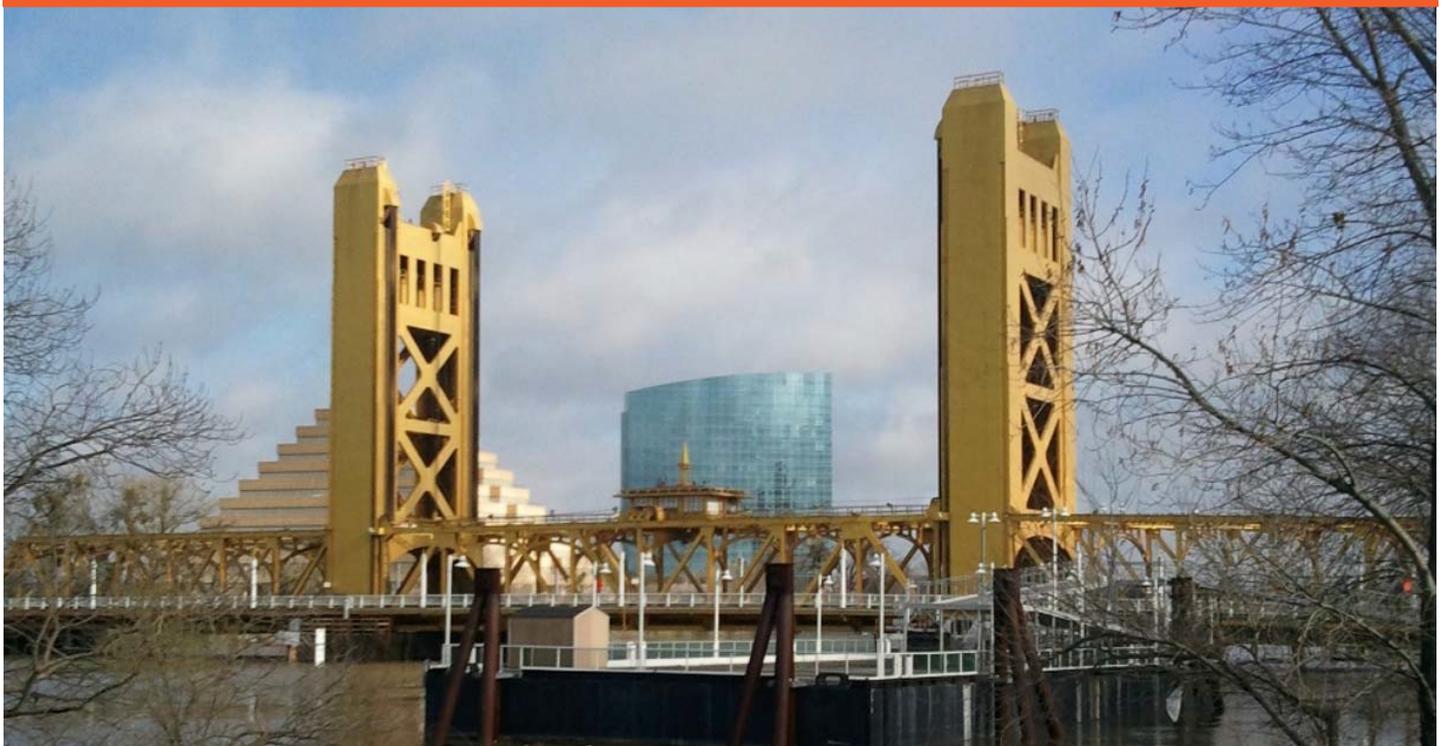


CALSTRS[®]

HOW WILL YOU SPEND YOUR FUTURE?



2018 ANCILLARY INVESTMENT PROGRAM ANNUAL REPORT



2018 Home Loan Program Annual Report

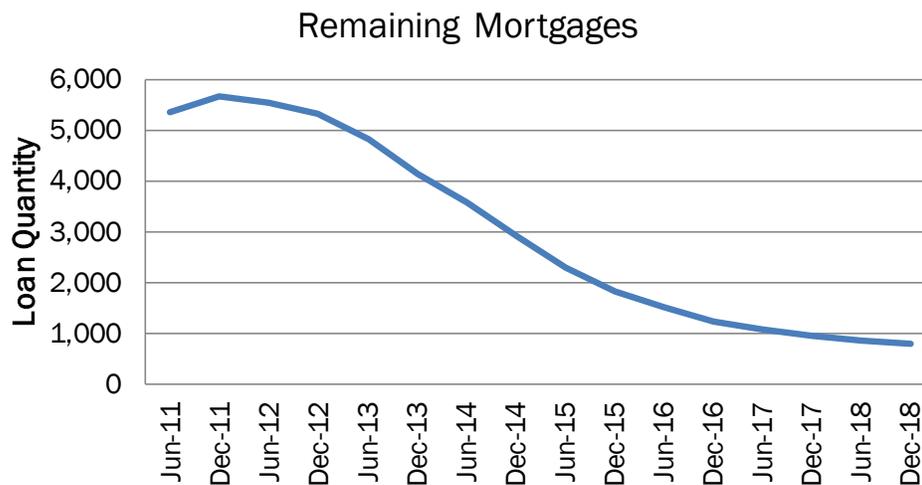
CalSTRS Home Loan Program 2018 Annual Report

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 14 percent during the calendar year (from 950 loans at the beginning of the year to 813 mortgages as of Dec 31, 2018).



Portfolio Performance

As of December 31, 2018, the net asset value of mortgage assets retained in the CalSTRS Home Loan Program portfolio was \$55 million.

	1 Year	3 Year	5 Year
Home Loan Program Portfolio	5.17%	5.20%	5.71%
Debt Opportunity Policy Benchmark	(0.07%)	2.32%	2.59%

*As of December 31, 2018. Source: State Street

2018 Securities Lending Program Annual Report

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CalSTRS Securities Lending Program

2018 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

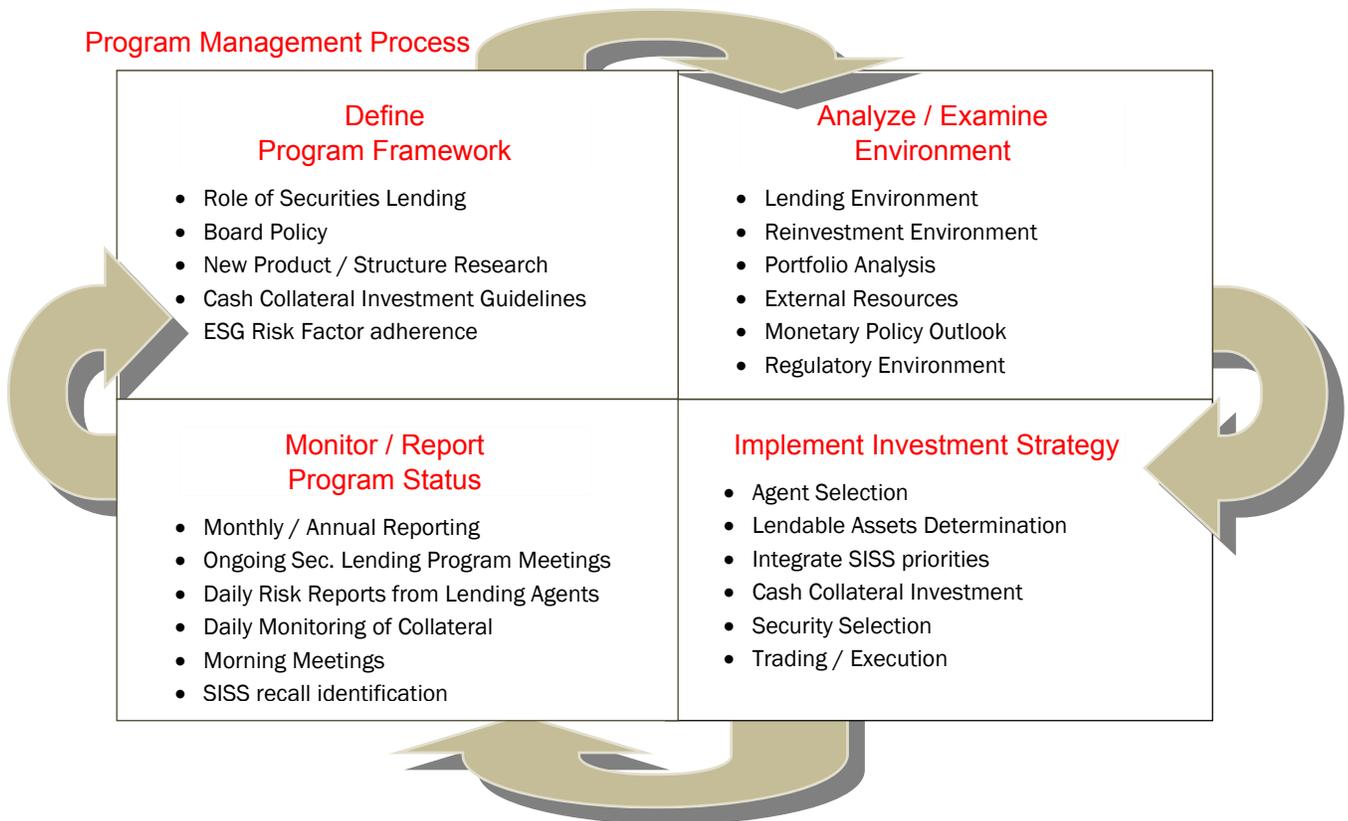
Director's Summary

The Securities Lending Program (Program) performed well during 2018, earning over \$100.6 million. The Program has averaged over [\\$100 million in earnings](#) during the past nine calendar years. Program earnings continue to be a steady source of incremental income, generating over \$1.70 billion for the System since its inception in 1988, adding on average, over four basis points (bps) annually to the total Portfolio.

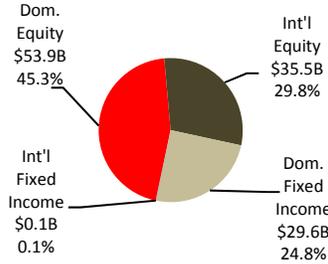
Program Overview

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 Sustainable Investment and Stewardship Strategies (SISS) team to develop and streamline processes to facilitate the return of CalSTRS' shares to vote, as proxy voting is a priority within our organization.

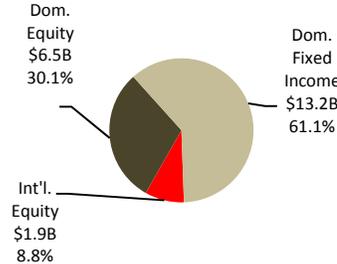
Program Management Process



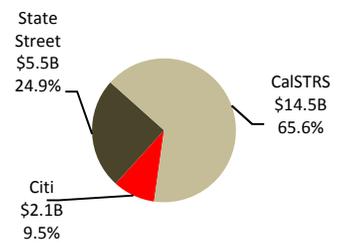
Program Summary
CalSTRS Lendable
Assets by Asset Class
\$119.1 Billion
December 31, 2018



CalSTRS Loans by Asset Class
\$21.6 Billion
December 31, 2018



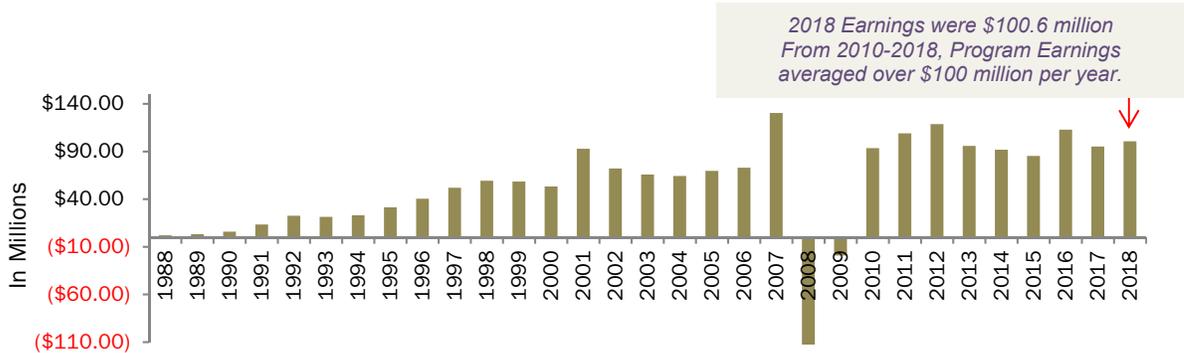
CalSTRS Cash Collateral by Participant
\$22.1 Billion
December 31, 2018



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)
\$1.70 Billion (\$3.96 Billion Compounded)* Since Inception (1988)
As of December 31, 2018



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.

Two factors that have positively affected recent earnings are:

- Generally increased utilization of non-cash collateral, and
- Increasing cash collateral spreads in bps relative to the benchmark year over year.

2018 Cash Collateral Portfolios Annual Returns	CalSTRS	State Street	Citigroup
	2.31%	2.25%	1.19%**

*Compounded annually using total fund return.

**Partial year from June 2018 (Inception to date).

2018 State Lands Program Annual Report

CalSTRS State Lands 2018 Annual Portfolio 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 \$7.45 million in revenues for fiscal year 2017-18, an increase of 13% year over year. Revenues were higher due to increased production of solid minerals, Oil & Gas and geothermal royalties increasing.

Program Overview

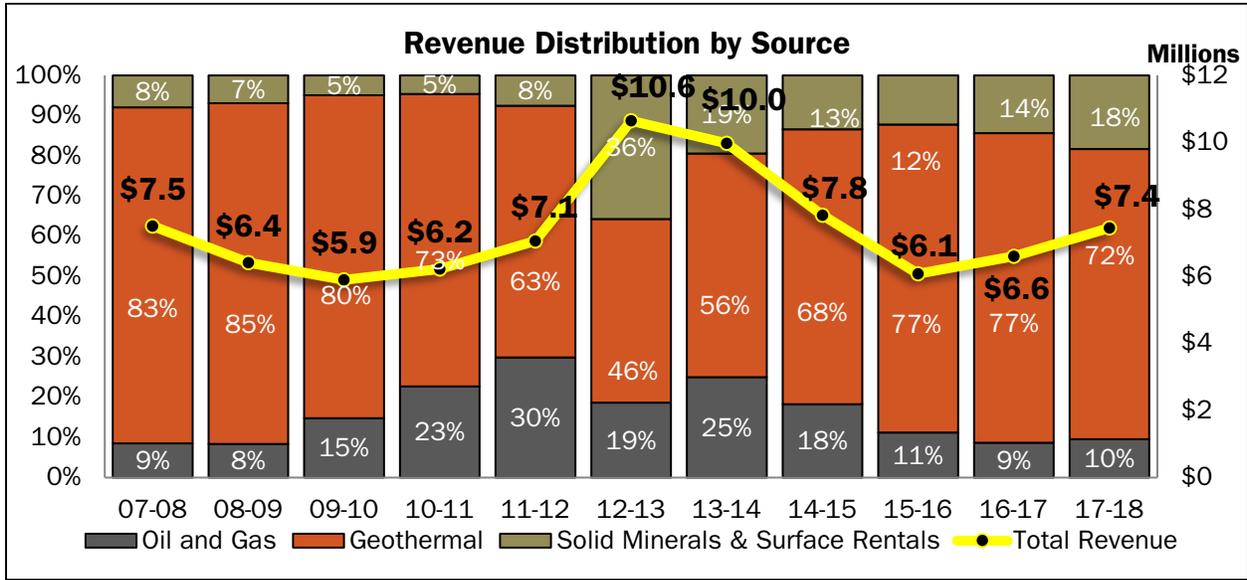
The California State Lands Commission manages approximately 458,843 acres of school lands held in fee ownership by the State of California and the reserved mineral interests on approximately 790,000 acres of school lands where the surface estate has been sold. These interests are what remain of the 5.5 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 2017-18, school lands generated gross revenues of \$7.45 million for CalSTRS, an increase of 13% year-over-year. Gross revenue to CalSTRS from solid mineral leases increased substantially, from \$548,116 the previous year, to \$756,658 which is a 38 percent increase from the previous year. School lands revenue from solid minerals has increased mainly due to the Hanson Aggregates mineral extraction lease performance, which resumed production last year after being idle since 2009. Oil and gas lease revenue increased 24.3 percent year-over-year to \$710,397. The increase in Oil and Gas revenue is mainly attributed to increased royalties attributed to a substantial increase in the price of oil. As shown in the table below, the revenue distribution from geothermal leases contributed 72 percent of revenue (5% decrease from the previous year), solid minerals and surface rentals combined to contribute 18 percent of revenue (versus 14 percent the previous year). Oil and gas contributed 10 percent this year (versus 9 percent the previous year).

Revenue Distribution by Source



Expenses for the program were \$1.17 million, below the average yearly expenses since 2010 of \$1.31 million. Year-over-year the programs expenses declined 9%. This was primarily due to reductions in State Land Commission’s staff’s heavy time and resource commitment to solid minerals 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 18 percent to \$6.4 million from \$5.4 million last fiscal year. Oil and Gas increased year-over-year, up 24.3 percent for 2018, due to higher oil prices. This was combined with an increase in solid mineral production up 38 percent year-over-year. As of June 30, 2018, the School Land Bank Fund had a balance of \$69,628,517 versus \$69,362,280 the previous year. Interest of \$944,730.04 was generated during the fiscal year versus \$13,232.67 the previous year, by the Surplus Money Investment Account to the School Land Bank Fund, a substantial increase from the previous year.