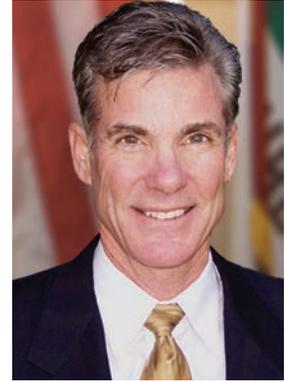
**Dana Dillon**  
*K-12 Classroom Teacher*



**Joy Higa**  
*Public Representative*



**Paul Rosenstiel**  
*Public Representative*



**Tom Torlakson**  
*State Superintendent of  
Public Instruction*  
Ex-Officio Member



**Thomas Unterman**  
*Public Representative*



**Betty Yee**  
*State Controller*  
Ex-Officio Member

## CalSTRS Executive Staff



**Jack Ehnes**  
*Chief Executive Officer*



**Cassandra Lichnock**  
*Chief Operating Officer*



**Robin Madsen**  
*Chief Financial Officer*



**Brian J. Bartow**  
*General Counsel*



**Christopher J. Ailman**  
*Chief Investment Officer*



**Lisa Blatnick**  
*Chief of Administrative Services*



**Peggy Plett**  
*Deputy Chief Executive Officer*



**Chris Caietti**  
*BusinessRenew  
Executive Officer*



**Ed Derman**  
*Deputy Chief Executive Officer*



**Ashish Jain**  
*Chief Technology Officer*

# About This Report



## Report Profile

This report is an overview of the relative data and assessment of the material topics covering July 1, 2013–June 30, 2014 and, in some cases, calendar year 2014 as noted. This is CalSTRS' inaugural Global Reporting Initiative report and was prepared in accordance with the GRI G4 Guidelines Core option.

Our Boundary and scope includes our headquarters building, four member service centers (one contained within our headquarters building) and financial information from our State Teacher's Retirement Plan. Most data is aggregated over our five California locations; however, some data is specific to our headquarters building because individual member service centers do not materially affect this data. Headquarters-only data includes energy, water, alternate transportation and waste diversion figures. Member service centers do not affect CalSTRS' energy and water usage materially because utility savings and usage are primarily controlled by lease agreements for the centers.

Financial information from functions other than our State Teacher's Retirement Plan does not materially affect our finances. Other CalSTRS' functions with a non-material impact on our financial information include: Pension 2, Teachers' Health Benefits and Teachers' Deferred Compensation.

### Assurance

CalSTRS has no policy on the report's external assurance at this time, but strives to provide accurate, transparent and internally verified information where possible. At the request of the CalSTRS Executive Management team, our internal audit staff performed an independent and objective review of this sustainability report. CalSTRS internal audit staffs' procedures were designed to obtain a limited level of assurance over all statements and facts in this report.

For questions or comments about the report, please contact [sustainability@calstrs.com](mailto:sustainability@calstrs.com).



## Stakeholder Engagement and Materiality Process

To determine material topics for our annual report, CalSTRS executives chose a small group of material topics based on the Global Reporting Initiative Aspects which:

1. Represent the organization’s significant economic, environmental and social impacts.
2. Have been the focus of a substantial stakeholder concern.
3. Have been widely viewed as a contemporary industry-related challenge or priority.

Once the executive team reviewed all the GRI Aspects and relative topics, a set of 12 topics was agreed upon. Via an anonymous electronic survey, executives prioritized these items individually based on the level of impact each topic has on CalSTRS operations, assessments and decisions. Then we asked our stakeholders, including employees, members and other selected stakeholders, as listed on page 10, to complete a similar survey assessing their level of concern with the same 12 topics. We received nearly 3,700 survey responses.

### Top 5 Responses by Stakeholder Group



While the same four topics—Member Services and Engagement, Defined Benefit/Plan Funding, Ethics and Transparency, Information Security and Privacy—were ranked in the top five by each stakeholder group, we are also including the five highest-ranked topics of each stakeholder group, which adds Water Resources/Drought, Indirect Economic Influences, Carbon-Based Investment Risk, and Workforce Development and Employee Engagement to the material topics covered in this report.

# Stakeholder Engagement

The following stakeholder groups were selected based on their commitment to California's public educators, their principles of sustainability as they pertain to financial markets, and the direct impact that CalSTRS' actions have on the livelihood of the stakeholder.

- A** | American Federation of Teachers  
Association of Asian American Investment Managers
- C** | California Federation of Teachers  
California Teachers Association  
CalPERS Corporate Governance Office  
CalSTRS Client Advisory Committee  
CalSTRS Employees  
CalSTRS Members  
Carbon Disclosure Project  
Ceres  
Council of Institutional Investors
- G** | Generation Investments
- I** | International Public Management Association  
for Human Resources
- J** | Jones, Lang, LaSalle—Corporate Sustainability  
Jones, Lang, LaSalle—Headquarters Property  
Management
- M** | MSCI
- N** | National Association of Securities Professionals  
National Council on Teacher Retirement  
National Institute for Retirement Security  
National Education Association  
New America Alliance
- P** | Pension Consulting Alliance  
Principal Real Estate Investors  
Principles for Responsible Investment
- S** | Service International Employees Union Local 1000
- T** | Trucost

**WE ARE AWARE OF THE VALUE OF THIS PROCESS AND IN THE COMING YEAR WILL INCREASE THE AMOUNT AND FOCUS OF OUR ENGAGEMENT TO BENEFIT OUR SUSTAINABILITY EFFORTS.**

### **Stakeholder Comments and Concerns**

For years CalSTRS has sought feedback and comments from our members, employees and stakeholders on many issues through the use of surveys, at board meetings and advisory committees, and via other less formal vehicles, such as anonymous intranet communication portals for employees and Internet blogs for members. We are aware of the value of this process and in the coming year will increase the amount and focus of our engagement to benefit our sustainability efforts. For this year's report, we leveraged our materiality survey as the sole source for disclosure of our stakeholders' concerns surrounding the selected topics for discussion. Of the thousands of responses received from the survey, about 100 included comments. The following is a sample of the subject matter of those comments:

- » Customer service concerns.
- » Investment in fossil fuels versus investment in clean energy.
- » Climate change issues and environmental sustainability.
- » Economic viability of the Teachers' Retirement Fund to provide a secure retirement for future retirees.
- » Pension abuse practices.

Although we cannot respond to these comments directly due to the anonymous nature of the survey, we can address the shared concerns through this report and will use the feedback to design our upcoming communication efforts.

# CaISTRS: Our Organization, Our Vision



## Mission and Vision

**Securing the financial future and sustaining the trust of California's educators.**

**Your Reward—A Secure Retirement**

**Our Reward—Getting You There**

The California State Teachers' Retirement System, CalSTRS, is a multiemployer public pension system and institutional investor that administers a hybrid retirement system consisting of traditional defined benefit, cash balance and defined contribution plans, as well as disability and survivor benefits. The Defined Benefit Program is mandatory for all of California's full-time certificated public educators and vesting occurs after five years. CalSTRS serves educators prekindergarten through community college and their beneficiaries. Our global investments are both internally and externally managed. CalSTRS is the largest educator-only pension fund in the world, with 879,329 beneficiaries.

## Office Locations

CalSTRS headquarters is located at 100 Waterfront Place, West Sacramento. In addition, CalSTRS has four member service centers located in West Sacramento, Glendale, Santa Clara and Irvine. The most recent, Irvine member service center opened June 30, 2014.

## Organizational Profile

*as of June 30, 2014*

**\$190.5 billion**

Total net position of State Teachers Retirement Plan

**\$11.9 billion**

Annual benefit payments

*Includes service retirement benefits, disability benefits, survivor benefits and purchasing power*

**8.4%**

Portfolio-wide rate of return on investments over 20 years

**18.7%**

Annual rate of return on investments

**\$71,594,000**

Total operating expenses and equipment costs

**\$104,106,000**

Employee personnel services costs

**989**

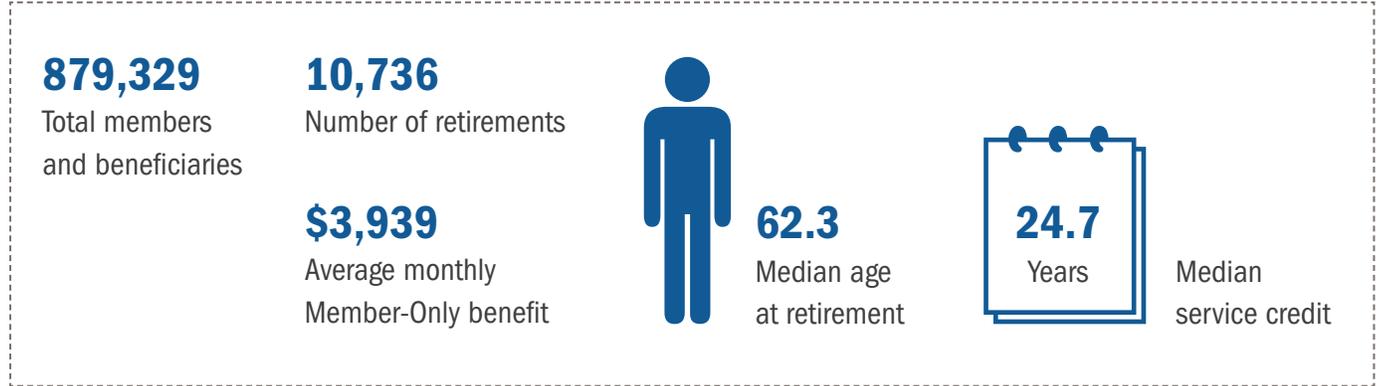
Employees

**4**

Member Service Centers

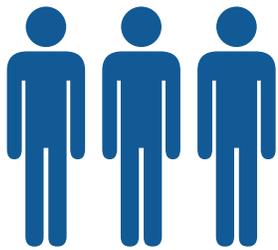
# Annual Retirement Statistics

July 1, 2013–June 30, 2014

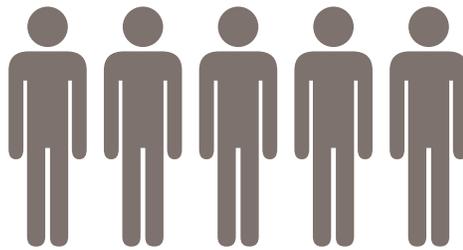


## Teachers' Retirement Board

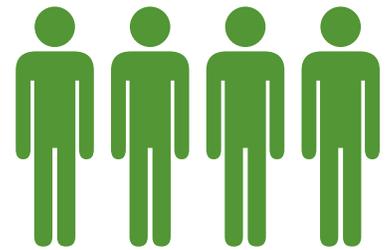
CalSTRS is administered by the 12-member Teachers' Retirement Board which has plenary authority. The board sets the policies and makes rules for the system and is responsible for ensuring the system pays benefits in accordance with law. The board has exclusive control over the investment and administration of the Teachers' Retirement Fund and is composed of:



Three members elected by CalSTRS membership



Five members appointed by the Governor, including three public members



Four ex-officio members:

- » Superintendent of Public Instruction
- » State Treasurer
- » State Controller
- » Director of Finance

**The board has seven standing committees:**

COMMITTEE	PURPOSE
APPEALS	The Appeals Committee provides a dedicated body to hear, deliberate upon, and decide appeals of system determinations pursuant to the Administrative Procedure Act.
AUDITS AND RISK MANAGEMENT	The Audits and Risk Management Committee assists the board in fulfilling its fiduciary oversight responsibilities for: financial reporting, risk management, internal control, internal audit, external audit of the financial statements, and engagements with other external firms.
BENEFITS AND SERVICES	The Benefits and Services Committee develops and oversees the execution of prudent policies relating to levels of benefits and the delivery of services to CalSTRS members, retirees and beneficiaries.
BOARD GOVERNANCE	The Board Governance Committee supports the board in promoting the best interests of CalSTRS, its members, retirees and beneficiaries through the implementation of sound board governance policies and practices that enhance good, fair and open decision-making.
COMPENSATION	The Compensation Committee provides oversight to the system’s compensation policies and plan that support the successful recruitment, development and retention of talent to meet the business objectives of CalSTRS.
INVESTMENTS	The Investments Committee administers all matters relating to the investment of the system’s assets and investment management. The committee is charged with administering the system’s assets for the exclusive purpose of providing benefits to the participants and their beneficiaries within the system and maximizing the financial stability of the system in an efficient and cost-effective manner.
LEGISLATIVE	The Legislative Committee adopts board positions on legislation in accordance with the board’s legislative policy.

**Two advisory committees, the Employer Advisory Committee and the Client Advisory Committee, meet regularly to provide forums for active participation in the formation of CalSTRS’ policies and procedures.**

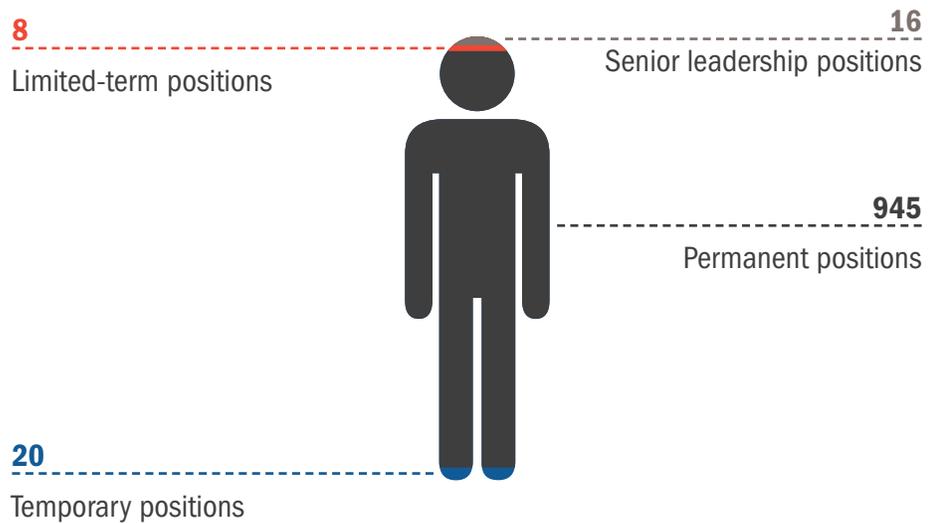
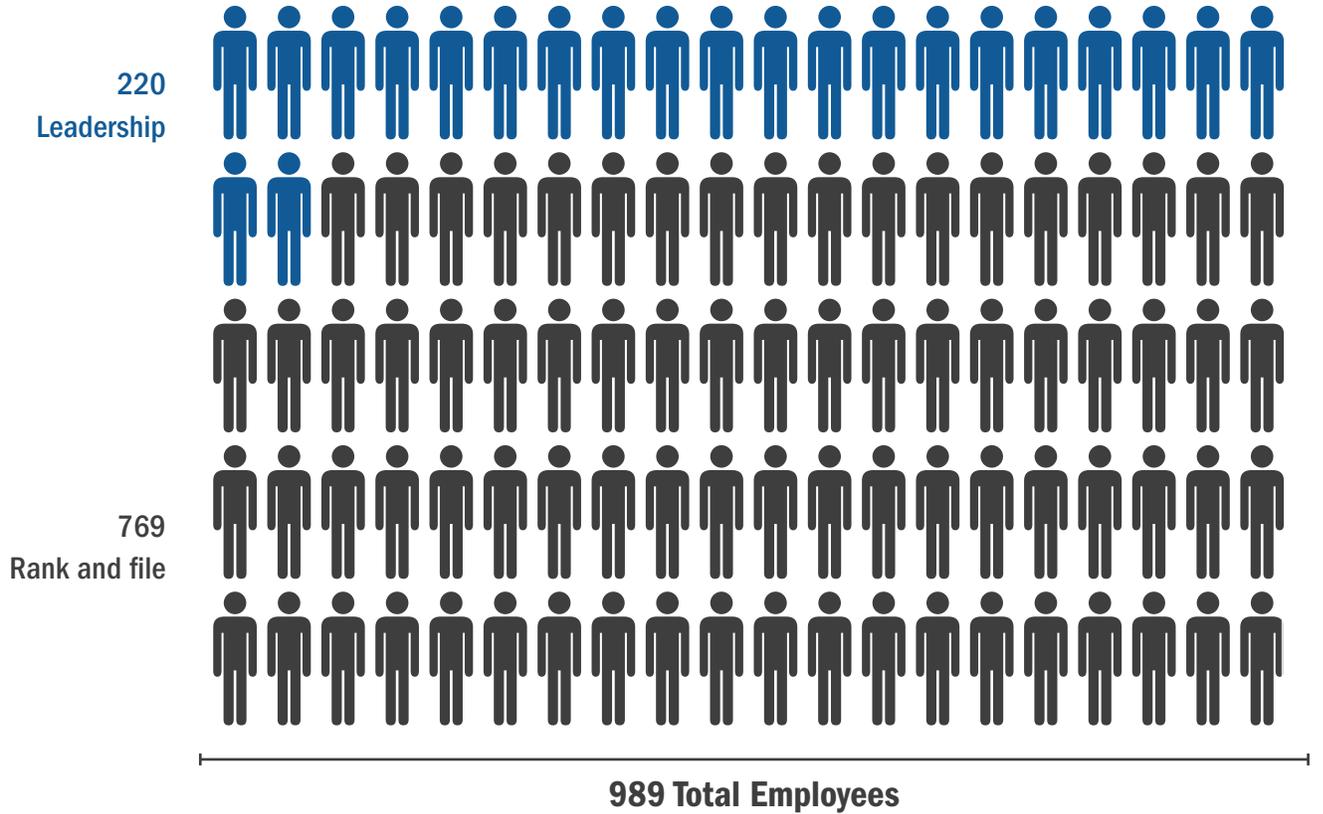
Board charters can be found in the Teachers’ Retirement Board manual on [CalSTRS.com](http://CalSTRS.com).

# Workforce Profile

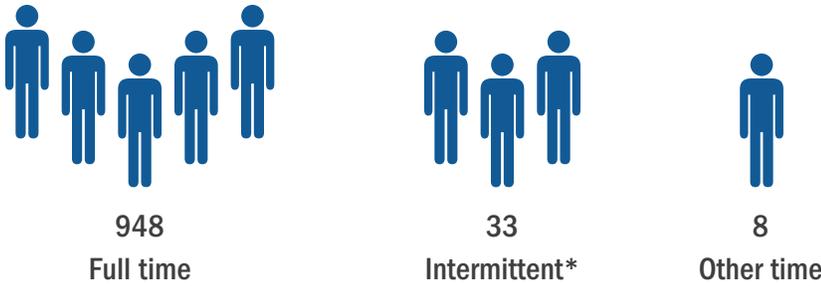
## Number of Employees

as of June 30, 2014

 Represents 10 employees



## Employees by Time-base

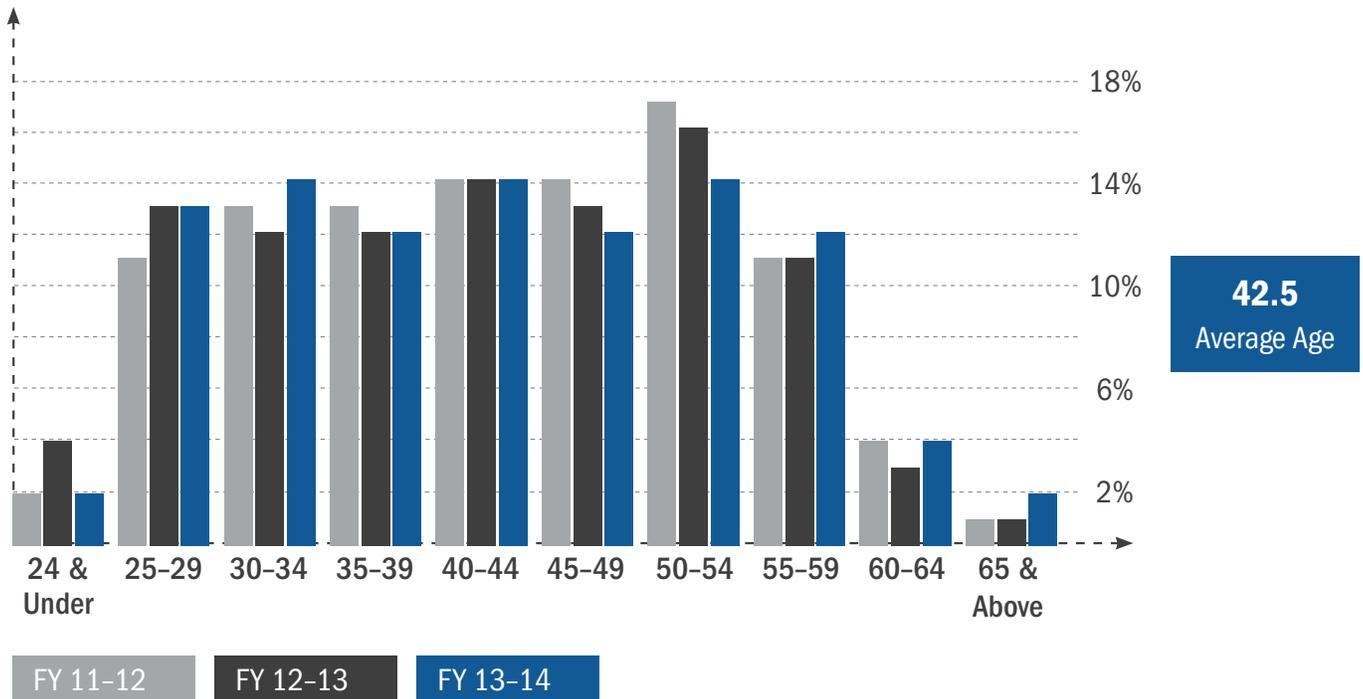


Seventy-eight percent of CalSTRS employees are covered by collective bargaining agreements. The remainder hold supervisory or managerial positions.

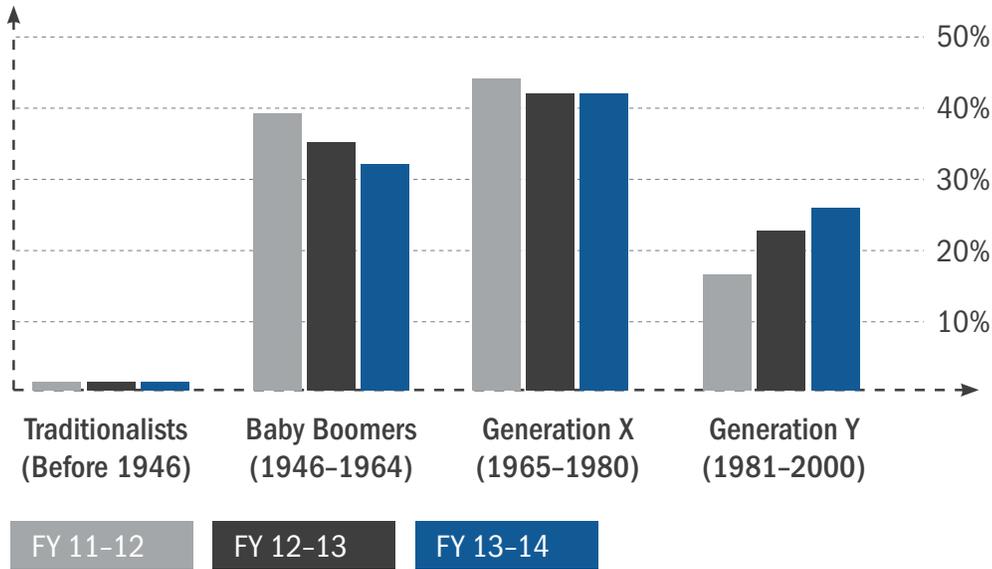
\* The intermittent time-base is used for temporary workforce efforts such as service retirement application processing in the spring.

## CalSTRS Employees by Age, Generation, Gender and Ethnicity

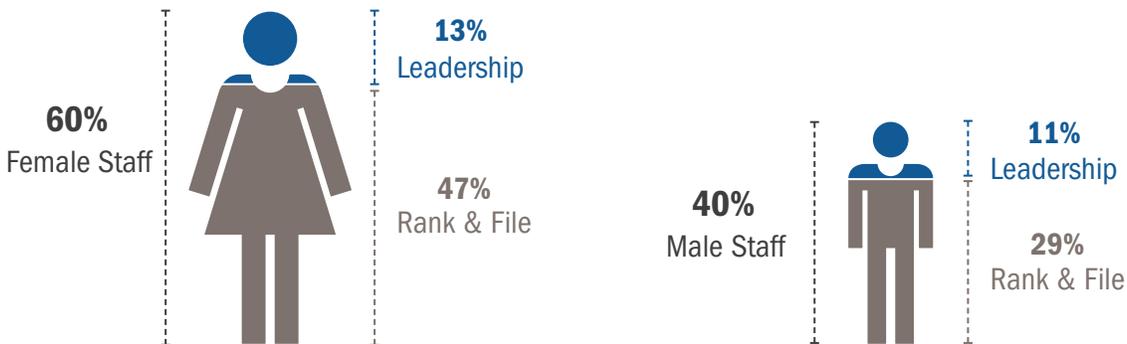
CalSTRS has a mix of employees representing the age groups and generations in the workforce today. This diversity adds to the breadth of our perspectives and prepares our organization for a sustainable future. Although each employee is an individual with his or her own influencers, traits and values, generational descriptors can be used as high-level tools for general understanding.



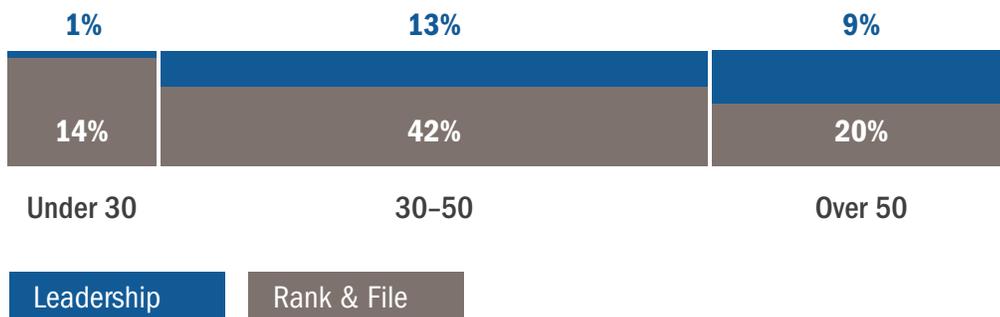
## Employees by Generations



## Employment Type by Gender



## Employment Type by Age



## Diversity by Ethnicity

### Leadership

### Rank & File

Leadership	Rank & File
0%	American Indian 1%
3%	Asian 15%
2%	Black 7%
> 1%	Filipino 4%
2%	Hispanic 13%
> 1%	Pacific Islander 1%
16%	White 34%
1%	Other 2%

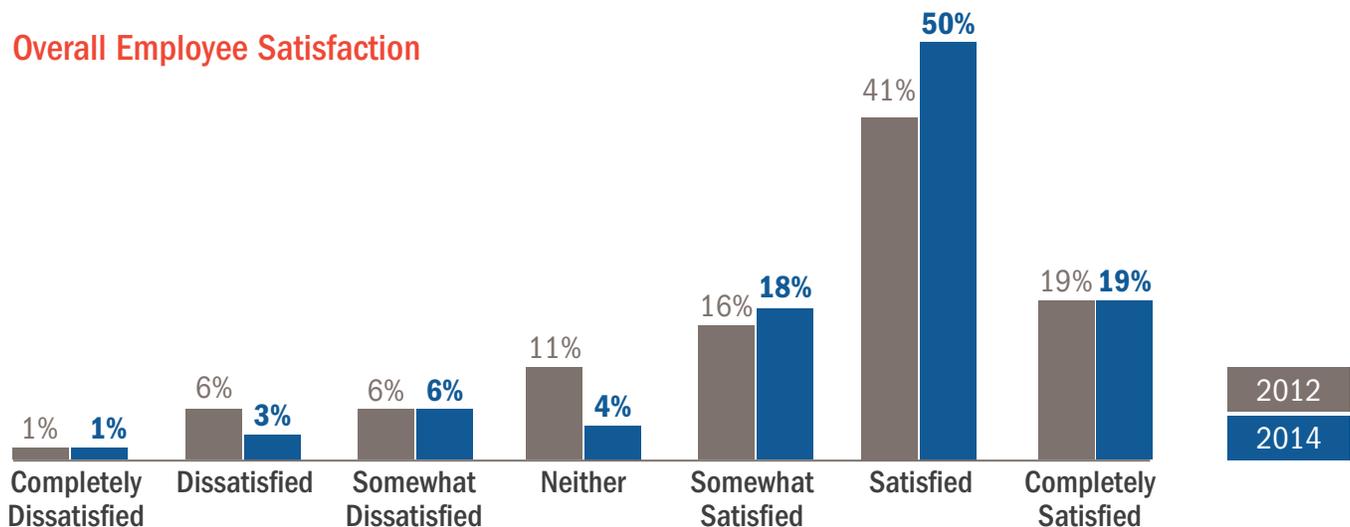
## Employee Engagement

CalSTRS provides employees with a clear connection to our mission and core values and fosters a positive culture for employees with programs designed to help them feel valued and inspired and to support balanced lifestyles. We offer a healthy work environment and a highly lauded recognition program, and encourage employee development with onsite technical and soft-skill training programs. Biennial surveys gauge our levels of employee engagement and assist us in improving and defining our culture.

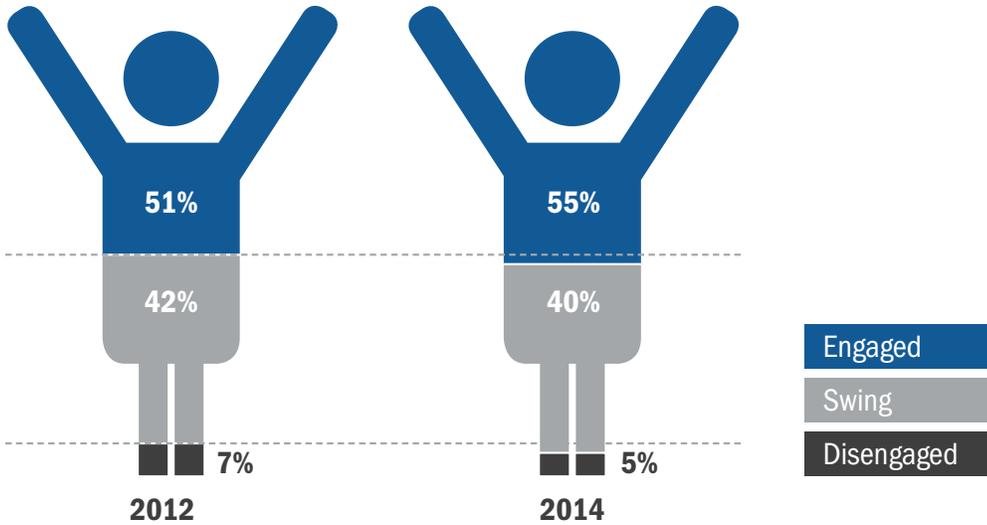
The 2014 Employee Engagement assessment was sent to all employees in March 2014. Eight hundred and sixteen employees responded, which represents an 86 percent response rate. The study measured levels of employee satisfaction and engagement as well as opportunities for organizational improvement.

**86%**  
Responded

### Overall Employee Satisfaction



## Overall Engagement



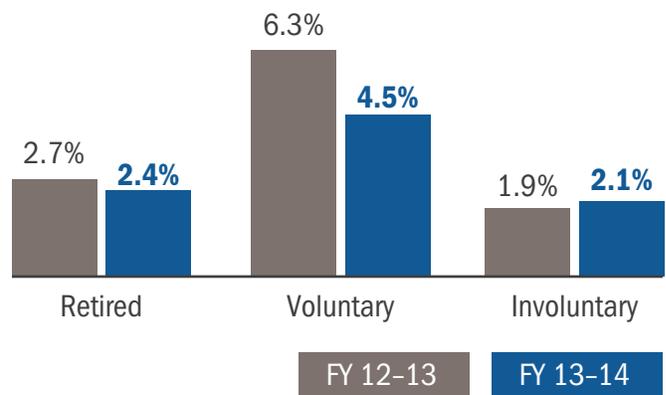
As CalSTRS continues to make efforts to address areas important to employee engagement, our overall engagement survey scores have increased. In 2014, we saw a 4 percent improvement in the engagement outcomes score from the previous year, with 55 percent of employees engaged.

## Employee Turnover

The turnover for fiscal year 2013–14 was 9 percent, including retirements, voluntary and involuntary turnover. This number is less than our enterprise-wide target rate of 10 percent. We have higher turnover in areas where temporary and seasonal help is widely used, and these employees are included in our calculations. There was a downward trend in turnover overall during the fiscal year 2013–14. We continue to look at ways to retain staff using the information gleaned from our various feedback systems, including exit surveys and the All Employee Survey.

This data set demonstrates CalSTRS’ commitment to retain and develop top talent internally, balanced with external hires and the fresh experience and perspectives they contribute to the organization.

## Overall Turnover by Type



## CalSTRS Appointments

# of appointments	FY 11-12	FY 12-13	FY 13-14
Internal Promotions	110	119	180
Internal Transfers	35	50	49
New Hires	95	153	176
<b>Total</b>	<b>240</b>	<b>322</b>	<b>405</b>

## Workforce Development and Training

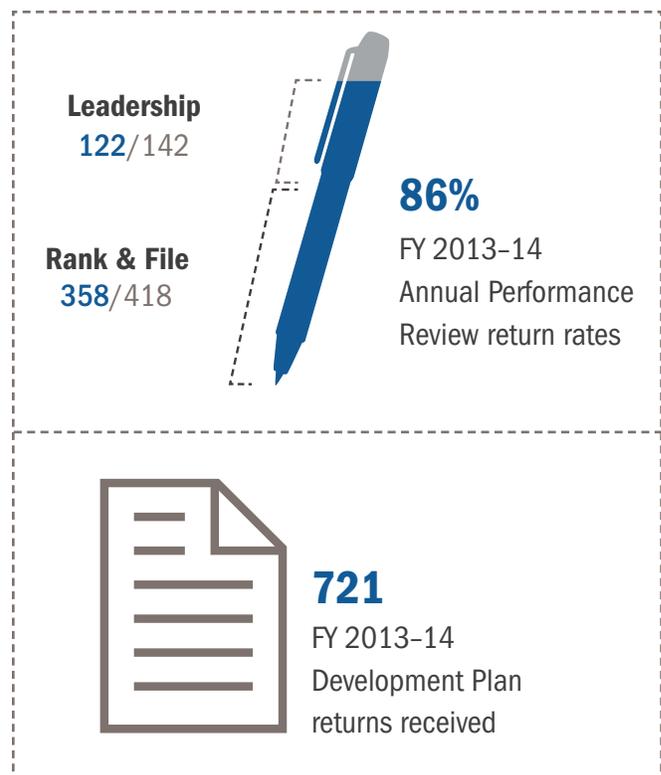
We have developed a workforce strategy plan that provides a framework for identifying skills and competencies needed by CalSTRS' workforce today and in the future. As an employer of choice, CalSTRS is committed to investing in the development of our most valuable asset, our employees, to build a strong, adaptable and diverse workforce. We focus this effort through activities such as recruitment, performance management, staff development, recognition and retention. In addition, our training academies and courses create a comprehensive training pipeline from entry-level staff through executive development. The training and development courses begin with the pre-analyst academy, and continue with the analyst academy, emerging leadership series, manager academy, and executive development program.

Our continued success depends on our ability to identify, develop or hire the next generation of prepared, confident and engaged leaders. We are committed to a work environment that considers leadership development a priority. We recognize that investing in leadership development and succession planning is critical to our long-term performance, growth and fulfillment of our mission. The CalSTRS Leadership Training Program Series is used to create a more systematic, visible system of identifying candidates for succession, combined with the process for their development.

Our courses are linked to the CalSTRS Core Competencies. These competencies are the knowledge, skills, behaviors, personal attributes and characteristics necessary for any CalSTRS employee to be successful. They are "core" to the organization as a whole.

## Career Development Reviews

Our annual performance review process is a key component to succession planning. This requirement reinforces the importance to our leadership team of formal employee feedback and ongoing development. Our goal is to have 100 percent completion of career development reviews. As of the end of the 2014 calendar year, 86 percent of the required performance reviews had been completed for the period running through June 2014.



The baseline data collected from the annual performance review process is used to identify areas of the organization that require immediate assistance with employee development and to address and mitigate lapses in performance. Competency-specific development plans are tracked and analyzed to establish a quantifiable link to performance improvements that are a direct result of requested training.

## Core Values

The CalSTRS Core Values are a set of attitudes, beliefs and behaviors that define CalSTRS and our employees. Core values orientation is an important component of our onboarding program. Our Living Our Core Values recognition program acknowledges behaviors that demonstrate the practice of our core values.

### Customer Service

We never compromise on quality as we strive to meet or exceed the expectations of our customers.

### Accountability

We operate with transparency and accept responsibility for our actions.

### Leadership

We model best practices in our industry and innovate to achieve higher standards.

### Strength

We ensure the strength of our system by embracing a diversity of ideas and people.

### Trust

We conduct ourselves with integrity, acting ethically in every endeavor.

### Respect

We respect the needs of our members, co-workers, and others, treating everyone with fairness, honesty, and courtesy.

### Stewardship

We recognize our fiduciary responsibility as the foundation for all decision-making.

## Sustainability Vision

CalSTRS defines sustainability as the framework that governs our organizational business culture. Sustainable objectives are fully integrated into our everyday business practices at every level of our business operations.

From member services to investment strategy, our sustainability practices seek to create long-term value, promote stewardship of our natural resources and sustain the financial integrity of the fund for the benefit of our members and our community. We believe that establishing a corporate environment with sustainable values is a blueprint for better governance and increased profitability.

CalSTRS adheres to the United Nation's Global Compact and the Principles for Responsible Investment as referenced in the CalSTRS Sustainability Policy and the Corporate Governance Principles that guide our proxy voting activities.

## OUR SUSTAINABILITY VISION

---

CalSTRS advances sustainability practices that promote long-term value creation, responsible investment strategies, stewardship of our natural resources and engagement with our stakeholder community.

---

## Guiding Beliefs

The purpose of our guiding beliefs is to shape our organization's environmental, social and governance actions and interactions with our stakeholders.

1. CalSTRS supports sustainability programs that build environmental, social and governance principles into our core business and investment practices.
2. CalSTRS responsibly manages risk for the long-term financial strength of CalSTRS, to the benefit of our members, stakeholders and the environment.
3. CalSTRS engages with our stakeholders, business partners and our community on environmental, social and governance issues and principles to understand their insights and perspective.
4. CalSTRS considers the global impact of our business practices in the use of natural resources within our facilities and through the procurement of goods and services.
5. All CalSTRS investments should seek to responsibly manage and disclose economic, social and environmental criteria in order to deliver sustainable and profitable, risk-adjusted returns.
6. CalSTRS encourages procurement of goods and services with contractors and supply chain vendors who incorporate sustainability and environmental, social and governance criteria into their business practices.
7. CalSTRS believes in providing a supportive work environment where employees are encouraged to develop and achieve their full career potential.
8. CalSTRS discloses material sustainability issues and sustainable performance data.
9. CalSTRS adheres to the UN's Global Compact and the Principles for Responsible Investment as referenced in the CalSTRS Sustainability Policy and the Corporate Governance Principles that guide our proxy voting activities.

## Leading the Direction in Sustainable Finance

CalSTRS believes that engagement with companies and communities at large creates long-term value for our stakeholders. Through our collaborative partnerships, we can provide guidance on environmental, social and governance issues that impact the fund. Our executives provide leadership to vital organizations that drive strategic direction within the sphere of corporate sustainability and responsible long-term investing. Below is a list of our strategic leadership roles and general memberships.

### Jack Ehnes, Chief Executive Officer

- » Ceres, Board Member
- » FTSE Environmental Markets Committee, Chairman
- » International Foundation for Employee Benefit Plans, Board Member
- » National Council on Teacher Retirement, Board Member
- » Sustainability Accounting Standards Board, Board Member
- » World Economic Forum's Global Council on Long Term Investing, Council Member

### Christopher J. Ailman, Chief Investment Officer

- » EDHEC-Risk Institute, Board Member
- » Emory Center for Alternative Investments, Board Member
- » MSCI Barra Index Editorial Advisory Board, Board Member
- » Milken Global Capital Markets, Co-Chair
- » PRI, Principles for Responsible Investment, Association Board, Board Member

### Anne Sheehan, Director of Corporate Governance

- » Nasdaq Listing and Hearing Review Council, Board Member
- » SEC Investor Advisory Committee, Board Member
- » SEC Investor As Owner Subcommittee, Chair

### Other General Professional Associations and Memberships

- » Association of Asian American Investment Managers
- » Council of Institutional Investors
- » Employee Benefit Research Institute
- » Government Finance Officers Association
- » International Corporate Governance Network
- » International Public Management Association for Human Resources
- » National Association of Corporate Directors
- » National Association of State Retirement Administrators
- » National Association of Securities Professionals
- » Public Pension Financial Forum

## Sustainable Procurement Practices

CalSTRS' investment returns provide the largest contribution to the fund. To support the investment performance, we contract with more than 100 financial businesses such as investment and asset managers, consultants, advisors, and research and rating firms. For the 2013–14 fiscal year, the cost of our investment operations and corresponding services was approximately \$269 million.

The resources required to support our operations include provision of a complex information technology infrastructure and personnel services. We employ an average of 200 businesses annually to provide various types of information technology, legal and personnel consulting, building management services and miscellaneous products outside of the investments realm. For the 2013–14 fiscal year, the combined operating and personnel services cost was approximately \$156 million.

Our contractors and vendors are located mostly within North America, with a handful of business partners in Europe.

Further detail with operating costs and a list of partnerships can be found in the CalSTRS Comprehensive Annual Financial Report covering the 2013–14 fiscal year, available at [CalSTRS.com/publications](http://CalSTRS.com/publications).



## Operations Contracts & Procurements

CalSTRS has been improving and enhancing our environmental, social and governance policies and practices for many years. We believe it is in the best interest of CalSTRS and our members to align our risk management principles with those with whom we establish agreements. A set of environmental and social compliance-based terms and conditions for all contracted business services, including anti-discrimination clauses, human rights regulations, fair labor and environmental regulation compliances, are presented to each CalSTRS contractor. These social and environmental mandates are established by the State of California, and CalSTRS is responsible to ensure those we do business with are in compliance with the requirements.

## Disabled Veterans Business and Small Business Enterprise Program

In addition to upholding the State of California standard terms and conditions, CalSTRS has a procurement goal to meet required minimums of total contracting dollars with certified Disabled Veterans Business Enterprise and Small Business Enterprise. The DVBE and SBE companies that are based in the state and registered with the California Department of General Services support various business needs for goods and services. The required percentages are 3 percent toward DVBE and 25 percent toward SBE of total contracting dollars. CalSTRS strives to comply with the requirements but despite best efforts has been unable to meet these goals in recent years. In 2014, CalSTRS Procurement team established a dedicated outreach coordinator to assess the issues and determine solutions to meet or exceed these goals.

## Purchasing Environmentally Preferred Goods

CalSTRS procurements of ongoing consumable goods are in accordance with the Leadership in Energy and Environmental Design Existing Building (LEED-EB 2009) certification requirements for sustainable purchasing. To support this effort, our requisition and purchasing practices ensure that CalSTRS employees are well equipped to choose environmentally preferred products within reasonable price points when fulfilling business needs. Those purchases selected must meet one or more of the LEED-defined ongoing consumables criteria:

- » Contain at least 10% postconsumer or 20% preindustrial content.
- » Contain at least 50% rapidly renewable resource.
- » Contain at least 50% materials harvested and processed or extracted and processed within 500 miles of the project.
- » Consist of at least 50% Forest Stewardship Council (FSC) certified wood.
- » Batteries are rechargeable.

To successfully reach the LEED EB sustainable procurement requirements, sixty percent or more of ongoing consumables purchasing dollars must consist of purchases that fulfill at least one criterion. Those purchases that meet multiple LEED ongoing consumables criteria are valued according to the number of criteria multiplied by the purchase price. For example: Forest Stewardship Council (FSC) certified paper with ten percent postconsumer waste content is worth twice the amount of its purchase price against total purchasing dollars of ongoing consumables. Consequently, at times preferred purchases can calculate above 100% of purchasing dollars in reported figures.

Percentages of Preferred (Sustainable) Ongoing Consumables					
Fiscal Year	Q1	Q2	Q3	Q4	Average
2013-14	61%	101%	84%	48%	73%
2012-13	74%	75%	101%	***	83%
2011-12	76%	80%	81%	77%	79%
***Figure unavailable, average is based on three quarters					

Since our initial LEED certification in 2009, sixty percent or more of our overall purchasing dollars of ongoing consumables, which includes basic office supplies, has been met.

# Sustaining Retirement Security



## Member Services and Engagement

For more than 100 years, CalSTRS has been the trusted guide for California’s educators and school employees by carefully managing their defined benefit pension plan. CalSTRS takes ownership and responsibility to help guide and inform our educators as they plan for the future. As an organization, we believe our responsibility does not stop at the paying of benefits, as clearly identified by our mission statement, **“Securing the financial future and sustaining the trust of California’s educators.”** Our commitment is further demonstrated by our ability to maintain 100 percent consistency of on-time benefit payments over the last ten years.

### The Voice of the Member

The true inspiration and guide for CalSTRS’ member outreach and engagement activities are the voices of our members. This guidance and communication is accomplished primarily through surveys and the comments provided by members. As Chief Executive Officer, Jack Ehnes states, “Paramount to ensuring a positive retirement planning experience is listening and responding to the needs of our members. Even as Internet self-service expands, we never forget that CalSTRS members consider counseling a vital part of their overall retirement experience. We know counseling is where the best retirement decisions are made. Localized, full-service member centers increase counseling availability.”

We provide member outreach and engagement through a variety of means, including:

- » Contact Center where members can call to speak with a Contact Center agent regarding account questions or to request forms.
- » Member service centers where members access benefit counseling services in a quality learning environment closer to where they live.



### Amanda Floriano

*Benefits & Services, Customer Service*

Amanda Floriano has been with CalSTRS for close to two years working both in the CalSTRS Contact Center and in the Research and Communications Unit. Prior to starting her career at CalSTRS, Amanda was an educator in the Elk Grove School District for more than two years. Amanda is a proven role model to all CalSTRS employees, constantly demonstrating CalSTRS Core Values of Customer Service and Accountability while supporting our members through their careers and into retirement.

- » Comprehensive educational products offered in a variety of settings to meet member needs.
- » Our website, CalSTRS.com, and social media outlets to post online videos and educational materials.
- » myCalSTRS, our secure online resource where members can manage their personal information and send secure messages to CalSTRS staff.



## Linda Tran

*Benefits and Services, Customer Service*

Linda Tran has been a CalSTRS Contact Center Agent for two years and recently moved to the Contact Center Training team, where she assists with the training and development of new agents. As a former educator of five years, Linda uses her in-depth knowledge of the demands and needs of being an educator to help us provide the highest level of customer service to our members.

## Member Service Centers



**19,824**

Total member contacts in MSCs  
FY 2013-14

**3,980**

Santa Clara

**6,480**

West Sacramento

**9,364**

Glendale

CalSTRS sees the member service centers as an investment in ensuring educators have full access to information needed to make thoughtful and educated decisions that will have a lasting effect for their retirement.

CalSTRS currently operates four strategically located member service centers throughout the state. At these centers, members receive benefit counseling sessions, attend workshops on member benefits, have various forms reviewed and accepted, and receive general walk-in assistance. To improve the quality and consistence of benefits counseling, CalSTRS shifted from a contracted service delivery model to one that utilizes state employees working in CalSTRS-operated space. Providing services at these geographic locations allows us to have direct oversight of the material being presented, ensures all of the information being given is up to date, and guarantees that the service being delivered is up to CalSTRS high standards.

CalSTRS sees the member service centers as an investment in ensuring educators have full access to information needed to make thoughtful and educated decisions that will have a lasting effect for their retirement. Chief Operating Officer Cassandra Lichnock states, *“At CalSTRS, we appreciate the value our members place on face-to-face interaction with staff. We understand that adequate planning and knowledge of all available retirement options helps members make critical decisions at that point in their careers when they are ready to consider retirement.”*

We also use our resources to heavily invest in staff who are working with members on a daily basis. Each Contact Center agent or outreach counselor receives 20 hours of training in the CalSTRS Core Values and culture when first hired, as well as more than 300 hours of hands-on training for their specific roles within the organization. Employees receive more than 40 hours of continuing education annually on various pertinent topics, such as information security and updates to the pension programs. This investment in staff helps us ensure an educated and skilled workforce that provides California’s educators with a high level of service and support.



## **Chuck Lynch**

*Benefits and Services, Client Outreach & Guidance*

---

After his 37-year career as teacher, principal and supervisor with Los Angeles Unified School District, Chuck Lynch transitioned into helping educators plan out their retirement. Chuck always provides exceptionally helpful insight and information to CalSTRS members coming into the Glendale and Irvine member service centers, and the Los Angeles County satellite office. He is frequently requested by name!

## Defined Contribution Solutions

One of the areas CalSTRS focuses our member education on is the income gap that may occur between a member's defined benefit pension and his or her financial needs after retirement. Members are provided tools and instruction to assist them in recognizing this income replacement gap and are offered a low-cost option to help bridge the gap.

Pension2 is CalSTRS' voluntary supplemental savings program designed to support member goals for a secure financial future. CalSTRS recognizes that in today's changing environment, it is more challenging than ever to meet postretirement financial needs. The Pension2 personal wealth plan, offered under employer's 403(b) and/or 457(b) plans, complements the CalSTRS retirement benefit by allowing educators to set aside extra money in low-cost and flexible fund choices selected by CalSTRS Investment staff, in conjunction with our defined contribution investment consultant. Voya Institutional Plan Services, was appointed as CalSTRS record keeper in April 2014, transitioning members' accounts in November 2014.

### With Pension2, educators and classified school employees receive:

- » Investment options that match all levels of investment ability:
  - **Easy Choice Portfolios** designed to take into account individual risk tolerance and specific retirement date.
  - **Core Investment Options** that allow individuals to choose funds from a carefully selected list of fund options and actively design and manage their asset allocation over time.
  - **Self-Directed Brokerage Account.**

- » Simple, low-cost and transparent fee structure.
- » Easy tax-advantaged payroll contributions.
- » Experienced retirement specialists that help individuals define retirement goals and integrate them with CalSTRS' defined benefit planning.
- » Increased access to financial learning resources including tools for retirement planning, personal finance, estate planning and family finance.



### Kevin Kirkpatrick

*Plan Design & Communication,  
Defined Contribution Solutions*

With over a decade of customer service experience, Kevin Kirkpatrick puts these skills to good use traveling all over the Southern California area helping to educate members about the importance of a supplemental savings plan and specifically the CalSTRS Pension2 program. He often drives more than 100 miles to present workshops and inform educators on their retirement gap and the services CalSTRS provides to bridge that gap and help ensure a comfortable retirement for our members.

# Annual Member Engagement Survey Results

For 11 consecutive years, CalSTRS has collected robust and meaningful data from members on overall satisfaction, staff performance, service performance, website performance, and interaction methods.

In addition, member engagement continues to be assessed to increase our understanding of member relationships with CalSTRS.

CalSTRS conducted the 2014 Annual Member Satisfaction Survey in January 2014 to gain insight into our members' experiences with the delivery of benefits and services. The survey assessed both active and retired members' ratings.

A total of 23,958 surveys were sent via email to a stratified random sample to achieve representation of active and retired members. Similar to the response rate of the prior year, approximately 5 percent of the recipients responded.

---

“Have always had good service, useful information response, and professional treatment by all agents worked with. Thank you for their patience in resolving all concerns, questions, etc.”

---

**A high level of overall satisfaction was reported by 67 percent of respondents. The top three reasons reported for high satisfaction ratings were:**

- » No problems with CalSTRS.
- » Good customer service.
- » Timely/accurate information.

**Customer service results followed the high satisfaction trend:**

- » Seventy percent or more of the respondents reported high levels of satisfaction with staff.
- » Sixty-six percent or more of the respondents reported high levels of satisfaction with service.

- » Seventy-one percent or more of the respondents reported high levels of satisfaction with CalSTRS websites.

---

“When I came in to submit my retirement forms, the person who accepted my forms looked at each form in detail and found some errors that needed to be fixed. She was extremely thorough and helpful. Thank you for providing us with such well-trained and thoughtful CalSTRS staff. It is very much appreciated.”

---

The 2014 evaluation of member engagement indicated that 55 percent of members are engaged with CalSTRS and this number remained stable from 2013. More members (71 percent) provided high ratings on the engagement attributes *CalSTRS shows me respect* and *CalSTRS is an organization I can trust* than any other engagement attributes. Points of service surveys reflect similar engagement scores. While survey results confirm that we continue to meet member needs, the data also suggests areas of focus to enhance member satisfaction.

Key targets for service improvement relative to other attributes include: appropriateness of follow-through with issues related to member accounts, consistency of answers from multiple CalSTRS sources and timeliness of replies to requests. These attributes are identified as areas for improvement, not necessarily based on lower performance scores, but because of how critical these service dimensions are to member satisfaction.

Our annual member engagement survey and the ensuing response to feedback with adjustments to products and services, demonstrate our commitment to excellence. Our continual improvement is driven by thoughtful, data-informed decisions.

## CalSTRS Plan Funding

In 2000, CalSTRS assets were at an all-time high and more than sufficient to meet projected, future obligations. However, the 2001 dot-com bust and the 2008 world economic downturn created lower than expected investment returns throughout the decade. In the fiscal year that ended June 30, 2009, the fund experienced a 25 percent loss. As a result, the significant losses that marked the first part of the decade, combined with the inability of CalSTRS to adjust contribution rates, weakened the long-term health of the fund and created significant unfunded liability in the Defined Benefit Program.

### The Road to a Full Funding Plan

*Click on image or the link below to see the video.*



<https://youtu.be/oNC2rvzEpu4>

## Defined Benefit Program

CalSTRS administers a comprehensive hybrid retirement system consisting of a traditional defined benefit plan, the Defined Benefit Program; a cash balance plan, the Defined Benefit Supplement; and a voluntary defined contribution plan with 403(b)/457(b) plans, Pension2. The Defined Benefit Program provides retirement, disability and survivor benefits to preK-12 and community college educators throughout California. Participation in the program is mandatory for full-time educators. Members of the Defined Benefit Program do not earn Social Security for their CalSTRS-covered employment.

Benefits are paid by contributions from members, school employers and the State of California. Prior to 2014, members contributed 8 percent of pay, unchanged since 1972; school employers paid 8.25 percent of member pay, unchanged since 1986; and the State of California contribution rate for fiscal year 2013-14 was 3.041 percent, in addition to the state's contribution rate of 2.5 percent to the Supplemental Benefit Maintenance Account.

## Defined Benefit Program Funding Status

The unfunded liability, or funding gap, in the Defined Benefit Program is based on an actuarial valuation, a snapshot of the fund's assets and liabilities in a given year. The June 30, 2013, valuation showed that the fund was 66.9 percent funded when in fiscal year 2001, it was 98 percent funded. Put another way, by 2013, CalSTRS had slightly less than 67 cents on hand for every dollar we owed to our members. Absent any changes in contribution or liabilities, calculations showed the program would deplete its assets in little more than 30 years.

At that point, the state, as the plan sponsor and guarantor of the Defined Benefit Program, would be responsible for ensuring that constitutionally guaranteed benefits were distributed on a pay-as-you-go basis. Moreover, we estimated that we would need to achieve a more than 20 percent investment return for five consecutive years, followed by 25 years of

meeting the investment assumption rate of 7.5 percent, in order to fully fund the program in 30 years. Thus, market gains in future years would not be reasonably sufficient to bridge the Defined Benefit Program's funding gap.

Further, annual investment returns from fiscal year 2001-02 through fiscal year 2011-12 were lower than the assumed rates of return, which in fiscal year 2001-02 was 8 percent, and by fiscal year 2012-13, was reduced to the current 7.5 percent rate of return. By June 30, 2013, the actuarial value of liabilities in the Defined Benefit Program associated with service already performed by members was \$73.7 billion greater than the actuarial value of assets.

## Comprehensive Funding Strategy

By 2004, it was clear that a change in the program funding and contribution rates from the program's contributors would be required to reach adequate funding. However, unlike other pension plans in California, the Teachers' Retirement Board lacked the authority to raise contribution rates. This authority rested with the Legislature and Governor. It was at this time that the board committed to promoting the development of a comprehensive strategy to address the long-term funding needs of the Defined Benefit Program.

For close to a decade, CalSTRS conducted extensive legislative, media and stakeholder briefings, and engaged in public board discussions with a consistent message: absent any changes in contribution rates or liabilities, current calculations projected that the program would deplete its assets in about 30 years.

In 2012, the California Legislature passed Senate Concurrent Resolution 105 which promised to address the CalSTRS funding shortfall before 2015. The resolution directed CalSTRS to prepare a report that provided a range of sustainable funding strategies built upon gradual, incremental contribution increases that could be adopted to close the \$73.7 billion funding gap and secure the long-term stability of the fund.

The report, *Sustaining Retirement Security for Future Generations: Funding the California State Teachers' Retirement System*, was prepared with input from affected stakeholders and submitted to the Legislature in February 2013. The definitive approach, as cited in the report, consisted of addressing the long-term funding needs of the Defined Benefit Program by fully funding the program over a 30-year period—an approach consistent with the board's fiduciary responsibility, governmental accounting standards and actuarial guidelines.



## Full Funding Plan Enacted

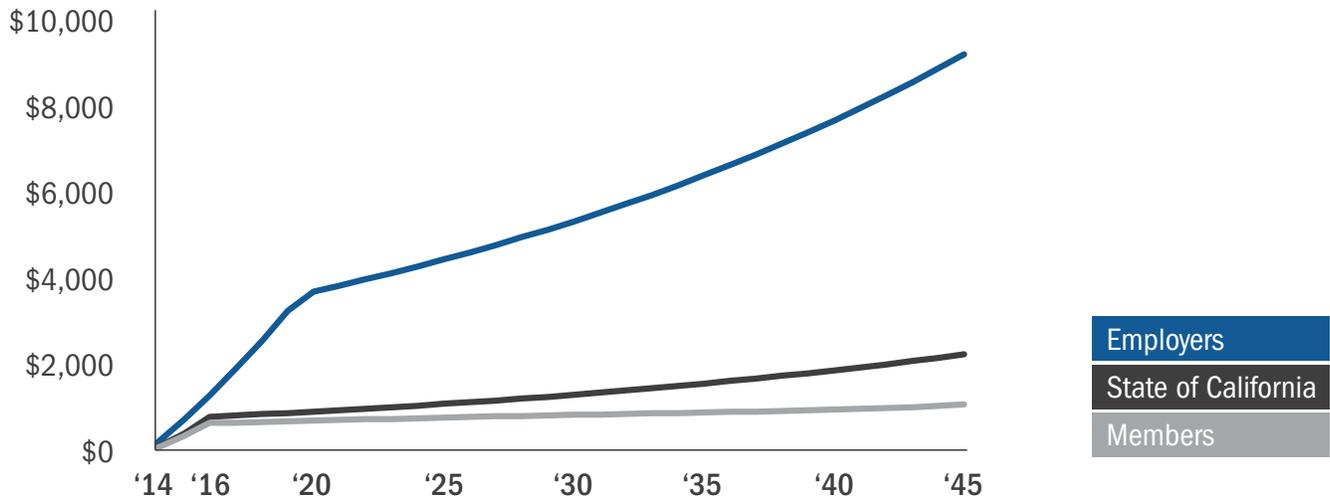
In June 2014, the Legislature passed and the Governor signed into law Assembly Bill 1469 (Bonta), which sets out a plan to fully fund the CalSTRS Defined Benefit Program over 32 years through shared contribution increases among the program's contributors: members, employers and the state. The enactment of AB 1469 concluded a nearly 10-year effort to educate the Legislature, Governor, key policymakers, the media, CalSTRS constituents, and members on the need to develop a plan to bridge the Defined Benefit Program's funding gap.

The initial increases in employee, employer and state contributions took effect July 1, 2014, and will continue to rise incrementally over the next several fiscal years. Member contribution increases will be phased in over the next three years and increase by an additional 2.25 percent of payroll for CalSTRS 2% at 60 members, and an additional 1.205 percent for CalSTRS 2% at 62 members. Member contribution rates last changed 42 years ago in 1972.

In exchange for member contribution rate increases, the Legislature guaranteed the 2 percent annual benefit adjustment, or improvement factor, for members working or retiring in 2014 and thereafter. Prior to this exchange, the Legislature explicitly reserved the right to reduce or eliminate the improvement factor, and still maintains this right with regard to members who retired before 2014.

School employers will see their contribution rates rise a total of 10.85 percent phased in over the next seven fiscal years. The state's contribution rate to the Defined Benefit Program will increase by 4.311 percent phased in over the next three years. The legislation also grants the board limited rate setting authority to adjust up or down employer and state rates, if necessary, to fully fund the Defined Benefit Program. Member rates are not subject to this adjustment.

## Annual Cost of 2014 Funding Plan (in millions)



The funding plan in AB 1469 is predicated on the actuarial assumption that CalSTRS will earn a 7.5 percent annual rate of return throughout the life of the plan. To facilitate the monitoring of our progress toward full funding, CalSTRS is also required to submit a report on the fiscal health of the Defined Benefit Program to the Legislature every five years beginning July 1, 2019.

The most significant accomplishment contained within the legislative funding solution is that we are no longer projected to deplete our assets.

# Investment-Based Impacts



## Sustainability and Risk Management

The CalSTRS Corporate Governance Unit engages corporations, regulators, policymakers, and fellow investors on a variety of sustainability initiatives and also leads the Green Initiative Task Force. The Green Initiative Task Force is an internally staffed team of representatives from each of the asset classes whose mission is “to manage the risks and capture the opportunities associated with climate change and other environmental issues by identifying environmentally focused investments and risk mitigation strategies intended to enhance the risk-adjusted returns of the overall CalSTRS portfolio.”

- » In 2005, the CalSTRS Environmental Investment Program was developed with four basic goals:
  1. Structure an environmentally focused equity program.
  2. Target private investment in clean technologies.
  3. Audit the Real Estate Portfolio to increase long-term value.
  4. Demand environmental accountability and disclosure from portfolio investments.
- » First adopted in 2006 by the Teachers’ Retirement Board, CalSTRS developed a formal divestment policy to facilitate appropriate response to divestment initiatives presented to the fund.
- » In 2008, CalSTRS became one of the first North American pension funds to formally integrate environmental, social and governance considerations into its investment policies when we adopted our Investment Policy for Mitigating ESG Risks. The policy guides investment staff in their analysis and decision-making and identifies 21 risk factors, along with a series of procedures to follow when faced with significant environmental, social and governance issues.

Since then, additional outreach and goals have been added to these sustainability efforts making CalSTRS a leader among institutional investors that are integrating environmental considerations. Each year, the Green Initiative Task Force publishes a report disclosing the efforts and results of each asset class’s performance in this area.

Highlights from our Green Initiative Task Force in the 2013–14 fiscal year include:

- » The principle environmental issue CalSTRS staff considered was our risk exposure to fossil fuel companies and if the activities of these companies presented a material risk to the CalSTRS Investment Portfolio.
- » CalSTRS engaged 44 U.S.-based companies on how they value their fossil fuel reserves. These companies represent \$3.85 billion in the portfolio and are known to be in the top 200 of fossil fuel producing companies by the Carbon Tracker Initiative.
- » CalSTRS is part of a Principles for Responsible Investment-led collaborative engagement of natural gas producing companies concerned about managing risks associated with hydraulic fracturing. This engagement is focused on 56 companies held in the CalSTRS Global Equity Portfolio with a combined portfolio value of approximately \$6.8 billion.
- » CalSTRS staff engaged 21 companies who complied with requests for an energy efficiency review. These companies have a combined portfolio value of nearly \$1.17 billion.
- » As of May 31, 2014, CalSTRS committed \$696.4 million to investments in the clean technology and clean energy sector.



- » Eighty-six percent of CalSTRS' Separate-Account office buildings are Energy-Star certified and ranked in the top quartile of energy-efficient buildings.
- » CalSTRS Fixed Income portfolio currently holds a total of \$98 million green bonds, which is an increase of 288 percent from the previous year.
- » CalSTRS Inflation Sensitive Portfolio holds more than \$250 million in green investments.

## Carbon-Based Investment Risk Management

CalSTRS seeks to accomplish our mission of providing a secure retirement to California's educators by prudently managing the investment portfolio. A significant part of accomplishing asset growth is achieved by being good stewards of the businesses we invest in, with assurance they too are focused on traditional financial risks as well as non-traditional risks, such as environmental factors, which could impact their long-term value. Thus, we seek to provide profitable long-term investment return with the least amount of risk.

### Global Public Equity

CalSTRS actively engages our portfolio companies on the importance of assessing and disclosing their levels of exposure to environmental risk factors. The fund is largely a passive Global Public Equity investor with investments in over 7,300 companies with approximately 60 percent of the Global Public Equity Portfolio indexed. This investment strategy exposes us to all of the risks inherent to the Global Public Equity markets, which is why the fund engages companies within our portfolio on steps being taken to manage risks, including environmental and social risks.

As of December 31, 2014 CalSTRS holds approximately \$6.2 billion worth of oil and gas companies, those who produce fossil fuels, in our Global Public Equity Portfolio. This represents about 5.8 percent of the Global Public Equity Portfolio and about 3.3 percent of the total investment portfolio.

## Managing Carbon-Based Investment Risk

In 2014, CalSTRS engaged dozens of fossil fuel companies on multiple fronts in an effort to increase awareness of, and bring attention to, the risks associated with producing fossil fuels. We were part of a coalition of pension funds, endowments and faith-based organizations that engaged several dozen oil and gas producing companies on how they considered the potential of carbon emissions restrictions and possible reserve sequestration when making capital expenditure decisions on exploration and production.

CalSTRS was also part of a collaborative engagement of natural gas producing companies that focused on efforts being taken to mitigate environmental impacts from the operations of those companies. This engagement involved more than 50 companies headquartered in North America, South America, Europe and Asia.

### Risk Mitigation Through Engagement

The carbon asset risk issue has continued to gain attention. Based on our experience, an effective strategy to mitigate risk such as climate change is through engagement. Significantly more institutional investors are engaging companies on this issue and the questions being asked of companies continue to evolve. The initial queries centered on how companies valued their fossil fuel reserves and whether companies were considering the possibility that a portion of these reserves might become stranded. Now the conversations are focused on why so much shareholder capital is going toward exploration for additional reserves, rather than being directed toward developing alternative energy sources, or being given back to shareholders.

CalSTRS has been a visible supporter of legislation that would provide for a price on carbon emissions. We have been signatories to many letters directed at regulators and government officials that advocate for such policies. We have also endorsed letters and met with

Congressional representatives in support of policies that would allow investment structures, such as Master Limited Partnerships and Real Estate Investment Trusts, to be used by developers of clean energy projects.

CalSTRS believes that a price on carbon would provide certainty around carbon emissions costs and this certainty would stimulate innovation aimed at reducing those costs. It is also our belief that allowing the structuring of MLP and REIT clean energy projects would provide greater public market access to these types of investments which, in turn, would lead to increased investor interest.

## Clean Energy Opportunities

Although climate change poses significant risk issues, it also opens up new investment opportunities. It is important that we position ourselves to take advantage of clean energy investment opportunity. Currently the fund holds about \$700 million in clean technology within the Private Equity Portfolio and about \$300 million invested in clean energy generation and transmission in our Infrastructure portfolio. Additionally, CalSTRS is a purchaser of green bonds and some of these issuances support clean energy projects.

In support of scaling up clean energy investments, CalSTRS announced plans to increase clean energy and technology investments of \$1.4 billion to \$3.7 billion by 2019. We did so in response to United Nations Secretary-General Ban Ki-moon's call for bold action to reduce carbon emissions and build resilience to the impacts of climate change at the United Nations 2014 Climate Summit, in which we participated.

Targeting the clean energy and technology sector provides a good investment opportunity because it positions CalSTRS for a low-carbon future. However, if a meaningful price on carbon emissions were to be established, we believe our clean energy and low-carbon investments could grow to almost \$9.5 billion, nearly seven times the current level of investment.

Clean energy is a growing segment of the energy mix and all indications are that clean energy's contribution to total energy generation will continue to grow. Clean energy projects provide steady, long-term cash flows that align with the fund's need to provide steady long-term benefits. We remain committed to actively pursuing investment opportunities in this sector.

## Investment Impact Study

"The Impact of CalSTRS' Investments On California's Economy" study was conducted by Dr. Ashok Bardhan, former senior economist at the Fisher Center for Real Estate & Urban Economics, Haas School of Business, University of California, Berkeley, to understand CalSTRS' economic footprint on the California economy—the community in which many of our stakeholders reside. A cycle of economic viability with our communities is a win-win for the organization and our stakeholders.

The study looked at CalSTRS' 2013 investments in an effort to estimate jobs supported in California by the companies held in the CalSTRS Investment Portfolio.

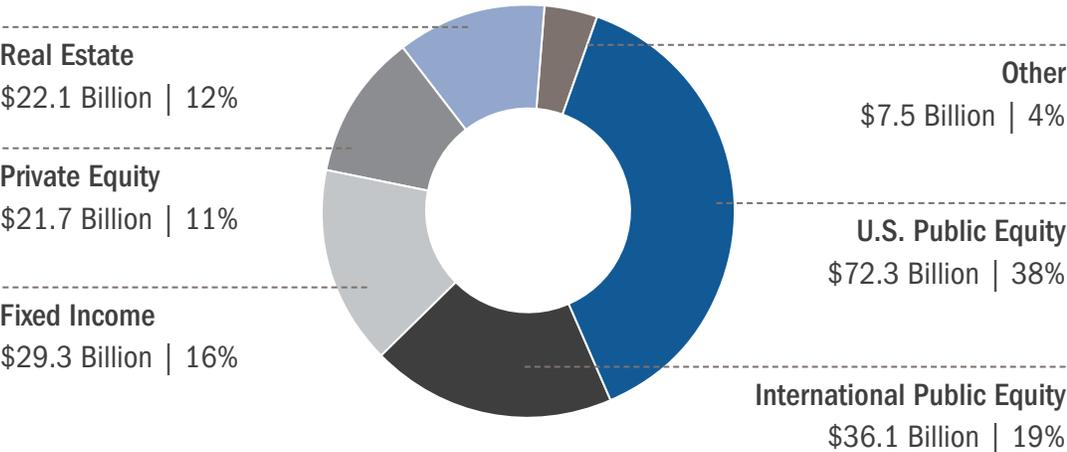
The study estimates that the companies in the CalSTRS investment portfolio employ between 2.1 and 2.8 million people in California and approximately 85,000 to 87,000 California jobs are supported by our investments.

As stated in an excerpt from the report, “CalSTRS’ portfolio weighting toward California is no surprise. The state is fertile ground for investment with a growing, dynamic and innovative economy—one that is the seventh largest in the world and accounts for about 13 percent of U.S. gross domestic product. This economic reality places CalSTRS in a unique position, as its mission to achieve a healthy investment return also serves a deeper social commitment to the growth of California’s economy and the long-term welfare of its residents.”

Data from the four main asset classes were evaluated. These asset classes account for about 96 percent of the total portfolio and include: Global Equities at 57 percent of the portfolio, Fixed Income at 16 percent, Real Estate at 12 percent, and Private Equity at 11 percent of the portfolio. CalSTRS’ asset allocation as of June 30, 2014, is shown in the figure below:

**CalSTRS Holdings by Asset Category from Economic Impact Study**

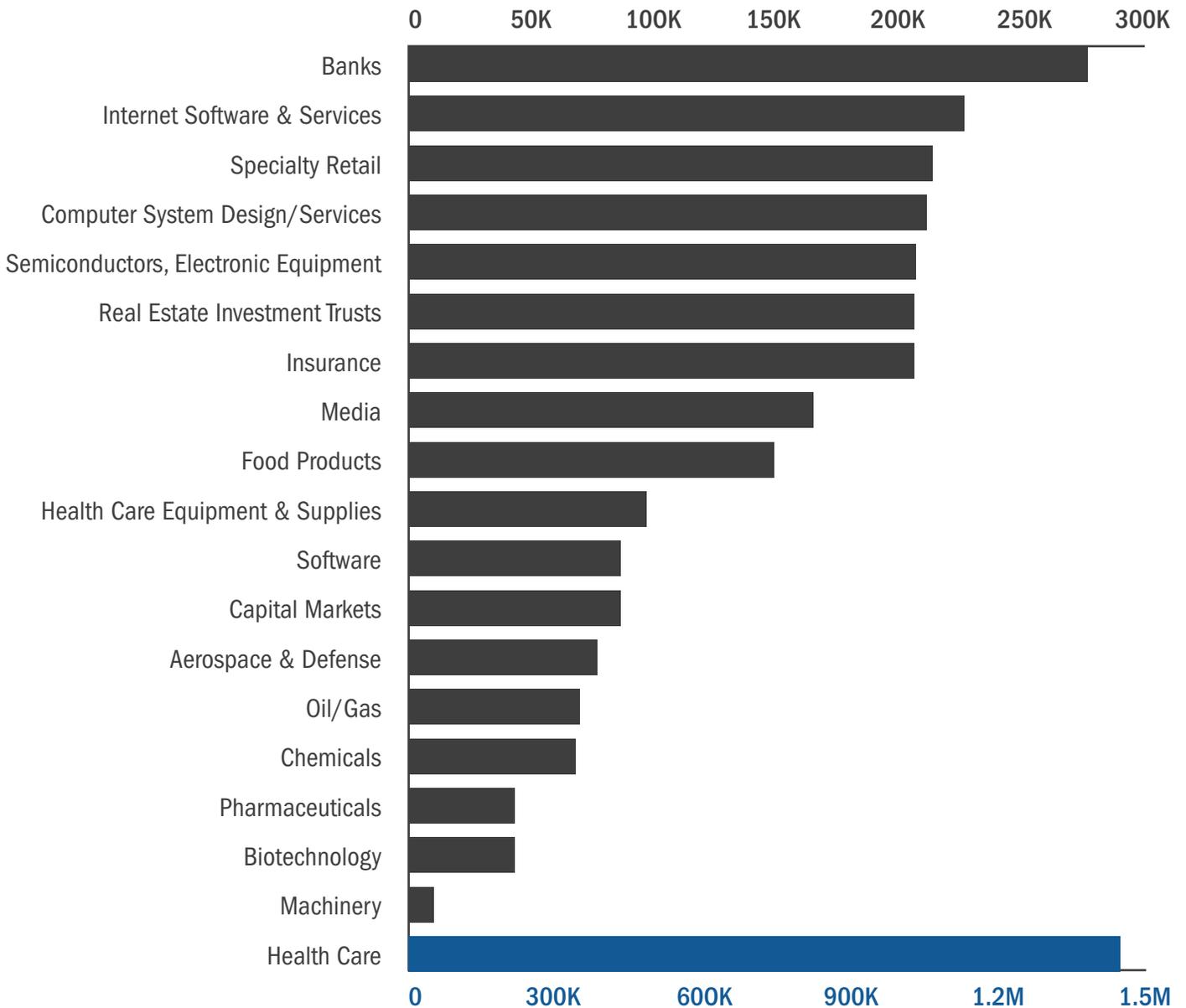
(Value in this graph vary less then one half of one percent from values displayed in our Comprehensive Annual Financial Report)



To estimate jobs supported in California by the companies in the CalSTRS Investment Portfolio, the study used a sectoral-share approach. The approach estimates jobs supported in two steps. First, the economic sectors where the companies in our investment portfolio operate are identified. (California’s share of total U.S. employment is calculated for each relevant sector in which these companies operate.) Then, California’s share of total U.S. employment in those sectors is multiplied by each company’s number of employees.

The figure below shows the total employment for key sectors in California where CalSTRS invests. The sector with the largest employment in the state is health care providers and health care services with 1.45 million people out of total state employment of 12.7 million.

### California Employment in Key Sectors Where CalSTRS Invests



## Publicly Traded Equities

CalSTRS invests in 471 of the 996 publicly traded companies headquartered in California, with a total market value of \$12.6 billion. These 471 companies account for 3.47 million of the 3.63 million of the total employment of all the California-headquartered publicly traded companies. Most of CalSTRS' major holdings are in large corporations. Overall CalSTRS invests in 3,156 publicly traded U.S. companies.

The weighted average total returns of California-headquartered companies in 2013 are significantly higher than for the portfolio as a whole.

	Average Return 2013	Weighted Average Return 2013*
46 California-Headquartered Companies in Top 300 U.S. Equity Holdings	47.4%	39.6%
All 47 California-Headquartered Companies	51.8%	37.7%
All 6,029 U.S. and Global Equity Holdings	31.4%	35.2%

\* Weighted by market value of holdings. CalSTRS investments are higher, on average, in those California-headquartered companies that support higher employment, which is also partly a result of larger investments going to larger companies.

It is estimated that the CalSTRS Public Equity Portfolio supports 5,700 to 7,700 jobs in California.

## Fixed-Income Investments

Fixed Income was the first internally managed asset class at CalSTRS. As of December 31, 2013, we invest \$28.1 billion in fixed-income assets and an additional \$18.7 billion in short-term securities. CalSTRS internally manages portfolios consisting of U.S. dollar denominated securities, including short-term securities, U.S. Treasury and Agency mortgage-backed and commercial mortgage-backed securities, investment grade corporate bonds and high-yield securities. CalSTRS also oversees external managers who assist in the management of \$5.1 billion in opportunistic global fixed-income strategies that range from high-yield bonds and bank loans to structured real estate investments.

Corporate bonds have the most relevance to measuring impact on California employment. CalSTRS invests in 2,527 different corporate bonds that belong to 1,317 unique companies globally.

Not surprisingly, many bond investments are in the very same publicly traded companies where we have public equity holdings. To account for this and avoid double counting employment, the common holdings are separated. This results in an estimate of approximately 265 to 583 jobs in California supported by the CalSTRS Fixed-Income Portfolio.

## Private Equity

Private equity is an investment category that funds and invests in debt or equity of privately held companies that are typically not publicly traded on stock exchanges. The Private Equity Program within CalSTRS was established in 1988 and operates through limited-partnership commitments, fund-of-funds and side-by-side co-investments. Currently, 77 percent of the portfolio is invested within the United States, with the program benchmark criterion for the portfolio being the Russell 3000 index, which is the broadest measure of about 98 percent of the private equity market plus 3 percent.

There are some unique obstacles to estimating the number of jobs supported by CalSTRS' private equity investments. There are no publicly available databases, and regulatory, as well as proprietary, investment strategy imperatives preclude many disclosures. On the other hand, in terms of their employment impact, most private equity investments, unlike public equities, have a more direct, localized and focused impact, partly because of firm size and operations and partly because of the nature of some primary market investments.

A number of assumptions have to be made because of these obstacles. While these assumptions lead to a determination that the companies in the CalSTRS Private Equity Portfolio support 65,614 jobs in California, there is no reliable way to measure CalSTRS' investment share in the market value of these companies, so our pro-rated share of these jobs cannot be determined. However, 54 percent of private equity investments are in underserved cities in the state.

## Real Estate Investments

CalSTRS invests 20 percent of our U.S. Real Estate Portfolio in California. This is significantly higher than California's share of total U.S. economic activity and slightly higher than the state's share of total U.S. real estate market value. CalSTRS invests in 452 properties in California that are geographically diversified across many counties and regions of the state.

Over the lifecycle, which begins with construction, CalSTRS' real estate investments helped create and sustain 79,000 jobs in California. These investments also had a multiplier effect that generated an additional \$5.5 billion of economic activity in California.

## Summary of CalSTRS Supported Jobs in California by Asset Class

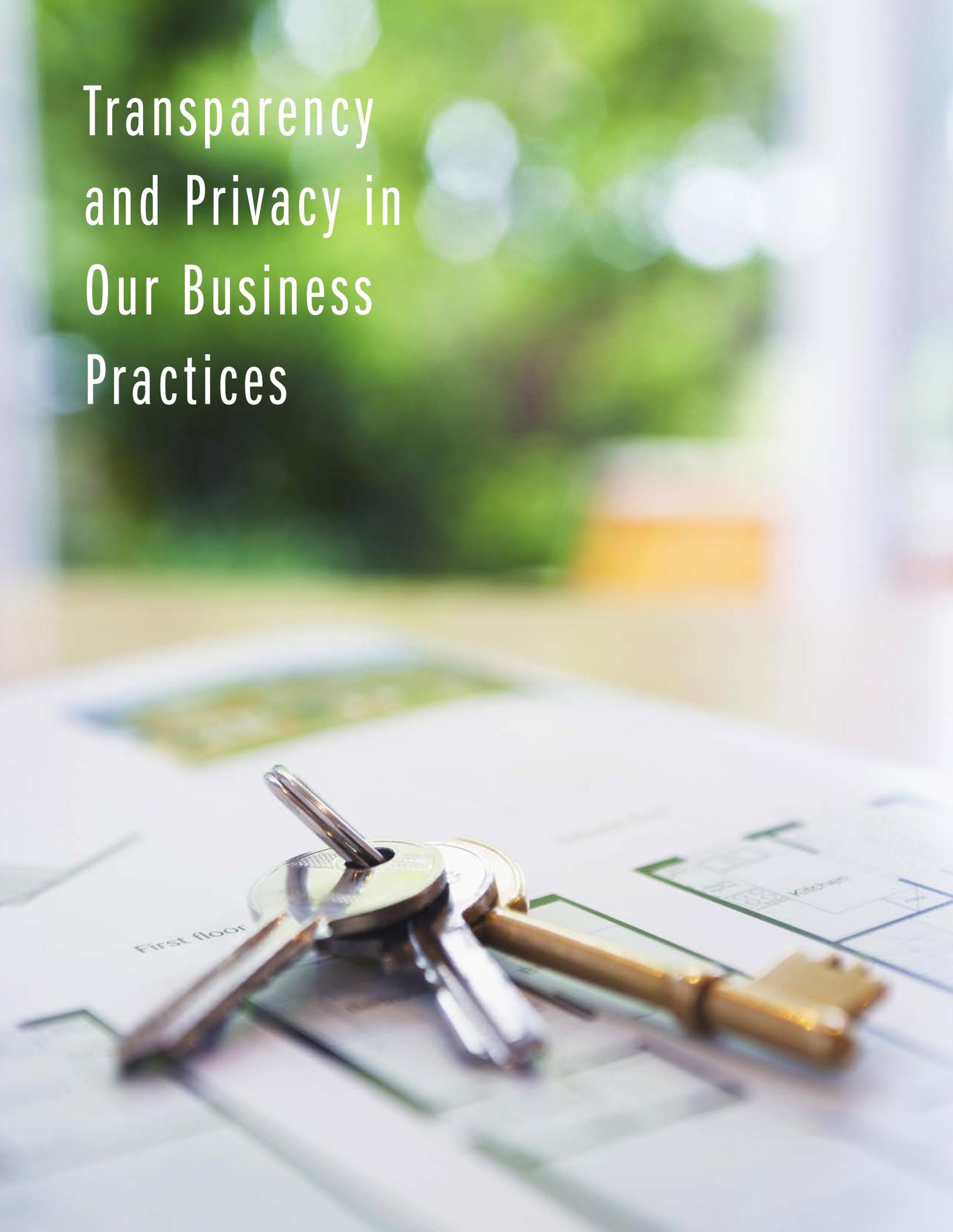
Asset Class	California's Percentage of U.S. Investments	California Investments	California Jobs Supported
Public Equity	13.2%	\$8.8 Billion	5700-7700
Corporate Bonds	11.7%	\$1.1 Billion	265-583
Private Equity	13.6%	\$1.9 Billion	undeterminable
Real Estate	20.4%	\$7.5 Billion	79,000
<b>Approximate Total Jobs</b>			<b>85,000 - 87,000 Jobs</b>

For further information and more detail, see the complete report at [CalSTRS.com/economic-impact-study](http://CalSTRS.com/economic-impact-study).

In addition, the 2013 CalSTRS study, "The Economic Impact of CalSTRS Benefit Payments in California," is available at [CalSTRS.com](http://CalSTRS.com).



# Transparency and Privacy in Our Business Practices



## Ethics and Transparency

CalSTRS is committed to conducting our operations in an ethical and transparent manner. One of CalSTRS' longstanding core values is trust: *We conduct ourselves with integrity, acting ethically in every endeavor.* Ethics and transparency are cornerstones that continuously support and guide our operations and decision-making. The Office of Ethics and Compliance is responsible for ethical standards and centralized compliance functions at CalSTRS. There are various mechanisms that ensure ethical behavior at CalSTRS, including the board's Statement of Ethical Conduct, Economic Interests Filings, Policy Prohibiting Insider Trading, and pension abuse, whistleblower and ethics hotlines. Our annual renewal of employee policies—the Incompatible Activities Agreement, Employee Relationship Policy and Gift Policy—are a reminder to employees of the nature of our organization's culture of transparency.

The Fair Political Practices Commission is a reference point regarding ethical and lawful behavior and organization integrity. The FPPC website at [FPPC.ca.gov](http://FPPC.ca.gov) contains relevant information regarding the Political Reform Act, conflicts of interest, required disclosures and other related information. It also contains searchable advice letters regarding various ethical issues and provides telephone or email inquiries advice to the public.

## Teachers' Retirement Board Training and Disclosures

As fiduciaries, Teachers' Retirement Board members are required under the California Constitution and the Education Code to act with care, skill, prudence and diligence and to ensure that all board members have a full understanding of the issues facing CalSTRS. To ensure this duty is carried out, the board has adopted orientation and mentoring programs, mandatory fiduciary education and ethics training sessions. In addition, the board encourages ongoing education, and makes available appropriate periodicals to foster board member awareness of relevant developments. Participation on certain committees, including Audits and Risk Management and Appeals, requires educational development.

New board members attend an orientation prior to their first board meeting as a voting member. The orientation sessions are developed by the CalSTRS Chief Executive Officer and the board's governance consultant and at a minimum, include the following topics:

- » A brief history and overview of CalSTRS, including the mission and purpose of the system.
- » A summary of the laws and rules governing CalSTRS and the board.
- » A summary of the CalSTRS benefit structures.
- » An overview of the role of the system actuary.
- » An explanation of fiduciary responsibility, conflicts of interest and ethics.
- » An explanation of the strategic plan and the process.
- » A high-level review of existing board policies.
- » A briefing on current and emerging issues before the board.
- » A review of board committees and their purposes.
- » Biographical information on the other board members.
- » A review of best practices for board governance.

- » An introduction to the CalSTRS Executive Management team.
- » A tour of the CalSTRS offices, if practicable.

Board members are subject to statements, disclosures and reporting requirements established by the board and are subject to laws that can be found in:

- » California Constitution.
- » Teachers' Retirement Law (California Education Code).
- » State laws covering public entities and officials.
- » Internal Revenue Code.
- » Other federal statutes and regulations, except the Employee Retirement Security Act of 1974, ERISA.

## Hotlines and Compliance

### Ethics Hotline

The CalSTRS Ethics Hotline is an integral part of meeting our commitment to conduct business in an ethical manner. Employees or others can report any unethical behavior by an employee or business partner based on witnessing or good faith. All investigations arising from the CalSTRS Ethics Hotline are conducted by the CalSTRS Office of the General Counsel.

### Pension Abuse Reporting Hotline

CalSTRS is dedicated to preventing pension spiking. The toll-free hotline enables anyone, including the public, CalSTRS members, school districts and county office of education employees, to report suspected abuse and suspicions of pension spiking to CalSTRS. Using this hotline, suspected cases of fraudulent pension-related activity may be reported anonymously and are investigated by our Compensation Review Unit.

### Whistleblower Hotline

The California State Auditor investigates complaints of improper acts by state agencies or employees such as violations of law, misuse of state resources or gross misconduct and incompetency. As stated on the California State Auditor website, "Upon receiving a complaint, the State Auditor may conduct an investigation into the facts alleged in the complaint to determine whether an improper governmental activity has occurred. Before launching an investigation, the State Auditor's staff will conduct a careful evaluation of the complaint to determine whether it has enough potential merit to warrant the expenditure of state resources to conduct an investigation."

### "What Do You Think?"

"What Do You Think?" is CalSTRS' employee feedback forum facilitated by a third-party vendor. Via this forum, CalSTRS employees can pose questions, submit suggestions, post compliments and voice concerns

directly to the CEO, while maintaining anonymity. The CEO uses the third-party platform in turn to send a response to the anonymous employee.

## Insider Trading

The Teachers' Retirement Board adopted the Policy Prohibiting Insider Trading, which applies to board members and CalSTRS staff, including investment consultants and contractors affiliated with CalSTRS in possession of or with access to non-public information relating to publicly traded securities. The prohibition on insider trading continues to apply even after resignation from the board or termination of employment until such time, if ever, that the information becomes generally available to the public other than through disclosure by or through the board member or staff. All staff review and sign the Policy Prohibiting Insider Trading on an annual basis.

## Public Request

CalSTRS' policy is to ensure that the constitutional right of access to public records in accordance to the California Constitution (art. I, sec. 3) and the Public Records Act (Gov. Code, sec. 6250 et seq.) is provided to members of the public. CalSTRS operates with transparency and accepts responsibility for our actions. Concurrently, it is CalSTRS' policy to ensure that the constitutional right of privacy and statutory confidentiality protections are also followed and applied in balance with the right of access to public information. Pursuant to the constitutional principle, in handling public records requests, CalSTRS broadly construes the right to access to public records and narrowly construes the application of exemptions to disclosure.

## Compensation Committee

Upon recommendation of the Teachers' Retirement Board's Compensation Committee, the board is ultimately responsible for designing, implementing, monitoring and evaluating the executive compensation

program. The Compensation Committee has developed a set of compensation principles intended to serve as an intellectual framework for a fuller discussion of the matter and as an aid in more effective evaluation and regulation of executive compensation. CalSTRS believes that a thorough review of pay practices is an important fiduciary duty that both boards of directors of corporations and institutional investors should exercise with diligence and care.

## Responsible Investments

CalSTRS, as a signatory for the U.N.-supported Principles for Responsible Investment (PRI), provided responses to all of the mandatory indicators in PRI's Responsible Investment Transparency Report, as well as responses to voluntary indicators for the 2013-14 reporting cycle. CalSTRS has developed a list of 21 risk factors that should be included within the financial analysis of any investment decision. The list is not exhaustive and does not attempt to identify all forms of risk that are appropriate to consider in a given investment transaction; however, they do provide a framework of other factors that might be overlooked. These risk factors should be reviewed for an investment in any asset class whether within the U.S. or across the globe. Monetary and Fiscal Transparency are included in the 21 Risk Factors.

## Monetary Transparency

The document describes Monetary Transparency as the long-term profitability by whether or not a country or company has free and open monetary and financial data, and its observance of applicable laws.

## Fiscal Transparency

Fiscal Transparency is understood as the investment's long-term profitability by its exposure or business operations in countries that do not have some level of fiscal transparency, such as publication of financial statistics, sound standards for budgeting, accounting and reporting.

## Proxy Voting

CalSTRS offers public access to all of our proxy votes through our website at [CalSTRS.com](http://CalSTRS.com). The degree and convenience of disclosure that this effort offers is unique among institutional investors. Using online postings, we make our votes known before the annual meetings of our more than 7,000 holdings in our Global Equity Portfolio. In fiscal year 2013–14, CalSTRS voted on 74,666 individual proxy proposals at 7,956 meetings. We have, for years, announced our proxy vote recommendations on selective companies. The addition of online disclosure opens the process to all CalSTRS' portfolio companies, allowing other shareholders to know how we will vote.

## Budgets

The California Constitution gives the board complete authority over the administration of CalSTRS, and policy requires that the operating budget be approved by the board. Consequently, the operating budget is not funded from the state's General Fund but funded from the Teachers' Retirement Fund, which is a special trust fund managed by CalSTRS.

## Open Meetings

Teachers' Retirement Board meetings are open to the public and meeting agendas and materials are published on the CalSTRS website at [CalSTRS.com](http://CalSTRS.com) 10 days prior to the meetings. These materials are provided as a matter of practice and transparency so that stakeholders can review the documents that support our investment decisions and examine the policies that help us administer the second-largest public pension fund in the U.S. Web streaming affirms the board's commitment to transparency at CalSTRS, and stakeholders can watch live video streaming of board meetings. In addition, video of board meetings are later posted to [CalSTRS.com](http://CalSTRS.com).

## Member Privacy and Information Security

This issue of information security and information privacy has moved into the public spotlight due to the number of high-profile occurrences reported by the media and experienced by the public. CalSTRS is committed to protecting the confidentiality, integrity and availability of the information assets of CalSTRS and our members. Information is a valuable asset to be protected from unauthorized access, inspection, use, disclosure or modification.

CalSTRS manages information security and privacy through the Information Security Office and the Enterprise Information Management Office, both reporting directly to the CalSTRS General Counsel. We are vigilant in the protection of member information through the use of staff education, internal controls, member education about password protection, system monitoring and updates to technology.

Additionally, CalSTRS ensures authorized access to our facilities to protect physical assets, enhance safety and limit access to data and hardware.

### Information Security Office

The Information Security Office is responsible for the identification and recommendation of risk mitigation strategies and promoting information security awareness. The ISO manages risk by:

- » Providing oversight of CalSTRS users, systems and networks to ensure compliance with the CalSTRS Information Security policy, standards and procedures as well as industry best practices.
- » Monitoring networks and computers to identify possible security breaches, which include both intrusions and misuse.

- » Providing high-level expertise in the discipline of computer and network security, vulnerability assessment, virus detection, and hacking methodologies.
- » Conducting an annual external security assessment, and reporting findings and remedial actions to the Audits and Risk Management Committee of the Teachers' Retirement Board.

### Physical Security

CalSTRS safeguards information assets through physical security measures that prevent or deter unauthorized persons from accessing CalSTRS' facilities.

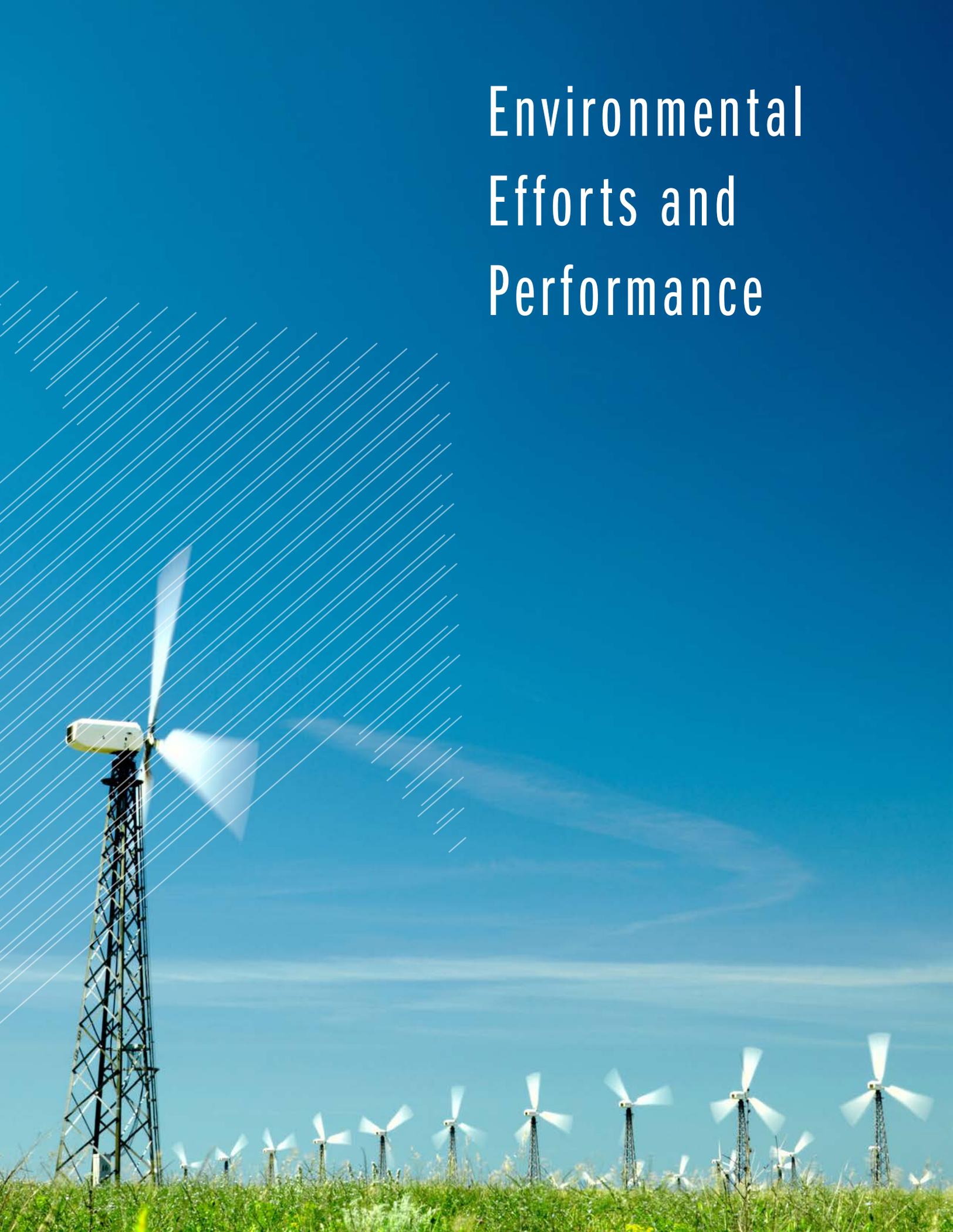
All paper documents at CalSTRS are certified-destructed to ensure all member, business partner and vendor information stays secure.

### Employee Responsibility

At CalSTRS, we believe everyone has a responsibility and obligation to take a proactive approach to maintaining information security. This means practicing good information security work habits every day, reporting possible information security issues, and staying up on the latest information security policies and practices. To keep staff informed and aware of current trends and practices, employees are required to complete a mandatory online security awareness training annually; new employees must take the training before being provided system access.

CalSTRS did not receive any substantiated complaints concerning breaches of customer privacy during this reporting period.

# Environmental Efforts and Performance



# Water Resource Stewardship

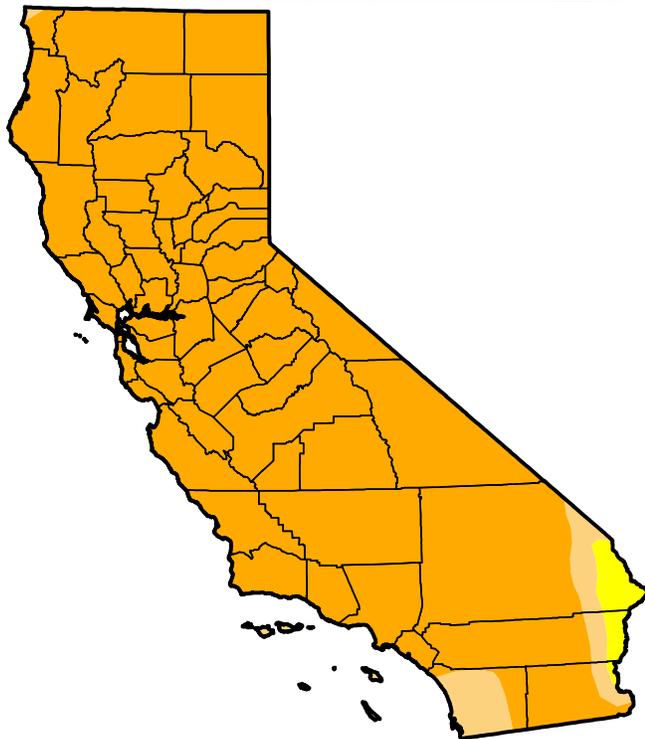
California is experiencing a serious drought, with 2014 recorded as the driest year in recorded history. Governor Brown declared a statewide drought emergency in January 2014, which required that all state departments and agencies implement water reduction plans. Both the Governor and the City of West Sacramento have requested CalSTRS to reduce water usage in 2014 by 20 percent from 2013.

The Governor's Office of Emergency Services provided the following graphic for informational purposes and shows the significant changes in drought condition from July 2013 to July 2014.

## U.S. Drought Monitor: California

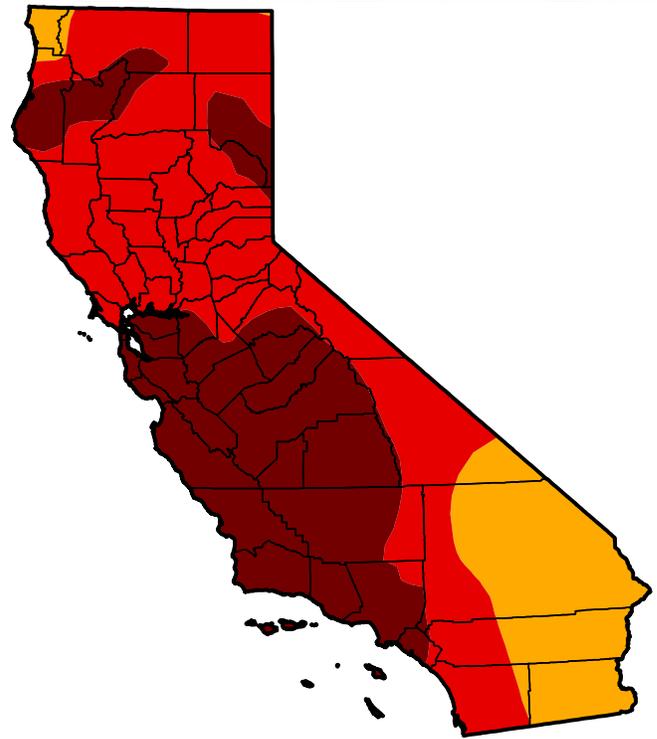
**July 23, 2013**

Released July 25, 2013 | Valid 7 a.m. EST



**July 22, 2014**

Released July 24, 2014 | Valid 8 a.m. EDT



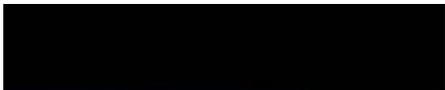
**Intensity:**

- D0 Abnormally Dry
- D1 Moderate Drought
- D2 Severe Drought
- D3 Extreme Drought
- D4 Exceptional Drought

*The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. See accompanying text summary for forecast statements.*

**Author:**  
Richard Heim  
NCDC/NOAA

The U.S. Drought Monitor in July 2014 increased all of Inland California to a D4-Exceptional Drought.



<http://droughtmonitor.unl.edu/>

In response, CalSTRS took action at our headquarters office to determine where we could best implement savings. We reviewed historical data from water meters that track each of our water sources and determined where opportunities for improvement existed. We focused on meeting the 20 percent reduction goal.

In looking at our reduction opportunities, we started with landscape irrigation. Only native and adaptive plants were used in landscaping the CalSTRS building. A satellite-monitored drip system was installed so that manual monitoring was not necessary. We actually found that the irrigation system was responding too well to drought conditions and using more water. Through closer monitoring and manual overrides as necessary, CalSTRS was able to see a significant reduction in water usage.

## CalSTRS Green Rangers



*Top Row: Ricardo Cervantes, Andrew Ferko, Tom Barrett, Jon Jackson*

*Middle Row: Deborah Worthington, Randell Hansen, Gisele Geiger, John Kessler*

*Bottom Row: Lynn Baughman, Laurie Winston, Valerie Davis, Ashley Lopez, Michelle Mussuto, Crystal Henderson*

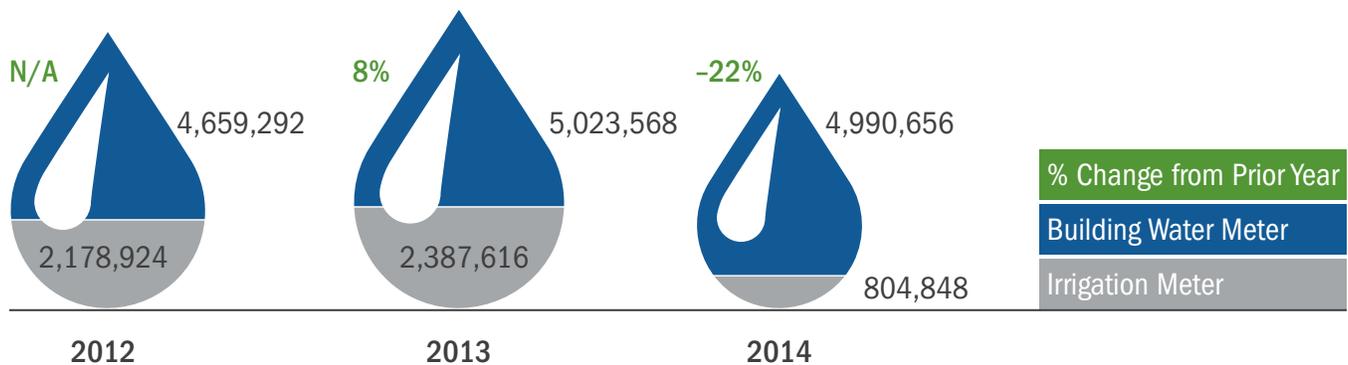
The Green Rangers is a voluntary, self-titled group of sustainability champions at CalSTRS headquarters. The team participates in monthly meetings with our Environmental Sustainability Coordinator to discuss and investigate ways to support the CalSTRS Environmental Management System, which includes the alternate transportation program, building energy use, CalSTRS' greenhouse gas emissions, recycling systems, and waste and water conservation. Green Rangers are asked to share their knowledge and updates with co-workers on their floor as well as encourage best practices. Green Rangers are given the opportunity to learn more about the building's sustainable features and visit regional conservation and utility sites for a more in-depth understanding of our environmental efforts and our positive and negative impact on the local community.

To educate and empower our employees, the Green Rangers launched a communications campaign and awareness effort. They organized a visual road show using water cooler barrels to depict the amount of water used in washing dishes by hand versus using a

dishwasher. They also hosted a brown bag lunchtime presentation with film and water conservation news stories and encouraged water savings at home. Signage was posted in areas of employee water use; including kitchens, bathrooms, fitness center and café. Updates on the amount of water used by employees were emailed enterprise-wide and posted on building digital signage. Articles providing updates to staff on the status of the drought were posted periodically on our intranet site.

A Green Ranger member suggested the use of stronger water aerators in faucets. This low-cost suggestion was implemented in restroom faucets throughout our headquarters building, reducing individual faucet water flow by 66 percent. Green Ranger members also conducted a tour of the West Sacramento's George Kristoff water treatment plant and developed a water conservation video for employees. In addition, a Learning Expo presentation held in the building promoted water conservation tips and conservation raffle prizes, including garden mulch, washing tubs and five-gallon buckets.

### Water Consumption (gallons)



The Green Rangers program has proven to be productive for our environmental initiatives through the integration of creative ideas and support of environmental efforts. Often, employees who actively participate in environmental efforts at work are inspired to make changes at home, increasing the impact of our conservation efforts in the community, and vice versa. A group of our employees shared their ideas to keep the inspiration going. Highlights of their efforts at home are listed here.



## Lew Levy

*Technology Services, START Solutions Development*

---

Lew and his wife developed a landscape irrigation system that redirects gray water from the washing machine to a storage tank, and the water is then used for the landscape.

Often, employees who actively participate in environmental efforts at work are inspired to make changes at home, increasing the impact of our conservation efforts in the community, and vice versa.



## Kathi Rubin

*General Counsel, Community Property*

---

Kathi saves eight gallons a day with captured run-off from the shower. She uses the run-off for flushing her toilets and other household uses.



## Randell Hansen

*Benefits & Services, Service Retirement*

---

When washing fruit and vegetables instead of running them under the kitchen faucet and having water go down the drain, Randell lets them soak in a bath in a large cup or bowl. That water is then used to water his plants.

## Global Water Stewardship

As a signatory of the Carbon Disclosure Water Project, CalSTRS supports and encourages corporate water responsibility among large corporations. The program is designed to provide environmental data and information that assists institutional investors in understanding the risks and opportunities associated with water scarcity and other water-related issues.

For further information, please see the CDWP water report for 2014 at [CDP.net/water](http://CDP.net/water).

## Headquarters Environmental Performance

The CalSTRS sustainability policy commits to meeting and exceed environmental targets established by state or federal guidelines. In April 2012, Governor Brown established Executive Order B-18-12, which conveyed the requirements that all state agencies reduce greenhouse gas emissions and water use by 10 percent by 2015 and 20 percent by 2020 against a 2010 baseline in buildings under operational control.

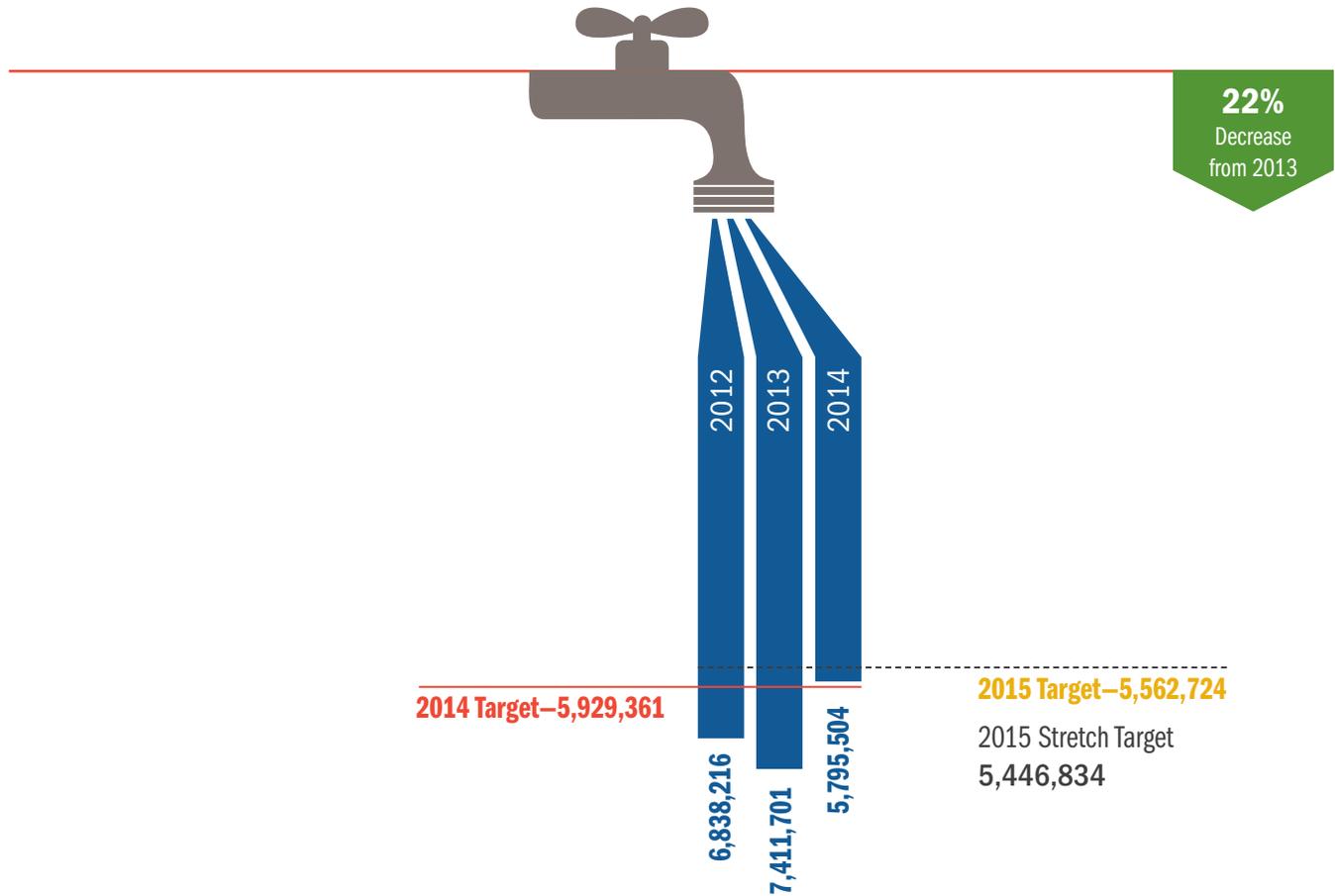
To meet and exceed the goals established by the Executive Order and decrease our overall impact, CalSTRS sets yearly reduction targets for water use, energy, greenhouse gas emissions, waste and single occupant vehicle use. Strategies to meet these targets are employed through employee engagement practices, building maintenance, technology and infrastructure improvements. With these environmental operations policies and goals in place, CalSTRS:

- » Manages resource use with a goal of continuously improving efficiency.
- » Supports the statewide effort to reduce energy and water use in state-owned facilities.
- » Contributes to the effort to reduce greenhouse gas emissions in California to 1990 levels by 2020.
- » Continues to explore opportunities to incorporate alternative energy and advanced conservation strategies into our business operations.
- » Engages and educates employees with ongoing communication and interactions.
- » Reports environmental impact progress to employees regularly.
- » Incorporates LEED, Leadership in Energy and Environmental Design Silver certification-level requirements into the leases of the member service centers.

The following illustrates the environmental performance for CalSTRS headquarters over the 2014 calendar year:

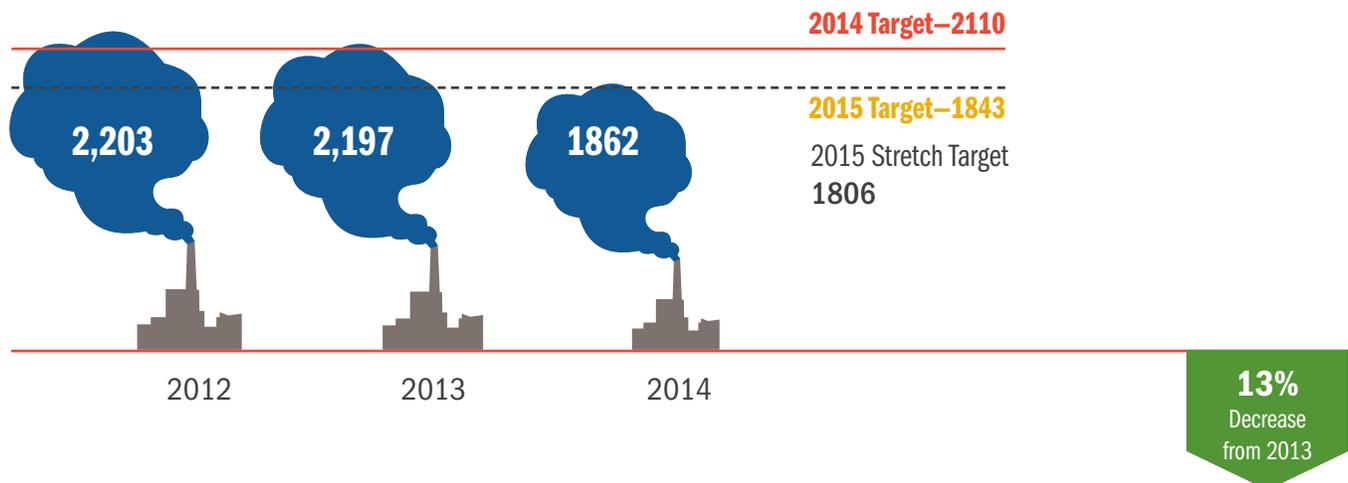
### Water Consumption (gallons)

Target: To reduce water by 20% from 2013 levels



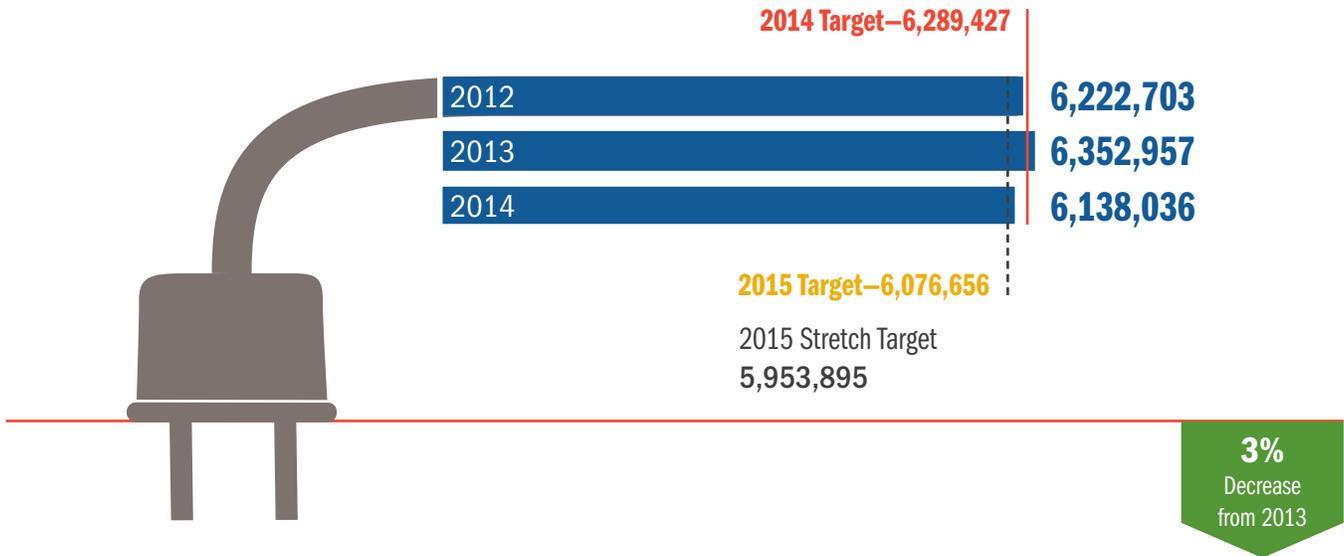
### Greenhouse Gas Emissions (Scopes #1 & #2)

Target: Reduce GHG emissions by 1% in 2014 compared to 2013 baseline



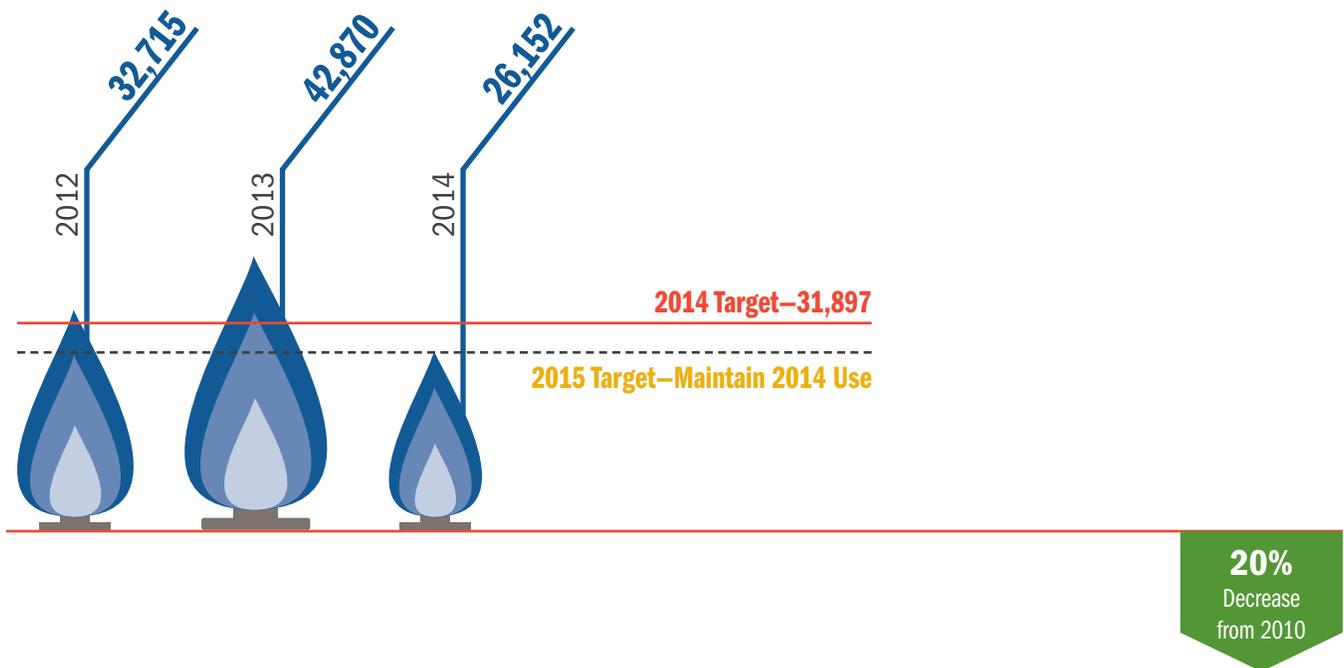
## Electricity Purchases (kwh)

Target: To reduce electricity consumption by 1% in 2014 from a 2013 baseline



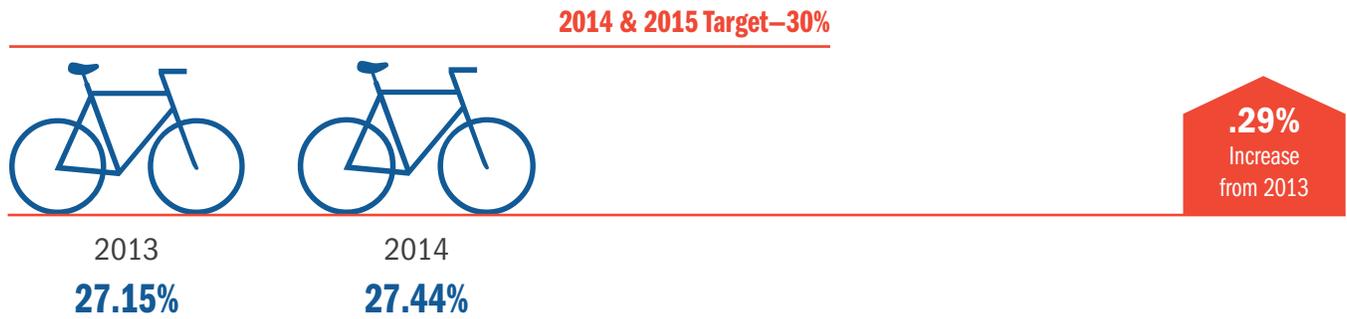
## Natural Gas

Target: To reduce natural gas consumption by 2.5% in 2014 from a 2010 baseline



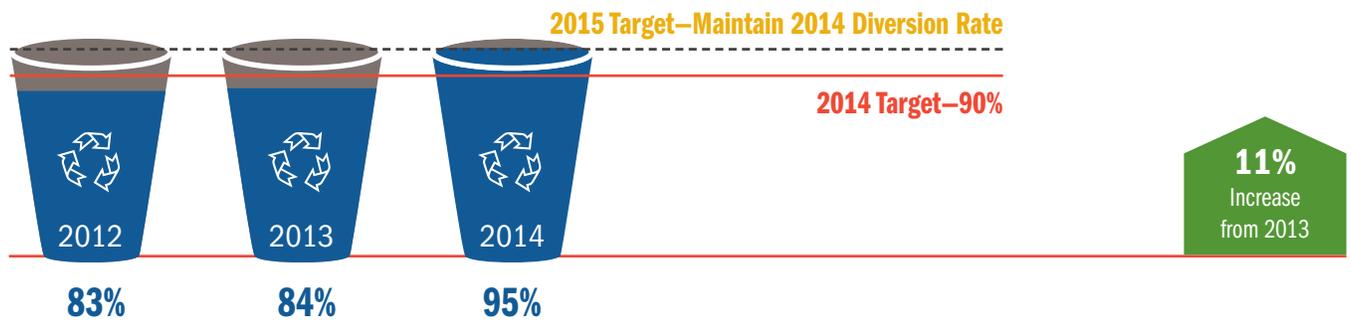
## Alternate Transportation Use

Target: Increase alternate transportation use by 2.85% compared to 2013 benchmark



## Waste Diversion

Target: Increase 2014 waste diversion to 90% compared to 2013 benchmark



G 4

Content

Index





# CONTENT INDEX

CALSTRS

APR 2015  
SERVICE

## GRI Content Index for 'In Accordance'—Core

### General Standard Disclosures

General Standard Disclosures	Page	*External Assurance
<b>STRATEGY AND ANALYSIS</b>		
G4-1	4	No
G4-2	4	No
<b>ORGANIZATIONAL PROFILE</b>		
G4-3	15	No
G4-4	15	No
G4-5	15	No
G4-6	15	No
G4-7	15	No
G4-8	15	No
G4-9	15-16	Yes, financial information verified in CAFR. Auditors statement page 25-27; data page 12, 34, 43, 84 and 88.
G4-10	18-20, the majority of work is completed by CalSTRS employees.	No
G4-11	19	No
G4-12	28	Yes, operating expenses have been verified in CAFR. Auditors Statement page 25-27; data pages 84-88.
G4-13	15	No
G4-14	25	No
G4-15	25	No
G4-16	27	No

## General Standard Disclosures (cont'd)

General Standard Disclosures	Page	*External Assurance
<b>IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES</b>		
G4-17	15	Yes, entities identified in CAFR. Auditors statement page 25-27, data page 45.
G4-18	11	No
G4-19	11	No
G4-20	9	No
G4-21	9	No
G4-22	No previous reports	
G4-23	No previous reports	
<b>STAKEHOLDER ENGAGEMENT</b>		
G4-24	12	No
G4-25	12	No
G4-26	13	No
G4-27	13	No
<b>REPORT PROFILE</b>		
G4-28	9	No
G4-29	No previous reports	
G4-30	9	No
G4-31	9	No
G4-32	9	No
G4-33	9	No
<b>GOVERNANCE</b>		
G4-34	16	Yes, Board composition identified in CAFR, Auditors statement page 25-27, data page 45.
<b>ETHICS AND INTEGRITY</b>		
G4-56	24	No
G4-57	49	No
G4-58	50	No

\*Where CAFR is noted, 2013-14 CalSTRS Comprehensive Annual Financial Report, available on [CalSTRS.com](http://CalSTRS.com)

## Specific Standard Disclosures

MATERIAL ASPECTS	DMA AND INDICATORS		OMISSIONS	*EXTERNAL ASSURANCE	
ECONOMIC CATEGORY	DISCLOSURE	PAGE		ASSURANCE	PAGE REFERENCE
Economic Performance	G4-DMA	38	-	No	
	G4-EC1	15, 28	-	Yes	Financial information verified in CalSTRS CAFR. Auditors Statement page 25-27; data page 43, 84 and 88.
	G4-EC3	38	-	Yes	Financial information verified in Appendix A, SCR 105, page 33. Data is located throughout report.
	G4-EC4	38	-	Yes	Financial information verified in Appendix A, SCR 105, page 33. Data is located throughout report.
Indirect Economic Impacts	G4-DMA	43	-	No	
	G4-EC8	43	-	No	
ENVIRONMENTAL CATEGORY					
Supplier Environmental Assessment	G4-DMA	42	-	No	
	G4-EN33	41	-	No	

MATERIAL ASPECTS	DMA AND INDICATORS		OMISSIONS	*EXTERNAL ASSURANCE	
SOCIAL CATEGORY	DISCLOSURE	PAGE		ASSURANCE	PAGE REFERENCE
<b>Labor Practices and Decent Work</b>					
Employment	G4-DMA	23	-	No	
	G4-LA1	22	-	No	
Training and Education	G4-DMA	23	-	No	
	G4-LA10	23	-	No	
	G4-LA11	19	-	No	
<b>Society</b>					
Anti-Corruption	G4-DMA	49	-	No	
	G4-SO4	49		No	
<b>Product Responsibility</b>					
Product Service and Labeling	G4-DMA	31	-	No	
	G4-PR5	35	-	No	
Customer Privacy	G4-DMA	53	-	No	
	G4-PR8	53	-	No	
<b>ADDITIONAL INDICATORS</b>					
Energy	G4-EN3	61	-	No	
	G4-EN6	61	-	No	
Water	G4-DMA	57	-	No	
	G4-EN8	57	-	No	
Emissions	G4-EN15	60	-	No	
	G4-EN16	60	-	No	
	G4-EN19	60	-	No	
Effluents and Waste	G4-EN23	62	-	No	
Diversity and Equal Opportunity	G4-LA12	35	-	No	

\*Where CAFR is noted, 2013-14 CalSTRS Comprehensive Annual Financial Report. Where SCR 105 is noted, Sustaining Retirement Security for Future Generations: Funding the California State Teachers Retirement System, Feb 2013.

Both reports can be found on [CalSTRS.com](http://CalSTRS.com)



**CALSTRS**<sup>®</sup>  
HOW WILL YOU SPEND YOUR FUTURE?

---

P.O. Box 15275  
Sacramento, CA 95851-0275  
800-228-5453  
CalSTRS.com