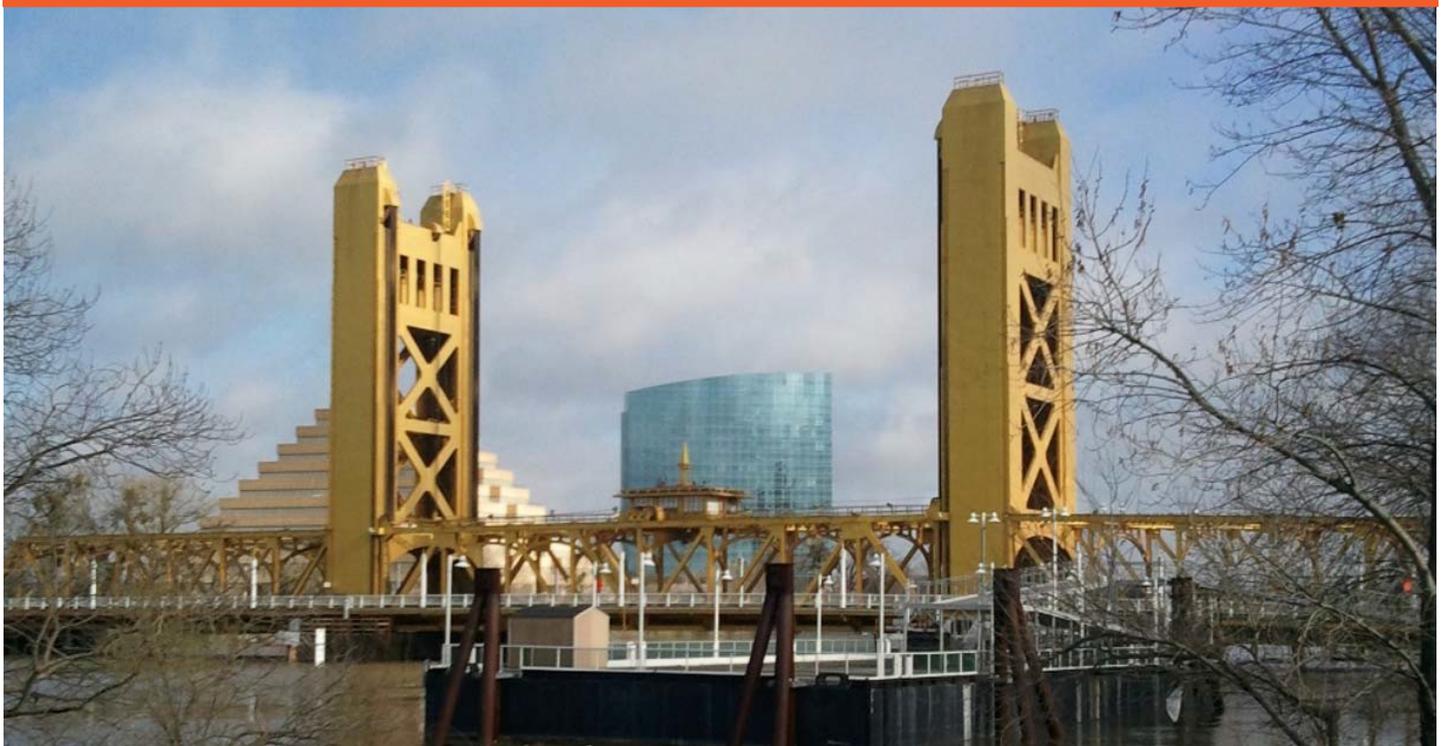


CALSTRS[®]

HOW WILL YOU SPEND YOUR FUTURE?



2017 ANCILLARY INVESTMENT PROGRAM ANNUAL REPORT



2017 Home Loan Program Annual Report

CalSTRS Home Loan Program 2017 Annual Report

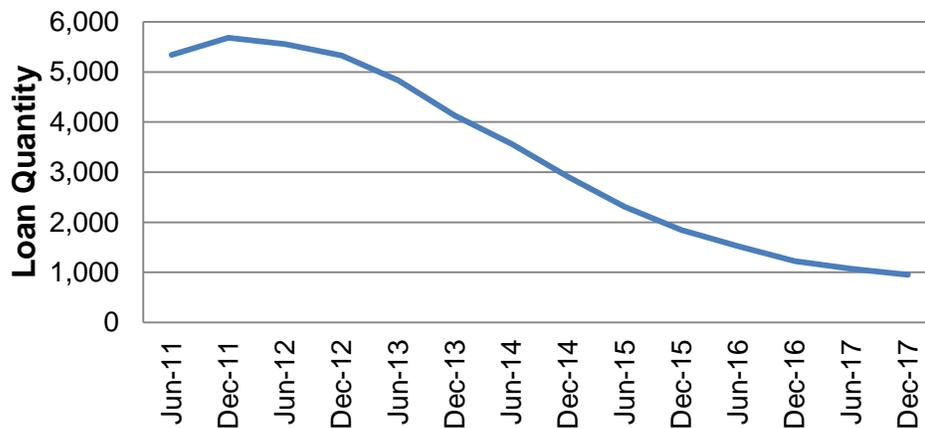
Program Background

The California State Teachers' Retirement System Home Loan Program (HLP), was originally created as a result of legislation in 1984. It was designed to add member value by providing CalSTRS members with access to homeownership in California via a market rate mortgage loan, while concurrently meeting CalSTRS investment goals by generating a mortgage asset. The HLP started with conventional 15 and 30 year fixed-rate products but evolved over the years in response to the needs of our members. This evolution resulted in the development of low down payment products such as the 95/5 and 80/17 Programs that support the practical homeownership ambitions of our members. In the fall of 2011, new mortgage originations were suspended due to the strategic decision by the program's master servicing agent and program administrator to exit the correspondent lending business nationwide.

Recent Developments

With mortgage origination activity indefinitely suspended, the focus remains on servicing the existing portfolio of whole loans. Home price appreciation and low mortgage interest rates continued to drive payoff activity. The number of mortgages in the portfolio fell by approximately 23 percent during the calendar year (from 1,226 loans at the beginning of the year to 950 mortgages as of Dec 31, 2017).

Remaining Mortgages



Portfolio Performance

As of December 31, 2017, the net asset value of mortgage assets retained in the CalSTRS Home Loan Program portfolio was \$66 million.

	1 Year	3 Year	5 Year
Home Loan Program Portfolio	5.14%	6.21%	5.26%
Debt Opportunity Policy Benchmark	3.73%	2.44%	2.28%

*As of December 31, 2017. Source: State Street

2017 Securities Lending Program Annual Report

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CalSTRS Securities Lending Program 2017 Annual Report

Required Skills for Program Management

- Knowledge of asset/liability management methods
- Awareness of factors that influence the fixed income/equity finance markets
- Understanding of trading techniques associated with short-term fixed income assets

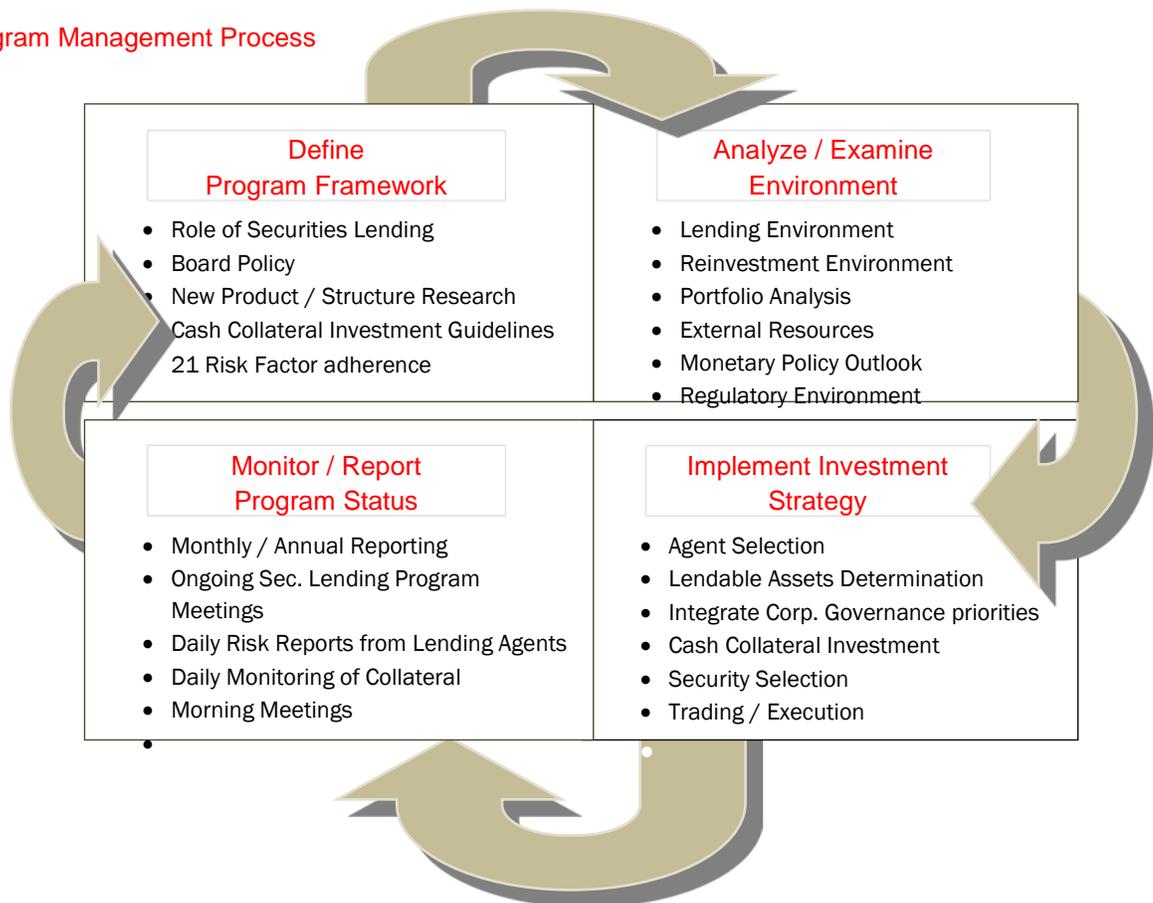
Director's Summary

The Securities Lending Program (Program) performed well during 2017, by earning nearly \$95.1 million. The Program has averaged over [\\$100 million in earnings](#) during the past eight calendar years. Program earnings continue to be a steady source of incremental income, generating over \$1.60 billion for the System since its inception in 1988, adding, on average, over four basis points (bps) annually to the total Portfolio.

Program Overview

Securities Lending is an agreement between a lender (CalSTRS) and a borrower to transfer ownership of a security temporarily, in exchange for collateral, in order to earn additional income. This is typically facilitated through a lending agent in order to earn incremental income on long-term holdings. Borrowers include broker/dealers, market makers, and hedge funds that are looking to provide liquidity. The California State Teachers' Retirement System (CalSTRS, System, Fund) Securities Lending Program (Program), which was established in 1988, represents the System's first non-core investment program. It was designed to enable the Fund to use its existing asset base and investment expertise to generate a steady source of incremental income, adding over four bps to the entire Fund on a regular basis over the long-term. While this income is not risk-free, processes have been put into place to help mitigate the risks associated with securities lending. In addition, Program staff work closely with the Corporate Governance team to develop and streamline processes to facilitate the return of CalSTRS' shares to vote, as proxy voting is a priority within our organization.

Program Management Process

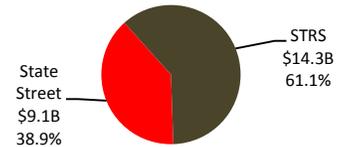
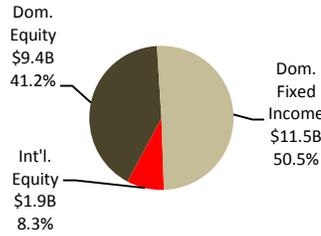
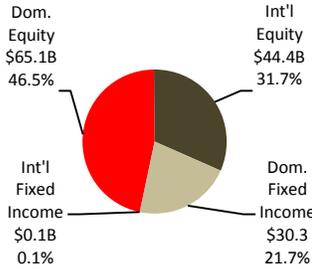


Program Summary

CalSTRS Lendable Assets by Asset Class
\$139.9 Billion
December 31, 2017

CalSTRS Loans by Asset Class
\$22.8 Billion
December 31, 2017

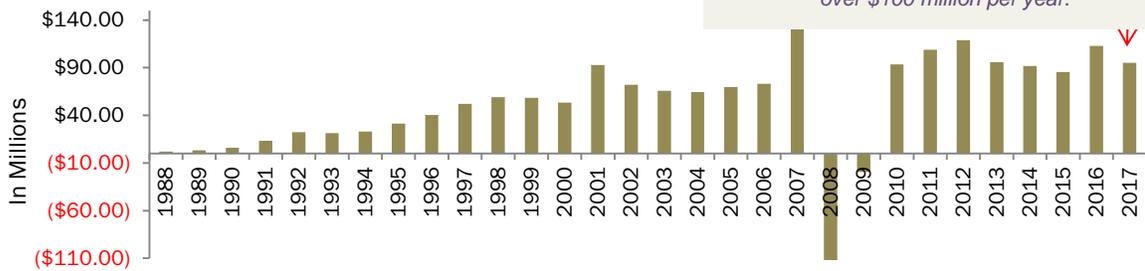
CalSTRS Cash Collateral by Participant
\$23.4 Billion
December 31, 2017



CalSTRS has a strategy of using multiple lending agents and asset managers, in order to benefit from both diversification and competition.

Performance Results

CalSTRS Securities Lending Program Earnings (in millions)
\$1.60 Billion (\$3.97 Billion Compounded)* Since Inception
December 31, 2017



Although Securities Lending is not one of the core functions within the Fixed Income Unit, it has been viewed as a valuable source of steady incremental income to the entire Fund. The Program has earned over four basis points (4.50) every year, on average, since inception.

Contributing Factors:

Two factors contribute to the net income of the Program:

- The negotiated lending terms at the outset of the loan, and
- The return generated from the management of the cash taken as collateral for the loan.

Three factors that have negatively affected recent earnings are:

- Lower US equity returns due to compressed spreads.
- Lower utilization in general for equities.
- Shrinking cash collateral spreads in bps relative to the benchmark year over year.

2017 Cash Collateral Portfolios Annual Returns	CalSTRS 1.38%	State Street 1.28%
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***Compounded annually using total fund return.**

2017 State Lands Program Annual Report

CalSTRS State Lands 2017 Annual Report

Required Skills for Program Management

- Knowledge of activities of the State Lands Commission (SLC)
- Ongoing Engagement with SLC Staff

Director's Summary

The School Land Bank Fund (SLBF) generated approximately \$6.60 million in revenues for fiscal year 2016-17, an increase of 9% year over year. Revenues were higher due to increased production of solid minerals and geothermal royalties increasing.

Program Overview

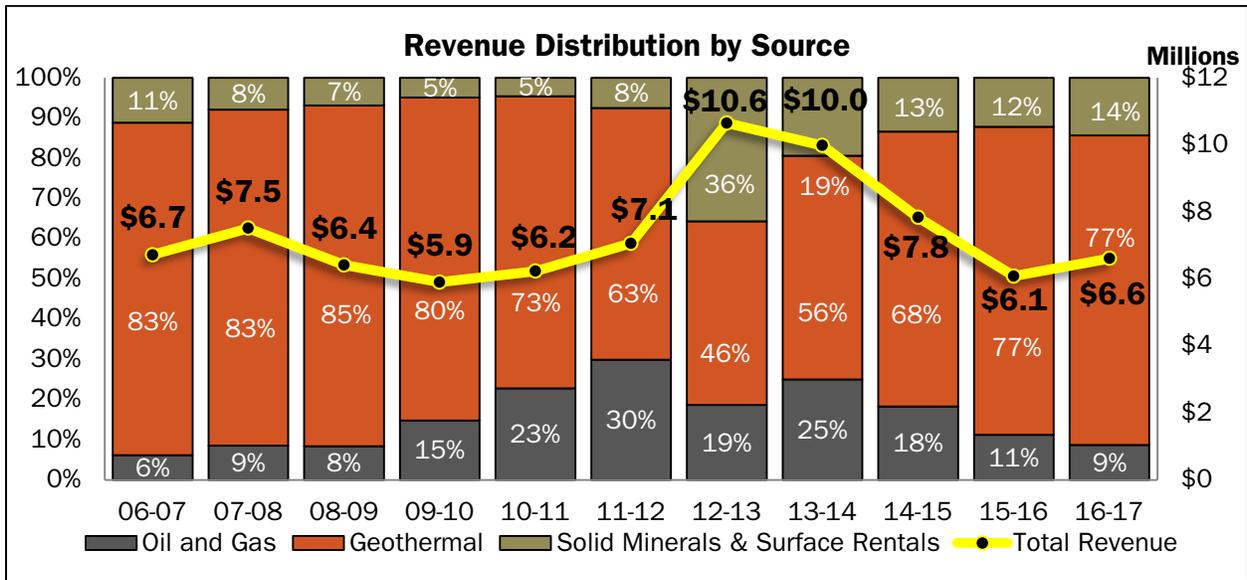
The California State Lands Commission manages approximately 458,843 acres of school lands held in fee ownership by the State of California and the reserved mineral interests on approximately 790,000 acres of school lands where the surface estate has been sold. These interests are what remain of the 5.5 million acres granted by Congress in 1853. Most of the original school lands were sold by the State during the first 130 years of statehood. Management of the Commission's School Lands Program is divided between the Mineral Resources Management Division (MRMD) and the Land Management Division (LMD). The MRMD is responsible for geothermal, solid minerals, and oil and gas leasing on school lands and for geothermal resource development, mining activities, and oil and gas development. The LMD is responsible for managing surface activities on school lands.

School lands were placed into a statutory trust in 1984 when the Legislature enacted the School Land Bank Act (Act) and created the School Land Bank Fund. The Commission is the trustee of the Fund. Sections 8700 through 8716 of the Public Resources Code establish management guidelines for school lands. The Act states that school lands and attendant interests are to be proactively managed and enhanced to provide an economic base in support of public schools. The Act further requires the Commission to take all action necessary to fully develop school lands, indemnity interests, and attendant mineral interests into a permanent and productive resource base. Public Resources Code § 8701 contains findings and declarations that emphasize developing school lands into a permanent and productive resource base and underscore that all transactions, including exchanges, sales, and acquisitions, should be implemented for revenue generating purposes.

Performance Results

In fiscal year 2016-17, school lands generated gross revenues of \$6.60 million for CalSTRS, an increase of 9% year-over-year. Gross revenue to CalSTRS from solid mineral leases increased substantially, from \$362,226 the previous year, to \$548,116 which is a 51 percent increase from the previous year. School lands revenue from solid minerals has increased mainly due to the Hanson Aggregates mineral extraction lease, which resumed production after being idle since 2009. Oil and gas lease revenue decreased 17% year-over-year to \$571,186. The decline in Oil and Gas revenue is mainly attributed to decreased production at the Round Mountain parcel. As shown in the table below, the revenue distribution from geothermal leases contributed 77 percent of revenue (same % of revenue as in the previous year), solid minerals and surface rentals combined to contribute 14 percent of revenue (versus 12 percent the previous year). Oil and gas contributed 9 percent this year (versus 11 percent the previous year).

Revenue Distribution by Source



Expenses for the program were \$1.29 million, below the average yearly expenses since 2010 of \$1.31 million. Year-over-year the programs expenses declined 12.35%. This was primarily due to reductions in State Land Commission's staff's heavy time and resource commitment to land management and geothermal lease administration. CalSTRS Real Estate investment staff is actively discussing expense containment with SLC staff.

Net revenue to CalSTRS increased this year by 15 percent to \$5.4 million from \$4.7 million last fiscal year. Oil and Gas decreased again year-over-year, down 17 percent for 2017, due to lower production levels. This was offset by increases in geothermal royalties and solid mineral production up 9 percent and 51 percent respectively from the previous year. As of June 30, 2017, the School Land Bank Fund had a balance of \$69,362,280 versus \$2,619,184 the previous year. The balance reflects a \$59 million loan to the California General Fund in 2008 which was repaid along with interest of \$8,397,704 this fiscal year. Interest of \$13,232.67 was generated during the fiscal year by the Surplus Money Investment Account to the School Land Bank Fund, a slight increase from the previous year.