FINANCIAL

CalSTRS is **the largest educator-only pension fund in the world**, with a $211.1 billion in net position as of June 30, 2017.

State Teachers' Retirement Plan Schedules

Basic Financial Statements

Required Supplementary Information (Unaudited)

Other Supplemental Information

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Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT

Teachers' Retirement Board of the California
State Teachers' Retirement System
West Sacramento, California

Report on the Financial Statements

We have audited the accompanying financial statements of California State Teachers' Retirement System ("System" or "CalSTRS"), a component unit of the State of California, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the System's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of California State Teachers' Retirement System as of June 30, 2017, and the changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Net Pension Liability of Employers and Nonemployer Contributing Entity

As described in Note 3, based on the most recent actuarial valuation as of June 30, 2016, the System's independent actuaries determined that, at June 30, 2017, the value of the State Teachers' Retirement Plan (STRP) total pension liability exceeded the STRP fiduciary net position by $92.5 billion. The actuarial valuation is sensitive to the underlying actuarial assumptions, including investment rate of return of 7.1%, consumer price inflation of 2.75%, wage growth of 3.5% and custom mortality tables based on CalSTRS most recent Experience Analysis. Our opinion is not modified with respect to this matter.

Fair Value of Investments

As described in Notes 5 and 6, the financial statements include investments valued at approximately $56.4 billion as of June 30, 2017, for which fair value has been estimated by general partners and investment advisors, and reviewed and approved by the System's management, in the absence of readily ascertainable market values. Because of the inherent uncertainty of valuation, the estimate of values may differ from the values that would have been used had a ready market existed for the investment securities, and the differences could be material. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 28-49 and the Schedule of Changes in Net Pension Liability of Employers and Nonemployer Contributing Entity, Schedule of Net Pension Liability of Employers and Nonemployer Contributing Entity, Schedule of Pension Contributions from Employers and Nonemployer Contributing Entity, Schedule of Money-Weighted Investment Returns for State Teachers' Retirement Plan and Medicare Premium Payment Program, Schedule of Changes in Net OPEB Liability of Employers and Schedule of Net OPEB Liability of Employers on pages 88 – 93 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The Introduction section, Schedule of Administrative Expenses, Schedule of Investment Expenses, Schedule of Consultant and Professional Services Expenses, Investments section, Actuarial section, and Statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Administrative Expenses, Schedule of Investment Expenses and Schedule of Consultant and Professional Services Expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Administrative Expenses, Schedule of Investment Expenses and Schedule of Consultant and Professional Services Expenses are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Introduction section, Investments section, Actuarial section, and Statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2017 on our consideration of California State Teachers' Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering California State Teachers' Retirement System's internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath LLP

September 29, 2017
Sacramento, California

INTRODUCTION

Management's Discussion and Analysis of the California State Teachers' Retirement System's (CalSTRS, "system", "our" or "we") financial performance is intended to fairly and transparently provide an overview of activities for the fiscal year ended June 30, 2017. The discussion and analysis focuses on the year's business events and resulting changes. This discussion is more meaningful when read in conjunction with CalSTRS financial statements and accompanying notes.

In addition to historical information, the discussion and analysis includes some forward-looking statements that involve uncertainties and risks. CalSTRS' actual results, performance and achievements expressed or implied in these statements are subject to changes in interest rates, securities markets, general economic conditions, legislation, regulations and other factors.

MISSION

Since CalSTRS was founded in 1913, we have grown from no assets and 15,000 members to an investment portfolio valued at $208.7 billion[1] serving 933,301 members and beneficiaries as of June 30, 2017. In 1913, the annual benefit was $500; today, the average annual member-only benefit is approximately $48,000. Over the past 104 years, CalSTRS mission has remained the same: to secure the financial future and sustain the trust of California's educators now and for generations to come.

YEAR IN REVIEW

Significant events and changes impacting CalSTRS during fiscal year 2016–17 are described in the paragraphs that follow.

Actuarial Experience Study

CalSTRS engaged our consulting actuary, Milliman, to perform an actuarial experience study for the period starting July 1, 2010, and ending June 30, 2015, to ensure the demographic and economic assumptions adopted by the Teachers' Retirement Board (the "board") are reasonable and reflect the actual experience of the system.

The study evaluated various economic and demographic factors affecting the valuation of CalSTRS' long-term pension liabilities and reflected the need to make changes to various assumptions based on actual experience. The most significant changes were to the long-term investment return rate, mortality tables, inflation and wage growth assumptions for CalSTRS members.

After a thorough review of the results during the February 2017 meeting, the board decided to lower the investment return assumption over a two-year period. The expected return net of all expenses decreased from 7.50 to 7.25 percent for the June 30, 2016, funding actuarial valuations and will decrease from 7.25 to 7.00 percent for the June 30, 2017, funding actuarial valuations. For financial reporting purposes, the board adopted an expected long-term rate of investment return of 7.10 percent, gross of administrative expenses effective June 30, 2017. In addition, the board adopted a revised generational mortality methodology based on the latest trend data, which expects early career members to live two to three years longer than those who retire today. The inflation assumption was lowered from 3.00 to 2.75 percent, and correspondingly, the wage-growth assumption was lowered from 3.75 to 3.50 percent. A copy of the full report is available on www.calstrs.com.

Benefit Adequacy Study

CalSTRS conducted a study in 2017 that compared CalSTRS-only monthly retirement income received by members who retired before 1999 to their estimated monthly minimum living expenses. The study, called the Benefit Adequacy Study, surveyed 28,000 members and found that the CalSTRS benefit structure provides a greater level of adequacy for the long-term educator as compared to those who spent fewer years as an educator. (The study did not include information on income sources other than CalSTRS benefits.) Most retirees who received benefits greater than the estimated minimum living expenses had more than 20 years of service credit. Of the 28,000 members surveyed, 36 percent received benefits lower than the estimated minimum living expenses, most likely as a result of leaving their career as an educator early. Detailed information regarding the study can be found in the board meeting agendas on www.calstrs.com.

Divesting From Coal

During fiscal year 2016–17, the board voted to divest from all non-U.S. thermal coal holdings in the CalSTRS portfolio. Consistent with the CalSTRS Divestment Policy, CalSTRS staff conducted a thorough review of the operations of two

[1] This reflects the value of the investment portfolio as of June 30, 2017. It is presented using common industry practices for investment portfolio management and is not prepared in accordance with U.S. Generally Accepted Accounting Principles.

of CalSTRS' global thermal coal holdings, the non-U.S. thermal coal market and related research materials outlining the impacts of their coal use. Based on their assessment and ongoing shareholder efforts, staff concluded that all engagement options to effect change had been thoroughly exhausted. The board concluded that these holdings were not consistent with the CalSTRS Investment Policy for Mitigating Environmental, Social and Governance Risks (ESG) and were de minimis to the fund. In total, CalSTRS has divested $9.8 million from thermal coal companies worldwide.

The board's action aligns with CalSTRS' long-term global perspective and our fiduciary duty, including consideration of environmental risks – both current and those projected over the next 10 to 25 years or more. Thermal coal burning is a significant producer of greenhouse gases contributing to climate change. CalSTRS annual Green Initiative Task Force Report summarizes our efforts to promote environmental risk management and investment awareness throughout the global financial markets.

Opposing Financial CHOICE Act of 2017

CalSTRS closely monitors legislation considered by the U.S. Congress that may affect our members or CalSTRS' ability to be a proactive investor in the market. Recently, a bill proposing to roll back significant Dodd-Frank investor protections was introduced to the U.S. House of Representatives. The Financial CHOICE Act of 2017 would effectively reduce our ability to influence companies in which we invest by increasing thresholds surrounding the shareholder proposal process. In addition, the CHOICE Act would allow for riskier behavior by public companies and restrict the Securities and Exchange Commission's ability to protect investors.

The board adopted an oppose position on this measure. CalSTRS has written to a ranking member of the House Committee on Financial Services as well as all 55 California members of Congress relaying our position on this legislation. CalSTRS is committed to voicing the concerns of our members and protecting important shareholder rights for our investment portfolio.

Investment Cost Report

The 2015 calendar year investment cost report presented to the board at the November 2016 meeting provided a comprehensive view of investment costs across asset classes and investment strategies. This year, CalSTRS contracted with Pavilion Alternatives Group, LLC, as a project consultant to assist in tracking indirect costs and carried interest for the first time. Indirect costs include general partner management fees and revenues as well as limited partner expenses attributable to the investment of CalSTRS capital.

The annual investment costs presented in the report were 51.8 basis points (bps) of the total net asset value of the portfolio. In 2014, these costs were 30.8 bps. The increase can be attributed, for example, to methodology changes as well as $320 million in netted partnership expenses and other fees not delineated in the 2014 cost report.

The 2015 calendar year report also presented a comparison of CalSTRS investment costs to 15 of our global peers with $72 to $485 billion in assets under management. These comparisons were compiled by third party cost measurement service providers using various methodologies. The results showed that CalSTRS' investment strategies saved approximately $135 million in investment costs. CalSTRS will continue to develop standardized cost reporting practices to enhance the completeness and transparency of our investment management reporting. A copy of the report is available on www.calstrs.com.

New Board Member

In April 2017, Governor Brown appointed Karen Yamamoto to the Teachers' Retirement Board. Ms. Yamamoto served as a second grade teacher for the Washington Unified School District from 1992 to 2007. As a member of the board, she serves on the Appeals Committee, Benefits and Services Committee, Board Governance Committee and the Investment Committee.

FINANCIAL HIGHLIGHTS

State Teachers' Retirement Plan

The State Teachers' Retirement Plan (STRP) is a multiple employer, cost-sharing defined benefit plan comprised of four programs: Defined Benefit (DB) Program, Defined Benefit Supplement (DBS) Program, Cash Balance Benefit (CBB) Program and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs.

The tables that follow present comparative information for the STRP for fiscal years 2016–17 and 2015–16.

Net Position
(Dollars in Thousands)

Assets and Deferred Outflows of Resources	2017	2016	Percent Change
Investment Assets[1]	$229,079,341	$207,541,517	10.4%
Cash	459,456	164,597	179.1%
Investment Receivables	2,349,266	1,280,564	83.5%
Member, Employer and Other Receivables	3,523,160	2,693,178	30.8%
Capital and Other Assets	259,011	231,216	12.0%
Total Assets	**235,670,234**	**211,911,072**	**11.2%**
Deferred Outflows of Resources	**70,934**	**22,756**	**211.7%**
Total Assets and Deferred Outflows of Resources	**235,741,168**	**211,933,828**	**11.2%**
Liabilities and Deferred Inflows of Resources			
Benefits in Process of Payment	234,379	1,188,518	(80.3%)
Investment Liabilities	260,133	169,246	53.7%
Investment Payables	3,270,703	1,403,511	133.0%
Loans Payable	2,824,259	2,129,694	32.6%
Net Pension and OPEB Obligation	323,058	256,069	26.2%
Other	353,766	127,494	177.5%
Securities Lending Obligation	18,184,444	17,530,264	3.7%
Total Liabilities	**25,450,742**	**22,804,796**	**11.6%**
Deferred Inflows of Resources	**526**	**15,545**	**(96.6%)**
Total Liabilities and Deferred Inflows of Resources	**25,451,268**	**22,820,341**	**11.5%**
Net Position	**$210,289,900**	**$189,113,487**	**11.2%**

[1]Includes securities lending collateral of $18.2 billion and $17.5 billion for 2017 and 2016, respectively.

Changes in Net Position

(Dollars in Thousands)

Additions	2017	2016	Percent Change
Member Contributions	$3,440,883	$2,957,473	16.3%
Employer Contributions	4,173,235	3,391,144	23.1%
State of California	2,478,230	1,939,902	27.8%
Net Investment Income[1]	25,165,180	2,337,364	976.6%
Other	72,005	41,519	73.4%
Total Additions	**35,329,533**	**10,667,402**	**231.2%**
Deductions			
Benefit Payments	13,787,035	13,064,557	5.5%
Refunds of Contributions	115,509	84,001	37.5%
Administrative Expenses	182,367	180,056	1.3%
Borrowing Costs[1]	57,958	32,406	78.8%
Other	10,251	15,231	(32.7%)
Total Deductions	**14,153,120**	**13,376,251**	**5.8%**
Net Position Increase (Decrease)	**21,176,413**	**(2,708,849)**	**881.7%**
Beginning Net Position	**189,113,487**	**191,822,336**	**(1.4%)**
Ending Net Position	**$210,289,900**	**$189,113,487**	**11.2%**

[1]Borrowing costs of $32,406 associated with the master facility credit portfolio for the year ended June 30, 2016, were reclassified from Net Investment Income to Deductions to conform to the presentation as of and for the year ended June 30, 2017. The reclassifications had no impact on net position or changes in net position.

- Investment assets increased 10.4 percent or $21.5 billion primarily due to strong market performance resulting in an investment return of 13.4 percent (net of fees) for fiscal year 2016–17.

- Investment receivables increased 83.5 percent or $1.1 billion primarily due to the timing of the settlement of investment sales that occurred near the end of the fiscal year. The increase is also attributable to an increase in interest and dividends receivable.

- Member, employer and other receivables increased 30.8 percent or $829.9 million primarily due to an increase in the master line of credit draws for Real Estate. Additionally, member and employer receivables increased as a result of increase in creditable compensation and member and employer contribution rates in the current fiscal year.

- Benefits in process of payment decreased 80.3 percent or $954.1 million primarily due to the timing of benefit payments in the current year compared to the prior year. In fiscal year 2015–16, the payments for June 2016 were made on the first day of the subsequent month, whereas, for fiscal year 2016–17, the benefit payments for June 2017 were issued prior to the end of the fiscal year.

- Investment liabilities increased 53.7 percent or $90.9 million primarily due to a decrease in valuation fluctuations of forwards and futures as well as additional investments in derivative contracts.

- Investment payables increased 133 percent or $1.9 billion primarily due to the timing of the settlement of investment purchases that occurred near the end of the fiscal year.

- Net Pension and Other Postemployment Benefits (OPEB) obligation increased 26.2 percent or $66.9 million due to the change in CalSTRS' share of, as well as the amount of, the State of California Net Pension Liability (NPL). The increase in proportionate share and increase in the state's NPL also increased deferred outflows and decreased deferred inflows of resources, respectively.

- Member, employer and state contributions increased 21.8 percent or $1.8 billion due to increases in both creditable compensation and contribution rates implemented through Chapter 47, Statutes of 2014 (AB 1469).

- Net investment income increased 976.6 percent or $22.8 billion primarily due to strong market performance resulting in an investment return of 13.4 percent (net of fees) for fiscal year 2016–17.

- Refunds of contributions increased 37.5 percent or $31.5 million primarily due to required minimum distributions of contributions and interest to nonvested members who met the criteria for such payments during fiscal year 2016–17.

- Borrowing costs increased 78.8 percent or $25.6 million primarily due to the increased draws on the master credit facility and the addition of a new credit facility during fiscal year 2016–17.

Pension2 403(b) Plan

CalSTRS Pension2 403(b) Plan is a voluntary defined contribution program that offers low cost and tax deferred 403(b) and Roth 403(b) plans for additional retirement savings.

The tables that follow present comparative information for the Pension2 403(b) Plan for fiscal years 2016–17 and 2015–16.

Net Position
(Dollars in Thousands)

Assets and Deferred Outflows of Resources	2017	2016	Percent Change
Investment Assets	$791,222	$640,243	23.6%
Member, Employer and Other Receivables	15,309	9,567	60.0%
Total Assets	**806,531**	**649,810**	**24.1%**
Deferred Outflows of Resources	**-**	**-**	**-**
Total Assets and Deferred Outflows of Resources	**806,531**	**649,810**	**24.1%**
Liabilities and Deferred Inflows of Resources			
Other	949	1,483	(36.0%)
Total Liabilities	**949**	**1,483**	**(36.0%)**
Deferred Inflows of Resources	**-**	**-**	**-**
Total Liabilities and Deferred Inflows of Resources	**949**	**1,483**	**(36.0%)**
Net Position	**$805,582**	**$648,327**	**24.3%**

Changes in Net Position
(Dollars in Thousands)

Additions	2017	2016	Percent Change
Member Contributions	$121,945	$96,347	26.6%
Employer Contributions	393	377	4.2%
Net Investment Income	77,730	9,548	714.1%
Other	141	120	17.5%
Total Additions	**200,209**	**106,392**	**88.2%**
Deductions			
Distributions and Withdrawals	36,322	32,936	10.3%
Refunds of Contributions	4,657	4,965	(6.2%)
Administrative Expenses	1,975	1,583	24.8%
Total Deductions	**42,954**	**39,484**	**8.8%**
Net Position Increase (Decrease)	**157,255**	**66,908**	**135.0%**
Beginning Net Position	**648,327**	**581,419**	**11.5%**
Ending Net Position	**$805,582**	**$648,327**	**24.3%**

- Investment assets increased 23.6 percent or $150.9 million primarily due to strong market performance, which also resulted in an increase in administrative expenses.
- Member, employer and other receivables increased 60 percent or $5.7 million primarily due to an increase in plan participants (increased by 1,927 to 12,554).
- Member contributions increased 26.6 percent or $25.6 million primarily due to an increase in contributions from new plan participants.
- Net investment income increased 714.1 percent or $68.2 million primarily due to strong market performance.

Pension2 457(b) Plan

CalSTRS Pension2 457(b) Plan is a voluntary defined contribution program that offers low cost and tax deferred 457(b) plans for additional retirement savings.

The tables that follow present comparative information for the Pension2 457(b) Plan for fiscal years 2016–17 and 2015–16.

Net Position
(Dollars in Thousands)

Assets and Deferred Outflows of Resources	2017	2016	Percent Change
Investment Assets	$33,602	$24,651	36.3%
Member, Employer and Other Receivables	625	572	9.3%
Total Assets	**34,227**	**25,223**	**35.7%**
Deferred Outflows of Resources	-	-	-
Total Assets and Deferred Outflows of Resources	**34,227**	**25,223**	**35.7%**
Liabilities and Deferred Inflows of Resources			
Other	23	41	(43.9%)
Total Liabilities	**23**	**41**	**(43.9%)**
Deferred Inflows of Resources	-	-	-
Total Liabilities and Deferred Inflows of Resources	**23**	**41**	**(43.9%)**
Net Position	**$34,204**	**$25,182**	**35.8%**

Changes in Net Position
(Dollars in Thousands)

Additions	2017	2016	Percent Change
Member Contributions	$6,516	$4,898	33.0%
Employer Contributions	44	77	(42.9%)
Net Investment Income	3,338	426	683.6%
Other	8	4	100.0%
Total Additions	**9,906**	**5,405**	**83.3%**
Deductions			
Distributions and Withdrawals	769	905	(15.0%)
Refunds of Contributions	36	266	(86.5%)
Administrative Expenses	79	56	41.1%
Total Deductions	**884**	**1,227**	**(28.0%)**
Net Position Increase (Decrease)	**9,022**	**4,178**	**115.9%**
Beginning Net Position	**25,182**	**21,004**	**19.9%**
Ending Net Position	**$34,204**	**$25,182**	**35.8%**

- Investment assets increased 36.3 percent or $8.9 million primarily due to strong market performance, which also resulted in an increase in administrative expenses.
- Member contributions increased 33 percent or $1.6 million primarily due to an increase in contributions from new plan participants (increased by 126 to 713).
- Net investment income increased 683.6 percent or $2.9 million primarily due to strong market performance.

Medicare Premium Payment Program

CalSTRS administers the Medicare Premium Payment (MPP) Program through the Teachers' Health Benefit Fund (THBF). The MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for retired members of the Defined Benefit Plan who meet certain eligibility criteria.

The tables that follow present comparative information for the MPP Program for fiscal years 2016–17 and 2015–16.

Net Position
(Dollars in Thousands)

Assets and Deferred Outflows of Resources	2017	2016	Percent Change
Investment Assets	$606	$590	2.7%
Investment Receivables	2	3	(33.3%)
Total Assets	**608**	**593**	**2.5%**
Deferred Outflows of Resources	**88**	**42**	**109.5%**
Total Assets and Deferred Outflows of Resources	**696**	**635**	**9.6%**
Liabilities and Deferred Inflows of Resources			
Net Pension and OPEB Obligation	625	571	9.5%
Other	18	32	(43.8%)
Total Liabilities	**643**	**603**	**6.6%**
Deferred Inflows of Resources	**12**	**22**	**(45.5%)**
Total Liabilities and Deferred Inflows of Resources	**655**	**625**	**4.8%**
Net Position	**$41**	**$10**	**310.0%**

Changes in Net Position
(Dollars in Thousands)

Additions	2017	2016	Percent Change
Employer Contributions	$29,117	$29,982	(2.9%)
Net Investment Income	11	9	22.2%
Total Additions	**29,128**	**29,991**	**(2.9%)**
Deductions			
Premiums Paid	28,929	29,661	(2.5%)
Administrative Expenses	168	380	(55.8%)
Total Deductions	**29,097**	**30,041**	**(3.1%)**
Net Position Increase (Decrease)	**31**	**(50)**	**162.0%**
Beginning Net Position	**10**	**60**	**(83.3%)**
Ending Net Position	**$41**	**$10**	**310.0%**

- Employer contributions for the MPP Program decreased 2.9 percent or $0.9 million primarily due to a decrease in plan participants. The employer contributions to the plan are limited to the cost of the benefits provided and administrative cost incurred, and as such, a decrease in the number of beneficiaries results in decreased contributions to the plan.

- Premiums paid decreased 2.5 percent or $0.7 million to $28.9 million. The decrease was primarily due to the reduction in plan participants over the prior year as this plan has been a closed plan since June 30, 2012. A total of $28.9 million in premiums were paid in fiscal year 2016–17 as compared to $29.6 million in the prior year.

- Administrative expense decreased 55.8 percent or approximately $0.2 million primarily due to a decrease in pension expense and a reduction in the use of the services of temporary employees.

Teachers' Deferred Compensation Fund

The Teachers' Deferred Compensation Fund (TDCF) is a trust fund established to account for ancillary activities associated with various deferred compensation plans and programs offered by CalSTRS such as the 403(b) and 457(b) plans.

The tables that follow present comparative information for the TDCF for fiscal years 2016–17 and 2015–16.

Net Position
(Dollars in Thousands)

Assets and Deferred Outflows of Resources	2017	2016	Percent Change
Investment Assets	$1,102	$1,443	(23.6%)
Cash	1	1	0.0%
Investment Receivables	3	2	50.0%
Member, Employer and Other Receivables	132	119	10.9%
Total Assets	**1,238**	**1,565**	**(20.9%)**
Deferred Outflows of Resources	**262**	**81**	**223.5%**
Total Assets and Deferred Outflows of Resources	**1,500**	**1,646**	**(8.9%)**
Liabilities and Deferred Inflows of Resources			
Net Pension and OPEB Obligation	1,212	1,067	13.6%
Other	554	589	(5.9%)
Total Liabilities	**1,766**	**1,656**	**6.6%**
Deferred Inflows of Resources	**2**	**156**	**(98.7%)**
Total Liabilities and Deferred Inflows of Resources	**1,768**	**1,812**	**(2.4%)**
Net Position	**$(268)**	**$(166)**	**61.4%**

Changes in Net Position
(Dollars in Thousands)

Additions	2017	2016	Percent Change
Net Investment Income	$9	$6	50.0%
Other	1,453	1,339	8.5%
Total Additions	**1,462**	**1,345**	**8.7%**
Deductions			
Administrative Expenses	1,542	1,433	7.6%
Other	22	14	57.1%
Total Deductions	**1,564**	**1,447**	**8.1%**
Net Position Increase (Decrease)	**(102)**	**(102)**	**0.0%**
Beginning Net Position	**(166)**	**(64)**	**159.4%**
Ending Net Position	**$(268)**	**$(166)**	**61.4%**

- Other additions increased by 8.5 percent or $0.1 million primarily due to increased sponsor and maintenance fees from vendors based on the increased value of assets in Pension2 (403(b) plan and 457(b) plan).

- Deferred outflows of resources and deferred inflows of resources increased 223.5 percent or $0.2 million and decreased 98.7 percent or $0.2 million, respectively. The changes from the prior year were primarily due to an increase in the State of California NPL.

- Investment assets decreased by 23.6 percent or approximately $0.3 million primarily due to the payment of expenses related to 403(b) Compare website redesign.

- Member, employer and other receivables increased 10.9 percent or approximately $13 thousand primarily due to increased sponsor and maintenance fees from vendors based on the increased value of assets in Pension2 (403(b) plan and 457(b) plan).

- Administrative expenses increased 7.6 percent or approximately $0.1 million primarily due to expenses incurred related to the 403(b) Compare website redesign.

OVERVIEW OF FINANCIAL STATEMENTS

Management's Discussion and Analysis is also an introduction to CalSTRS' basic financial statements. CalSTRS' financial statements include the following components:

1. The Statement of Fiduciary Net Position
2. The Statement of Changes in Fiduciary Net Position
3. Notes to the Basic Financial Statements
4. Required Supplementary Information – Unaudited
5. Other Supplemental Information

THE STATEMENT OF FIDUCIARY NET POSITION

The Statement of Fiduciary Net Position presents information on all of CalSTRS' assets and liabilities, with the difference between the two reported as net position. Over time, the increase or decrease in net position serves as an indicator of CalSTRS' financial condition and our ability to fund future benefit payments.

THE STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

The Statement of Changes in Fiduciary Net Position shows how CalSTRS' net position changed during the fiscal year, reflecting contributions earned, benefit payments made, investment returns and the costs of plan administration.

NOTES TO THE BASIC FINANCIAL STATEMENTS

The Notes to the Basic Financial Statements provide information essential to a full understanding of fiduciary fund financial statements. The type of information provided in each note is as follows:

- Note 1 provides a general description of CalSTRS, as well as a concise description of each of the plans and funds administered by CalSTRS.
- Note 2 provides a summary of significant accounting policies, including the basis of accounting for CalSTRS, management's use of estimates, cash and investment accounting policies, and other significant accounting policies.
- Note 3 provides a summary of the net pension liability of employers and the nonemployer contributing entity for the STRP in accordance with Governmental Accounting Standards Board (GASB) Statement No. 67, Financial Reporting for Pension Plans.
- Note 4 provides a summary of the net OPEB liability of employers for the MPP Program in accordance with GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, which replaced GASB Statement No. 43.

  In June 2015, GASB released Statement No. 74, to address reporting by OPEB plans which administer benefits on behalf of governments. GASB Statement No. 74 improves financial reporting through enhanced note disclosures and schedules of required supplementary information. CalSTRS implemented GASB Statement No. 74 in the current year financial statements. Additional information regarding new GASB statements can be found in Note 9.
- Note 5 provides information related to deposits and investments including disclosures required by GASB Statement No. 28, Accounting and Financial Reporting for Securities Lending Transactions; GASB Statement No. 38, Certain Financial Statement Note Disclosures; GASB Statement No. 40, Deposit and Investment Risk Disclosures; GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments; GASB Statement No. 67, Financial Reporting for Pension Plans; GASB Statement No. 72, Fair Value Measurement and Application and GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. This note discloses information about CalSTRS investment performance and risks related to credit (including custodial credit and concentrations of credit risk), interest rate and foreign currency. In an effort to provide increased visibility to investment holdings, Note 5 also includes a Schedule of Investments that discloses the types of investments within each broad investment category.
- Note 6 provides information related to investment disclosures required by GASB Statement No. 72.
- Note 7 generally describes potential contingencies of CalSTRS.
- Note 8 provides a summary of CalSTRS' significant commitments.
- Note 9 provides a summary of new accounting and financial reporting pronouncements.

REQUIRED SUPPLEMENTARY INFORMATION

The Required Supplementary Information consists of six schedules. These schedules are intended to assist the reader in understanding the net pension liability of the STRP and net OPEB liability of the MPP Program. The information available in the Required Supplementary Information section includes:

- Schedule I – Schedule of Changes in Net Pension Liability of Employers and Nonemployer Contributing Entity
- Schedule II – Schedule of Net Pension Liability of Employers and Nonemployer Contributing Entity
- Schedule III – Schedule of Pension Contributions from Employers and Nonemployer Contributing Entity
- Schedule IV – Schedule of Money-Weighted Investment Returns for State Techers' Retirement Plan and Medicare Premium Payment Program
- Schedule V – Schedule of Changes in Net OPEB Liability of Employers
- Schedule VI – Schedule of Net OPEB Liability of Employers

OTHER SUPPLEMENTAL INFORMATION

Other Supplemental Information includes details on administrative expenses, investment expenses, and consultant and professional services expenses. The schedules available in the Other Supplemental Information section include:

- Schedule VII – Schedule of Administrative Expenses
- Schedule VIII – Schedule of Investment Expenses
- Schedule IX – Schedule of Consultant and Professional Services Expenses

MAJOR BUSINESS COMPONENTS

The sections that follow describe the activities and results of CalSTRS' major business components (investment management and pension administration) for fiscal year 2016–17.

Investment Returns

CalSTRS primary goal is to maintain a financially sound retirement system. CalSTRS investment philosophy is "long-term patient capital" — investing for long-term net cash flows and capital gain potential at a reasonable price.

During the fiscal year 2016–17, the Investment Committee adopted seven investment beliefs. The belief statements describe the authority, responsibility and fiduciary duty CalSTRS has in executing our investment process. The seven belief statements are:

1. Diversification improves the risk-adjusted profile of an investment portfolio
2. The global public investment markets are largely, but not completely, efficient
3. There are long-term benefits to managing investment costs
4. Internal management is a critical capability
5. CalSTRS can potentially capture an illiquidity risk premium
6. Managing short-term drawdown risk can positively impact CalSTRS' ability to meet our long-term financial obligations
7. Responsible corporate governance, including the management of ESG factors, can benefit long-term investors like CalSTRS

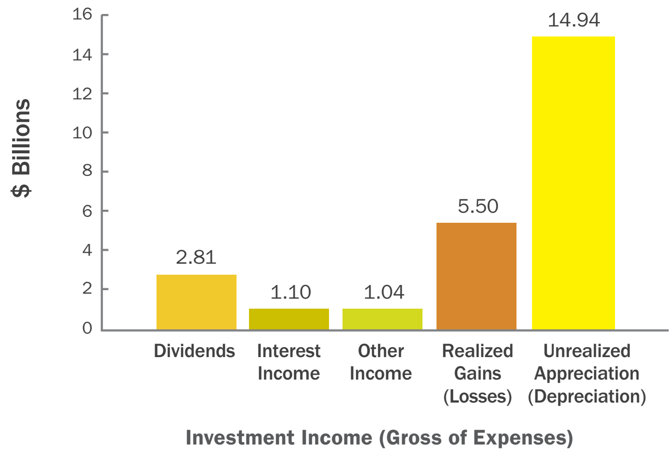
CalSTRS uses a time-weighted return methodology to calculate returns for portfolio performance purposes. For fiscal year 2016–17, CalSTRS earned an approximate 13.4 percent one-year return calculated on a net of fees basis. The resulting one-year performance is above the actuarially assumed 7.25 percent rate of return used for funding purposes. CalSTRS' returns (net of fees) reflect the following longer-term performance:

- 6.3 percent over three years
- 10.1 percent over five years
- 5.0 percent over 10 years
- 6.9 percent over 20 years

The money-weighted return net of all investment expenses based on financial statement values also reflects an approximate 13.4 percent one-year return as of June 30, 2017. The money-weighted return measures the overall performance of the pension plan factoring in the impact of cash flows and is the same as the time-weighted returns for this fiscal year. Historically, the time-weighted and money-weighted returns have been different.

The graph below displays a detailed view of the sources of investment income for the STRP, excluding securities lending income, based on the Statement of Changes in Fiduciary Net Position as of June 30, 2017.

Sources of Investment Income

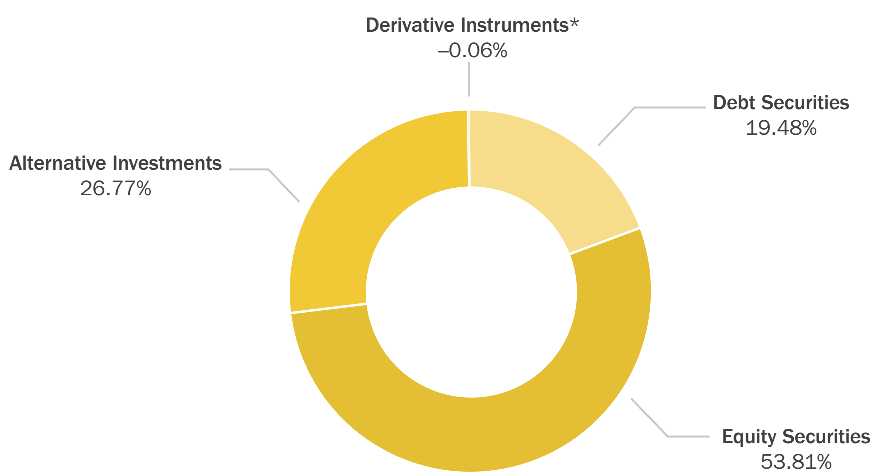


CalSTRS' investments earn income in the form of interest and dividends from holding fixed income securities and various types of equity interests in public companies, limited partnerships and co-investments. Other income consists primarily of distributed income from alternative investments (such as rent), term loans and securities litigation. Realized gains and losses are generally a result of investment sales, write-offs and re-organizations. Unrealized appreciation and depreciation is generated by period over period valuation fluctuations in all types of investments.

Asset Allocation and Performance

The graph below presents STRP net investments, excluding securities lending collateral and obligations, based on investment classifications within the Statement of Fiduciary Net Position as of June 30, 2017.

Statement of Fiduciary Net Position Investment Distribution



*Derivative instruments are reported on a net basis in the graph above. Please refer to the Schedule of Investments in the Notes to the Basic Financial Statements for more information.

The following table displays the distribution of net investments based on the portfolio allocation as compared to the classification within the Statement of Fiduciary Net Position as of June 30, 2017.

Portfolio Allocation versus Financial Statement Classification

Portfolio Allocation		Financial Statement Classification	
Asset Class/Strategy	**Asset Allocation**	**Investments**	**% of Asset Class**
Global Equity	56.4%	Equity Securities	96.0%
		Alternative Investments	2.6%
		Debt Securities	1.1%
		Other*	0.3%
Fixed Income	14.7%	Debt Securities	101.6%
		Other*	(1.6%)
Real Estate	12.6%	Alternative Investments	99.8%
		Debt Securities	0.1%
		Other*	0.1%
Private Equity	8.1%	Alternative Investments	99.6%
		Debt Securities	0.3%
		Other*	0.1%
Liquidity	1.5%	Debt Securities	99.0%
		Other*	1.0%
Inflation Sensitive	1.3%	Alternative Investments	75.7%
		Debt Securities	24.3%
		Derivative Instruments	(0.1%)
		Other*	0.1%
Risk Mitigating Strategies	5.1%	Alternative Investments	61.0%
		Debt Securities	44.3%
		Other*	(5.3%)
Innovative Strategies	0.2%	Alternative Investments	100.0%
Strategic Overlay	0.1%	Equity Securities	158.8%
		Debt Securities	3.2%
		Derivative Instruments	(62.5%)
		Other*	0.5%
Total Fund	**100.0%**		

*Other consists of cash, payables and receivables that are reflected as such on the Statement of Fiduciary Net Position and any investment categories less than 0.1 percent.

Equity Securities

Representing 56.4 percent of total investments as of June 30, 2017, the Global Equity asset class is comprised of equity securities within the U.S., non-U.S. developed countries and emerging markets. Corporate governance funds are included within the Global Equity asset class but are classified as Alternative Investments on the financial statements, as reflected in the table above. Approximately 54 percent of the Global Equity assets are managed internally by CalSTRS investment staff, while the remaining 46 percent are managed by external investment managers.

As of June 30, 2017, the STRP held $113.3 billion in equity securities across all portfolios, an increase of 13.5 percent compared to the prior year.

Global equity markets generated strong returns for the fiscal year. Following the outcome of the U.S. presidential election, equities rallied as expectations for corporate tax reform, increased infrastructure spending and regulatory reform under the new administration boosted investor sentiment. Positive economic data and corporate earnings growth also drove domestic stock prices up in the second half of the year as major U.S. indices reached record highs.

International developed and emerging markets also posted gains, with emerging markets outperforming developed markets fueled by strength in the global economy and positive economic data in several large emerging market countries. European markets increased during the fiscal year driven by positive economic news and reduced political uncertainty – the election of centrist and pro-European Union candidate Emmanuel Macron in the French presidential election improved investor sentiment. Asian markets also generated strong returns – Chinese stocks increased for the fiscal year as positive economic data indicated the country's economic slowdown had stabilized.

CalSTRS has one of the longest standing corporate governance policies in the public pension community, which helps protect our investments through the pursuit of good stewardship and operational accountability. During fiscal year 2016–17, the CalSTRS Corporate Governance team continued to focus on our four primary areas of responsibility: company engagements, proxy voting, portfolio management and legal, regulatory and legislative support. CalSTRS staff engages companies to improve their executive compensation, board diversity, sustainability awareness and risk management practices. CalSTRS staff also worked directly with various regulatory and industry bodies whose rules and regulations can impact CalSTRS. Recent achievements and future objectives are outlined in the fourth Corporate Governance Annual Report, which is available on www.calstrs.com.

In calendar year 2016, CalSTRS staff voted on 76,260 proposals related to director elections, auditor ratifications, compensation plans and other issues for companies in the Global Equity asset class. CalSTRS also participated in 15 diversity related events in the past year and filed one major shareholder proposal to increase diversity in our portfolio companies. In addition to other efforts to engage with companies in our portfolio, CalSTRS engaged 15 gas utility companies to encourage improving disclosures of pipeline infrastructure and maintenance. As a result, nearly all 15 companies indicated they were committed to improve disclosures to their investors, and at one of these companies, a shareholder proposal was put forth to request a report on how the company monitors and manages the level of methane emission resulting from its operations.

Debt Securities

The Fixed Income asset class is composed of U.S. and non-U.S. dollar based investment grade and non-investment grade securities. Approximately 84 percent of the asset class uses an enhanced core strategy. The remaining 16 percent uses broader core plus, high yield and other opportunistic strategies.

Debt securities within Fixed Income and other asset classes increased 2.9 percent from $39.9 billion as of June 30, 2016, to $41.0 billion as of June 30, 2017. Returns were modest for debt securities for the fiscal year. In contrast to the equity markets, debt security values decreased following the presidential election as investors anticipated a rise in inflation and interest rate hikes in 2017. The 10-year Treasury yield rose 20 basis points the day after the election (the largest daily increase in three years) causing a significant sell-off in U.S. government debt. Inflation rose in the first half of the fiscal year, leading to three Federal Reserve interest rate hikes by fiscal year end. Corporate bonds, particularly high-yield bonds, outperformed government bonds. Prices for non-U.S. sovereign bonds, however, increased as a result of the weakening U.S. dollar.

Alternative Investments

Alternative investments include investments in private equity, real estate, corporate governance, inflation sensitive, innovation and risk mitigating strategies. For the year ended June 30, 2017, alternative investments increased 12.6 percent from $50.1 billion to $56.4 billion. The increase was primarily due to the increase in privately held equities and debt attributed to new investments within Risk Mitigating Strategies (RMS). RMS represented 5.1 percent of total investments as of June 30, 2017, and includes strategies that provide protection against equity market downturns.

The Private Equity asset class is composed of limited partnerships and co-investments focusing on commitments to domestic and non-U.S. partnerships as identified in the Private Equity Policy. Types of investment strategies include leveraged buyouts, venture capital, expansion capital, distressed debt and mezzanine investments. The Private Equity asset class generated double-digit returns for the fiscal year. For the industry as a whole, the number of private equity funds has continued to rise through the fiscal year. Capital distributions also continue to exceed capital called by the funds, thus unfunded commitments remain at all-time highs.

Substantial fees and costs are associated with investments in the Private Equity asset class. Consequently, emphasis is placed on negotiating and monitoring the costs of each limited partnership investment.

The Real Estate asset class is comprised of investments in directly held real estate, such as wholly owned properties and joint venture investments and non-directly held real estate, which consists primarily of commingled funds and co-investments. Approximately 7.6 percent of the Real Estate asset class represents non-U.S. assets. To more closely align the interest of CalSTRS and the real estate managers, emphasis is placed on negotiating, monitoring and managing the costs associated with each real estate investment.

Real estate investments increased $17.0 million or 0.1 percent for the fiscal year. Returns for the asset class were positive at the end of the fiscal year primarily due to distributed income, realized gains and unrealized gains within the asset class.

As compared to the broader market, the real estate industry underperformed but still generated positive returns for the fiscal year. Strong labor markets, increasing home prices and moderate supply indicated continued growth within the industry. Mortgage rates rose following the Federal Reserve interest rate hikes; however, demand remained strong. International and emerging markets also performed positively as economic data indicated global economic expansion. Commercial real estate has experienced steady economic growth since 2015 and reflects attractive risk-adjusted returns relative to alternative investments. Valuations remained strong largely driven by healthy demand and positive net operating income from increased rents.

Asset/Liability Study

CalSTRS conducts a full asset/liability (A/L) study once every four years or more frequently if there is a significant change in the assets or liabilities, with the key goal of developing an asset allocation policy that maximizes the likelihood that the investment portfolio's assets will, over the planning horizon, fund plan benefits. The most recent study was completed in 2015–16.

The study, which began in February 2015, occurred over several Investment Committee meetings and concluded at the November 2015 meeting with the adoption of capital market assumptions and strategic asset allocation targets and ranges into the Investment Policy and Management Plan (IPMP).

The Investment Committee agreed to adopt a new strategy, Risk Mitigating Strategies (RMS), to invest in strategies that provide further diversification of CalSTRS overall investment portfolio. The new strategy is designed to provide protection against equity market downturns and has a long-term allocation target of 9 percent of the total fund assets. As of June 30, 2017, RMS represented $10.7 billion, or 5.1 percent of total fund assets.

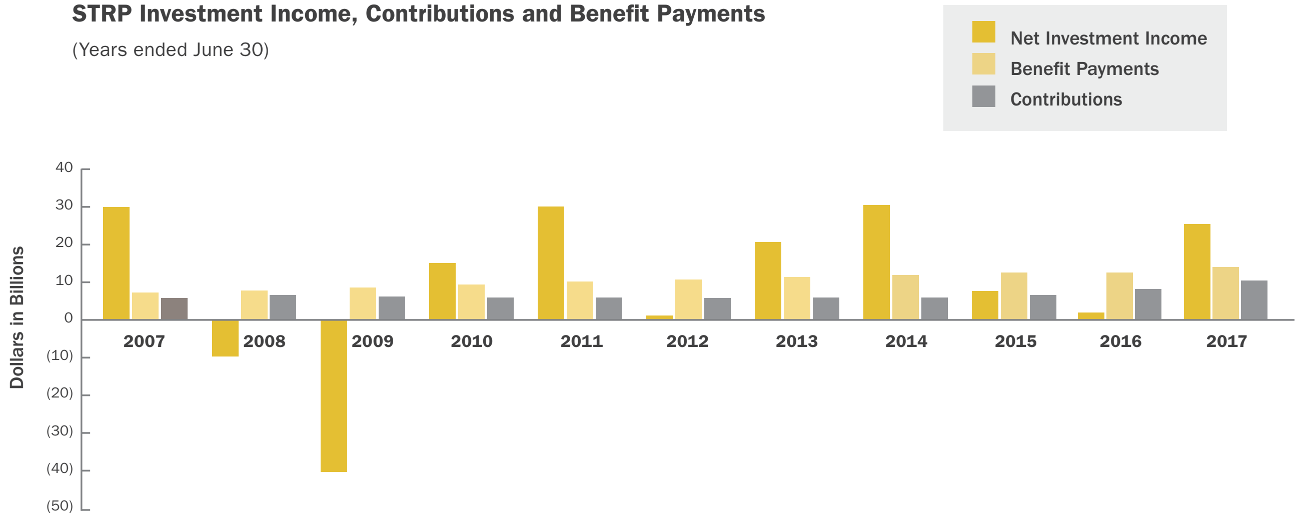
Separately, CalSTRS continues to implement a transition from a U.S. equity bias to global market index weights for U.S. and non-U.S. equities. The shift will be implemented over an extended period of time.

Detailed information regarding the study and the long-term policy targets and ranges can be found in the board meeting agendas on www.calstrs.com.

The following chart is a 10-year comparison of investment income, contributions and benefit payments.

STRP Investment Income, Contributions and Benefit Payments

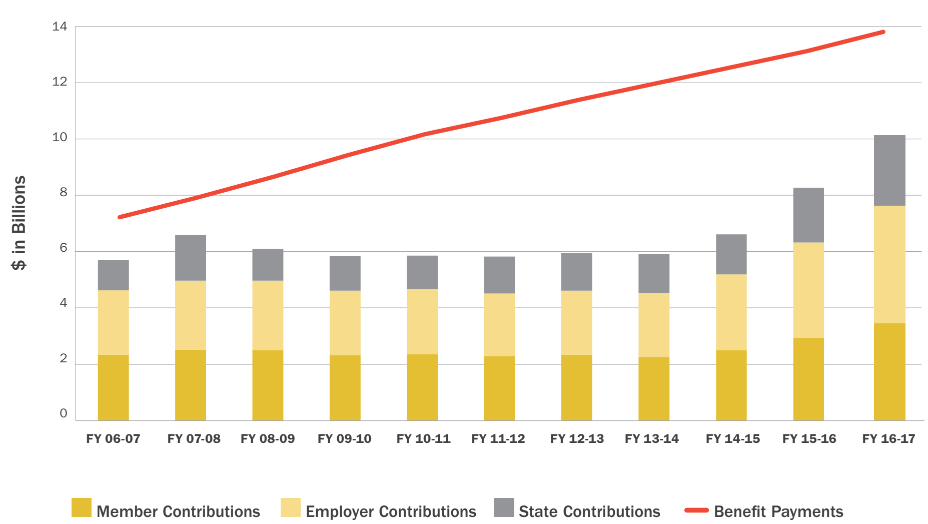
(Years ended June 30)



The chart below shows that prior to the enactment of AB 1469 in June 2014, there had been a growing gap between contributions and benefit payments. During fiscal year 2016–17, the gap narrowed by 22.7 percent.

Contributions will continue to increase according to AB 1469, and the DB Program continues to make progress toward full funding by the year 2046. The experience beyond 2046 may differ.

STRP Contributions and Benefits Payments



Actuarial Valuation

As a result of GASB pronouncements, CalSTRS has separate actuarial valuations performed for funding and financial reporting purposes.

Pension System Financial Reporting Actuarial Valuation

The actuarial valuation for financial reporting focuses on the obligation an employer incurs to employees through the employment-exchange process. The primary purpose of the valuation for financial reporting is to provide a consistent, standardized methodology that allows comparability of data and increased transparency of the pension liability across plans. To achieve this, GASB requires a different approach for determining the reported NPL, as compared to Unfunded Actuarial Accrued Liability (UAAL).

There are considerable differences between the UAAL and NPL. Conceptually, the UAAL is the actuary's measure of the additional amount of assets needed to pay all benefits earned to date by current plan members, while the NPL is an accrual calculation that reflects future benefits earned by plan members through the employment-exchange process in excess of the plan's fiduciary net position.

With the provision of additional member, employer and state contributions effective July 1, 2014, CalSTRS does not project a depletion of assets. CalSTRS discounted all future obligations for the STRP using the long-term assumed rate of return on plan assets gross of administrative costs (currently 7.10 percent). Based on that assumption, the STRP has an NPL of $92.5 billion as of June 30, 2017.

Pension System Funding Actuarial Valuation

The purpose of the actuarial valuations for funding the programs within the STRP is to guide decisions regarding the long-term viability of the programs. Specifically, the purpose is to analyze the sufficiency of future contributions from members, employers and the state to meet current and future obligations. Historically, CalSTRS investment income has contributed approximately 62 percent of the total inflows to the STRP with employer contributions making up 15 percent, member contributions making up 15 percent and state contributions making up 8 percent. These percentages change over time due to fluctuating net investment income as well as the adjustments to required member, employer and state contribution rates due to AB 1469.

Separate funding actuarial valuations are performed for the DB, DBS, CBB programs and the Supplemental Benefit Maintenance Account (SBMA). Currently, the investment rate of return and discount rate assumption for funding actuarial valuations is 7.25 percent (6.75 percent for CBB). The investment return assumption, according to actuarial principles, should be based on an estimated long-term investment yield for the STRP, with consideration given to the nature and mix of current and expected plan investments, and is the basis for determining the actuarial value of assets.

The investment return assumptions are developed by CalSTRS investment and actuarial consultants and are adopted by the board. The actuarial assumptions and methods used in the June 30, 2016, actuarial valuation were based on the 2015 Actuarial Experience Analysis adopted by the board in February 2017.

The most recent actuarial valuation indicates that the DB Program has 63.7 percent of the funds needed to pay the actuarial cost of the benefits accrued as of June 30, 2016, which decreased by 4.8 percent from the June 30, 2015, valuation. Additionally, the valuation indicates that as of June 30, 2016, the DBS Program had a funded ratio of 111.6 percent, compared to the June 30, 2015, funded ratio of 114.5 percent. The actuarial valuation also indicates that as of June 30, 2016, the CBB Program had a funded ratio of 108.8 percent compared to the June 30, 2015, funded ratio of 113.2 percent.

Interest is credited to the nominal DBS and CBB program accounts at the minimum guaranteed annual rate established by the board prior to each plan year, which was 2.88 percent for the fiscal year ended June 30, 2017. The board may credit additional earnings to members' nominal accounts if actual investment earnings exceed the minimum guaranteed annual rate and meet criteria set out by the board. However, as the DBS funded status does not exceed the 115 percent threshold needed to trigger an Additional Earnings Credit (AEC), no AEC was awarded for fiscal year ended June 30, 2017. Furthermore, the CBB funded status also is below the threshold of 113 percent, and as such, no AEC was awarded for fiscal year ended June 30, 2017. Refer to Note 1 for additional information.

Other Postemployment Benefits (OPEB) Financial Reporting Actuarial Valuation

During fiscal year 2016–17, CalSTRS implemented GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other than Pension Plans. GASB Statement No. 74 replaces GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, and GASB Statement No. 57, OPEB Measurements by Agent Multiple-Employers and Agent Multiple-Employer Plan, which provided financial reporting guidance for OPEB for state and local government OPEB plans.

GASB Statement No. 74 reflects a fundamental overhaul in the standards for accounting and financial reporting for OPEB. This new standard requires the calculation of a liability for OPEB obligations, known as the Net OPEB Liability (NOL) that will be recognized on the balance sheet of the employers participating in the plan. In addition, OPEB expense will be recognized in the income statement of the participating employers. GASB Statement No. 74 also requires OPEB plans such as CalSTRS to present more expansive footnote disclosures and required supplementary information related to the measurement of OPEB liabilities for which assets have been accumulated, including information about annual money-weighted rates of return on plan investments.

For CalSTRS, this standard applies to the MPP Program, which pays for Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members. The total OPEB liability for the MPP Program was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total OPEB liability to June 30, 2017. As of June 30, 2017 the NOL for the MPP Program is $420.7 million.

The MPP Program is funded on a pay-as-you-go basis, with contributions generally being made at the same time and in the same amount as benefit payments. As such, the fiduciary net position will not be sufficient to make the projected future benefit payments. Since the MPP Program is essentially unfunded, in accordance with GASB Statement No. 74, the rate used to discount the total OPEB liability represents the yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The discount rate as of June 30, 2017 for the MPP Program OPEB liability is 3.58 percent as measured by the Bond Buyer 20-Bond GO Index as of June 30, 2017.

OPEB Funding Actuarial Valuation

The MPP Program funding actuarial valuation measures the value of DB Program employer contributions that will be available to fund the MPP Program benefits in future periods. This valuation differs from the actuarial valuation for financial reporting for the MPP Program, which focuses on the obligation an employer incurs to employees through the employment-exchange process.

The MPP Program funding actuarial valuation as of June 30, 2016 found that the MPP Program assets, along with MPP allocated funding from future employer contributions are sufficient to finance the future MPP Program obligations of $315 million for both Part A premiums and Part A and B surcharges. The valuation considered the recent actuarial experience study and was based on the assumption that on average Medicare Part A and B premiums and surcharges will continue to annually increase at a rate of 3.7 percent and 4.1 percent, respectively.

Sustainability

CalSTRS believes establishing a corporate environment with sustainable principles leads to a more productive business culture, better environmental and governance practices, and increased long-term viability. Our sustainable strategy focuses not only on delivering profitable, risk-adjusted returns, but also on the everyday business practices encompassing facilities operations, human resources and organizational standards.

CalSTRS released the third annual CalSTRS 2015–16 Sustainability Report: *Global Stewardship at Work*, which was prepared based on the Global Reporting Initiative G4 Guidelines and outlines notable achievements relating to long-term sustainability and stewardship. For example, CalSTRS sent 87 letters to California companies requesting engagement with their nominating and corporate governance committee chairs on improving board diversity. CalSTRS also co-hosted a Diversity Forum where leaders from different industries who have successfully increased diversity presented the key initiatives and activities they undertook to achieve change. CalSTRS accomplished several diversity and inclusion milestones itself which led to the development of a road map for implementing our Diversity and Inclusion: The Power of Difference program.

CalSTRS is also part of a group of leading investors that launched a historic initiative focused on U.S. institutional investor stewardship and corporate governance. The Investor Stewardship Group was formed to develop and sustain a framework of basic standards of investment stewardship and corporate governance for U.S. institutional investor and boardroom conduct. The standards form a framework for promoting long-term value creation for U.S. companies and the broader U.S. economy.

CalSTRS continues to engage with organizations committed to bringing transparency to sustainable practices of companies in the U.S. To this end, CalSTRS is a founding board member of the Sustainability Accounting Standards Board (SASB) and believes that companies should report on material ESG issues that affect their financial performance.

SASB is an independent nonprofit organization incorporated in July 2011 that sets sustainability accounting standards to help public corporations disclose material, decision-useful information to investors in SEC filings. That mission is accomplished through a rigorous process that includes evidence-based research and broad, balanced stakeholder participation. CalSTRS CEO Jack Ehnes serves as a board member of SASB, and CalSTRS CIO Chris Ailman chairs the investor working group of SASB.

The SASB standards encompass a broad range of topics that assist companies and investors to better understand and communicate about the connection between sustainability performance and financial performance. The topics relate to employee incentives and risk taking, employee inclusion, transparent information and fair advice for customers and management of the legal and regulatory environment.

The SASB standards related to employee incentives and risk taking state that incentivized short-term and long-term performance in the asset management industry can lead to aggressive investments in certain asset classes or securities. CalSTRS enforces a strict incentive compensation policy based on both qualitative and quantitative performance objectives designed to align staff interests with the system's. The board meets with the CEO and CIO to establish performance objectives annually. Progress toward these performance objectives is discussed semi-annually. The board evaluates the CEO's and CIO's performance on an annual basis. The CIO evaluates the performance of all investment employees annually. The board has discretion to pay no incentives, reduce the amount of the incentive award or defer all or part of the employee's incentive award for a plan year. This can be done if qualifying events related to investment performance, ethical violation or reputational risk occur.

Below is a summary of incentive awards paid in fiscal year 2016–17 to qualifying employees in comparison to their regular pay. CalSTRS strives to sustain careers of our employees over the long term and awards those high performers who have met the qualitative and quantitative requirements described above.

Incentive Pay Ratio for Qualifying CalSTRS Employees (dollars in thousands)

	TOTAL PAY	INCENTIVE PAY	%*
EXECUTIVE/ SENIOR MANAGERS[1]	15,864	2,639	17%
ALL OTHERS[2]	2,720	114	4%

*Ratio of Incentive Pay to Total Pay

[1]The Executive/Senior Manager category consists of all eligible employees classified as CEO, CIO, Executive, Investment Director, Portfolio Manager and Associate Portfolio Manager.

[2]The All Others Category consists of all employees classified as Investment Officer III.

Additional information regarding percentage of gender and racial/ethnic group representation for Executives/Senior Managers and All Others can be found in the CalSTRS 2015–16 Sustainability Report: *Global Stewardship at Work.*

SASB guidelines related to management of the legal and regulatory environment state that asset managers like CalSTRS have legal obligations and fiduciary duties related to record keeping, operating and marketing, disclosure requirements and prohibitions on fraudulent activities. CalSTRS strives to maintain high ethical standards that support the CalSTRS Core Values and ensure understanding and cooperation among our staff regarding their ethics and compliance responsibilities.

In addition to periodic compliance training and communications, CalSTRS encourages the use of our various compliance programs. CalSTRS Office of Ethics and Compliance independently investigates all reports of unethical conduct reported by CalSTRS employees and members. The Compensation Review Unit reviews reports of fraudulent pension-related activities.

In fiscal year 2016–17, there were no significant instances of unethical conduct reported. Cases of potential compensation spiking were investigated and resolved or referred to the general counsel's office. As a result of our efforts, we have not incurred any material fines or settlements related to our communications, financial fraud or other commercial issues in fiscal year 2016–17.

The SASB standards further state that the management and use of non-financial forms of capital increasingly contribute to market value. As such, asset managers like CalSTRS consider and integrate an analysis of all material issues into investment decisions, including ESG factors. The board considers the ESG issues related to both the corporations and entities in which securities are held. As a prominent investor with a long-term investment goal, CalSTRS understands our investment activities have a direct impact on our member retirement security; we expect entities in which we invest to practice sustainable methods of operations.

The 2016 Green Initiative Task Force Report discusses ESG risk considerations and responses in detail. The report also summarizes our various investment programs, which pursue a "double bottom line" of both competitive returns and sustainable investing through allocations. To mitigate the risks associated with investing a global portfolio in a complex geopolitical environment, CalSTRS has developed processes to follow when faced with major issues as identified in the CalSTRS 21 Risk Factors. These risk factors address a broad range of sustainability related matters such as climate change, human rights and natural resources. We expect our investment managers to consider each of these factors when evaluating any future investment.

Business Transformation

CalSTRS continues to develop as an organization and we reflect our goals, risks and initiatives in a three-year strategic plan and annual business plan.

Fiscal Year 2016–17 Business Plan

The fiscal year 2016–17 Business Plan outlined the allocation of resources and identified key objectives scheduled for completion by the close of the fiscal year. These objectives were related to various aspects of the CalSTRS organization including: Financial, Member/Employer, Business Transformation and Workforce Transformation. CalSTRS staff made significant progress on the initiatives outlined in this report, and the results can be found in the fiscal year 2016–17 Accomplishments Report.

Pension Solution Project

CalSTRS continued efforts on the Pension Solution Project, which involves the replacement of the CalSTRS legacy pension administration system. The project team and the selected vendor, CGI Group, Inc., completed their first year of the project in September 2016. This included fine-tuning project plans and training participating staff, confirming the conceptual design of the framework to drive development and implementation of the project, and procuring and preparing hardware, data storage and firewall protections for the new pension system.

Additionally, the companion Data Prep Project effort is charged with data analysis and cleansing activities related to CalSTRS pension data in preparation for conversion to the new pension system.

Long-Term Space Planning

CalSTRS expects staff to more than double in the next 24 years based on historical trends, increases in future year contributions, the growth of the investment portfolio and our plans to continue to increase the percentage of internally managed assets. During the November 2016 meeting, the board authorized staff to move forward to secure a development manager, architectural firm and general contractor to complete the design and provide cost estimates for the construction of additional headquarters space as the next step in the consideration of one of the options to meet our long-term space needs. In May 2017, CalSTRS issued a request for proposal to procure construction management services to provide estimates for the cost of a new building. CalSTRS will use existing resources to identify costs for both short and long term leasing and other marketplace opportunities to address space needs. A budget could be finalized with more detailed planning for staff growth following the completion of the new building design and other options analysis based on specific business requirements. Staff expects to provide updates to the board for review in 2018.

Legislative Update

H.R. 10 (Hensarling-TX) repeals provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act and changes shareholder proposal thresholds.

H.R. 985 (Goodlatte-VA) makes significant changes to laws governing class action lawsuits, including prohibiting class certification unless “each class member has suffered the same type and scope of injury.” Among other provisions, it also limits the amount and timing of attorney’s fees and allows defendants to automatically appeal class certifications.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of CalSTRS’ finances. For questions concerning the information in this report or for additional information, contact CalSTRS, P.O. Box 15275, Sacramento, CA 95851-0275.

Respectfully submitted,

Robin Madsen

Chief Financial Officer

Basic Financial Statements

STATEMENT OF FIDUCIARY NET POSITION

As of June 30, 2017
(Dollars in Thousands)

	State Teachers' Retirement Plan	Pension2 403(b) Plan	Pension2 457(b) Plan	Medicare Premium Payment Program	Teachers' Deferred Compensation	Total
Assets						
Investments:						
Debt Securities	$41,033,531	$335,141	$12,444	$606	$1,102	$41,382,824
Equity Securities	113,333,185	456,081	21,158	-	-	113,810,424
Alternative Investments	56,383,316	-	-	-	-	56,383,316
Derivative Instruments	138,014	-	-	-	-	138,014
Securities Lending Collateral	18,191,295	-	-	-	-	18,191,295
Total Investment Assets	**229,079,341**	**791,222**	**33,602**	**606**	**1,102**	**229,905,873**
Cash	459,456	-	-	-	1	459,457
Receivables:						
Investments Sold	1,905,812	-	-	-	-	1,905,812
Interest and Dividends	443,454	-	-	2	3	443,459
Member, Employer and State	660,184	11,735	382	-	-	672,301
Loans Receivable	2,819,332	3,574	243	-	-	2,823,149
Other	43,644	-	-	-	132	43,776
Total Receivables	**5,872,426**	**15,309**	**625**	**2**	**135**	**5,888,497**
Other Assets:						
Capital Assets, Net of Accumulated Depreciation	258,764	-	-	-	-	258,764
Other	247	-	-	-	-	247
Total Other Assets	**259,011**	**-**	**-**	**-**	**-**	**259,011**
Total Assets	**235,670,234**	**806,531**	**34,227**	**608**	**1,238**	**236,512,838**
Deferred Outflows of Resources	**70,934**	**-**	**-**	**88**	**262**	**71,284**
Total Assets and Deferred Outflows of Resources	**235,741,168**	**806,531**	**34,227**	**696**	**1,500**	**236,584,122**
Liabilities						
Investments:						
Derivative Instruments	260,133					260,133
Total Investment Liabilities	**260,133**	**-**	**-**	**-**	**-**	**260,133**
Investments Purchased Payable	3,270,703	-	-	-	-	3,270,703
Loans Payable	2,824,259	-	-	-	-	2,824,259
Benefits in Process of Payment	234,379	-	-	-	-	234,379
Net Pension and OPEB Obligation	323,058	-	-	625	1,212	324,895
Other	353,766	949	23	18	554	355,310
Securities Lending Obligation	18,184,444	-	-	-	-	18,184,444
Total Liabilities	**25,450,742**	**949**	**23**	**643**	**1,766**	**25,454,123**
Deferred Inflows of Resources	**526**	**-**	**-**	**12**	**2**	**540**
Total Liabilities and Deferred Inflows of Resources	**25,451,268**	**949**	**23**	**655**	**1,768**	**25,454,663**
Net Position Restricted for Pension/ Other Postemployment Benefits	**$210,289,900**	**$805,582**	**$34,204**	**$41**	**$(268)**	**$211,129,459**

The accompanying notes are an integral part of these statements.

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

For the Fiscal Year Ended June 30, 2017
(Dollars in Thousands)

	State Teachers' Retirement Plan	Pension2 403(b) Plan	Pension2 457(b) Plan	Medicare Premium Payment Program	Teachers' Deferred Compensation	Total
Additions						
Contributions:						
Member	$3,440,883	$121,945	$6,516	$-	$-	$3,569,344
Employer	4,173,235	393	44	29,117	-	4,202,789
State of California	2,478,230	-	-	-	-	2,478,230
Total Contributions	**10,092,348**	**122,338**	**6,560**	**29,117**	**-**	**10,250,363**
Investment Income (Loss):						
Net Appreciation/(Depreciation) in Fair Value of Investments	20,431,830	64,284	2,779	(1)	(1)	20,498,891
Interest, Dividends and Other	4,950,712	13,446	559	12	10	4,964,739
Securities Lending Income	181,622	-	-	-	-	181,622
Less Investment Expenses:						
Cost of Lending Securities	(84,202)	-	-	-	-	(84,202)
Other Investment Expenses	(314,782)	-	-	-	-	(314,782)
Net Investment Income	**25,165,180**	**77,730**	**3,338**	**11**	**9**	**25,246,268**
Other Income	72,005	141	8	-	1,453	73,607
Total Additions	**35,329,533**	**200,209**	**9,906**	**29,128**	**1,462**	**35,570,238**
Deductions						
Retirement, Disability, Death and Survivor Benefits	13,626,306	-	-	-	-	13,626,306
Premiums Paid	-	-	-	28,929	-	28,929
Distributions and Withdrawals	-	36,322	769	-	-	37,091
Purchasing Power Benefits	160,729	-	-	-	-	160,729
Refunds of Member Contributions	115,509	4,657	36	-	-	120,202
Administrative Expenses	182,367	1,975	79	168	1,542	186,131
Borrowing Costs	57,958	-	-	-	-	57,958
Other Expenses	10,251	-	-	-	22	10,273
Total Deductions	**14,153,120**	**42,954**	**884**	**29,097**	**1,564**	**14,227,619**
Net Increase (Decrease) in Net Position	**21,176,413**	**157,255**	**9,022**	**31**	**(102)**	**21,342,619**
Net Position Restricted for Pension/ Other Postemployment Benefits						
Beginning of the Year	189,113,487	648,327	25,182	10	(166)	189,786,840
End of the Year	**$210,289,900**	**$805,582**	**$34,204**	**$41**	**$(268)**	**$211,129,459**

The accompanying notes are an integral part of these statements.

1. DESCRIPTION OF CALSTRS AND CONTRIBUTION INFORMATION

The California State Teachers' Retirement System (CalSTRS) administers a hybrid retirement system consisting of a defined benefit plan, two defined contribution plans, a postemployment benefit plan and a fund used to account for ancillary activities associated with various deferred compensation plans and programs:

- State Teachers' Retirement Plan (STRP)
- CalSTRS Pension2® Program (Pension2)
- Medicare Premium Payment (MPP) Program
- Teachers' Deferred Compensation Fund (TDCF)

CalSTRS provides pension benefits, including disability and survivor benefits, to California full-time and part-time public school teachers from pre-kindergarten through community college and certain other employees of the public school system. The Teachers' Retirement Law (California Education Code Section 22000 et seq.), as enacted and amended by the California Legislature, established these plans and CalSTRS as the administrator. The terms of the plans may be amended through legislation.

CalSTRS is a component unit of the State of California. These financial statements include only the accounts of CalSTRS. The state includes CalSTRS' various plans and funds as fiduciary funds in its financial statements.

The Teachers' Retirement Board (the "board") has exclusive control over the administration of the retirement system plans and the investment of funds, makes rules, sets policies, and has the authority to hear and determine all facts pertaining to application for benefits under the retirement system. It is composed of 12 members:

- Five members appointed by the Governor and confirmed by the Senate: one school board representative, one retired CalSTRS member and three public representatives;
- Four ex-officio members: the Superintendent of Public Instruction, the State Treasurer, the State Controller and the Director of Finance; and
- Three member-elected positions representing current educators.

State Teachers' Retirement Plan

The STRP is a multiple-employer, cost-sharing defined benefit plan composed of four programs: Defined Benefit (DB) Program, Defined Benefit Supplement (DBS) Program, Cash Balance Benefit (CBB) Program and Replacement Benefits (RB) Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the state is the sponsor and obligor of the trust. In addition, the state is both an employer and nonemployer contributing entity to the STRP.

STRP Defined Benefit Program

As of June 30, 2017, there were 1,745 contributing employers (school districts, community college districts, county offices of education, charter schools and regional occupational programs). Membership is mandatory for all employees meeting certain statutory requirements and optional for all other employees performing creditable service activities. The DB Program provides retirement benefits based on members' final compensation, age and years of service credit. In addition, the retirement program provides benefits to members upon disability and to their survivors or beneficiaries upon the death of eligible members.

As of June 30, 2017, membership consisted of:

Active Members	
Vested	315,808
Nonvested	129,970
Inactive Members	
Vested	39,001
Nonvested	153,687
Retirees and Benefit Recipients	294,835
Total Members, Retirees and Beneficiaries	**933,301**

The DB Program has two benefit formulas:

- CalSTRS 2% at 60: Members first hired on or before December 31, 2012, to perform service that could be creditable to CalSTRS.
- CalSTRS 2% at 62: Members first hired on or after January 1, 2013, to perform service that could be creditable to CalSTRS.

There are several differences between the two benefit formulas, which are noted below.

CalSTRS 2% at 60

- CalSTRS 2% at 60 members are eligible for normal retirement at age 60, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation multiplied by the number of years of credited service. Early retirement options are available at age 55 with five years of credited service or as early as age 50 with 30 years of credited service. The age factor for retirements after age 60 increases with each quarter year of age to a maximum of 2.4 percent at age 63 or older. Members who have 30 years or more of credited service receive an additional increase of up to 0.2 percent to the age factor, up to the 2.4 percent maximum.
- CalSTRS calculates retirement benefits based on one-year final compensation for members with 25 or more years of credited service, or for classroom teachers with fewer than 25 years of credited service if the employer entered into, extended, renewed or amended an agreement prior to January 1, 2014, to elect to pay the additional benefit cost for all of its classroom teachers. One-year final compensation means a member's highest average annual compensation earnable for 12 consecutive months based on the creditable compensation that the member could earn in a school year while employed on a full-time basis. For most members with fewer than 25 years of credited service, final compensation is the highest average annual compensation earnable for any 36 consecutive months based on the creditable compensation that the member could earn in a school year while employed on a full-time basis.
- For fiscal year 2016–17, the limit on compensation that can be counted towards a member's benefit is $265,000, if hired on or after July 1, 1996. The limit is increased based on cost-of-living increases calculated per Internal Revenue Code Section 401(a)(17). No contributions are paid by the member, employer or the state on compensation in excess of the limit, and any compensation beyond the limit is excluded from determining final compensation.
- Final compensation is based on salary and certain other types of remuneration. Other types of compensation, such as allowances, cash in lieu of fringe benefits and compensation for unused accumulated leave are not creditable compensation and do not count toward any CalSTRS benefit program. Limited-period compensation and compensation determined to have been paid to enhance a benefit are creditable to the DBS Program.
- Members who accumulated at least 30 years of credited service by December 31, 2010, receive a longevity bonus of $200, $300 or $400 per month for 30, 31 or 32 or more years of credited service, respectively.

CalSTRS 2% at 62

- CalSTRS 2% at 62 members are eligible for normal retirement at age 62, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation multiplied by the number of years of credited service. An early retirement option is available at age 55. The age factor for retirement after age 62 increases with each quarter year of age to 2.4 percent at age 65 or older.
- All CalSTRS 2% at 62 members have their final compensation based on their highest average annual compensation earnable for 36 consecutive months based on the creditable compensation that the member could earn in a school year while employed on a full-time basis.
- The limit on creditable compensation that can be counted toward a member's benefit is adjusted each fiscal year based on changes in the Consumer Price Index. In fiscal year 2016–17, the limit was $139,320.
- Compensation paid in cash by an employer, pursuant to a publicly available written contractual agreement, for each pay period in which creditable service is performed

is creditable to CalSTRS benefit programs for CalSTRS 2% at 62 members. Other compensation, such as allowances, cash in lieu of fringe benefits, limited-period compensation and compensation determined to have been paid to enhance a benefit, is not creditable to any CalSTRS benefit program.

The following provisions apply to both CalSTRS 2% at 60 and 2% at 62 members:

- After earning five years of credited service, members become vested to receive service retirement benefits.
- After five years of credited service, a member (younger than age 60 if under disability Coverage A, no age limit if under disability Coverage B) is eligible for disability benefits of 50 percent of final compensation plus 10 percent of final compensation for each eligible child, up to a maximum addition of 40 percent. The member must have a disability that can be expected to last continuously for at least 12 months to qualify for a benefit.
- Contributions on compensation for service in excess of one year due to overtime or working additional assignments are credited to the DBS Program at the lowest annual pay rates up to the creditable compensation limit.
- A family benefit is available if an active member dies and has at least one year of credited service.
- Members' accumulated contributions are refundable with interest upon separation from CalSTRS. The board determines the credited interest rate each fiscal year. For the fiscal year ending June 30, 2017, the rate of interest credited to members' accounts was 0.72 percent.
- There is a postretirement annual benefit increase of 2 percent per year on a simple (rather than compound) basis. This benefit is vested for members who pay the higher contribution rates enacted in AB 1469 or retired in 2014.
- The member's benefit is reduced dollar for dollar, regardless of age, for the first 180 days after retirement if the member performs activities in the public schools that could be creditable to CalSTRS, unless the governing body of the school district takes specified actions with respect to a member who is above normal retirement age.
- There is an annual limitation on earnings from activities that could be creditable to CalSTRS for retired members. The member's benefit is reduced dollar for dollar by the amount of any earnings in excess of $41,732 in 2016–17.
- Any enhancements to the CalSTRS DB Program made on or after January 1, 2013, apply only to service performed on or after the effective date of the enhancement.
- A CalSTRS member who is convicted of committing a felony in the course of his or her official duties, including specifically a felony involving a child with whom the member had contact as part of the member's official duties, forfeits a right to any benefits accrued beginning with the commission of the felony.

<u>Purchasing Power Protection</u>

Purchasing power protection is provided to members of the DB Program through annual distributions (in quarterly payments) to retired and disabled members and beneficiaries to restore purchasing power up to 85 percent of the initial monthly allowance. Funding for purchasing power protection is from School Lands Revenue generated from the use of school lands (land granted to California by the federal government to support schools) and in lieu lands (properties purchased with the proceeds from the sale of school lands) and from the Supplemental Benefit Maintenance Account (SBMA).

Public Resources Code Section 6217.5 allocates School Lands Revenue to the Teachers' Retirement Fund for purchasing power protection. In addition, Education Code Section 22954 provides a continuous appropriation from the state's General Fund to the SBMA in an amount equal to 2.5 percent of the total creditable compensation of the fiscal year ending in the immediately preceding calendar year, reduced by $72 million. Through June 30, 2017, school lands revenue was $5.2 million, and the amount contributed to the SBMA was $649 million.

<u>Contributions</u>

The parameters for member, employer and state contribution rates are set by the California Legislature and Governor and detailed in the Teachers' Retirement Law.

A summary of statutory contribution rates and other sources of contributions to the DB Program are as follows:

Members — Pursuant to AB 1469, the CalSTRS member contribution rates effective for fiscal year 2016–17 and beyond are summarized in the table below:

Effective Date	2% at 60 Members	2% at 62 Members
July 01, 2016	10.25%	9.205%*

*According to current law, the contribution rate for CalSTRS 2% at 62 members is adjusted if the normal cost increases or decreases by more than 1 percent since the last time the member contribution rate was set. Based on the June 30, 2016, valuation adopted by the board on April 6, 2017, the increase in normal cost was less than 1 percent. Therefore, this rate will remain unchanged for fiscal year 2017-18.

Employers — Pursuant to AB 1469, CalSTRS employer contribution rate increases effective for fiscal year 2016–17 through fiscal year 2045–46 are summarized in the table below:

Effective Date	Pre AB 1469 Rate	Increase	Total
July 01, 2016	8.25%	4.33%	12.58%
July 01, 2017	8.25%	6.18%	14.43%
July 01, 2018	8.25%	8.03%	16.28%
July 01, 2019	8.25%	9.88%	18.13%
July 01, 2020	8.25%	10.85%	19.10%
July 01, 2021 to June 30, 2046	8.25%	*	*
July 01, 2046	8.25%	Increase from prior rate ends in 2046-47	

*The board cannot adjust the employer rate by more than 1 percent in a fiscal year, and the increase to the contribution rate above the 8.25 percent base contribution rate cannot exceed 12 percent for a maximum of 20.25 percent.

State — Also as a result of AB 1469, the additional state appropriation required to fully fund the benefits in effect as of 1990 by 2046 is specified in subdivision (b) of Education Code Section 22955.1. The increased contributions end as of fiscal year 2046–47. The CalSTRS state contribution rates effective for fiscal year 2016–17 and beyond are summarized in the table below.

As shown in the subsequent table, the state rate will increase to 4.811 percent on July 1, 2017, to continue paying down the unfunded liabilities associated with the benefits structure that was in place in 1990 prior to certain enhancements in benefits and reductions in contributions.

Effective Date	Base Rate	AB 1469 Increase For 1990 Benefit Structure	SBMA Funding[1]	Total
July 01, 2016	2.017%	4.311%	2.50%	8.828%
July 01, 2017	2.017%	4.811%[2]	2.50%	9.328%
July 01, 2018 to June 30, 2046	2.017%	[3]	2.50%	[3]
July 01, 2046 and thereafter	2.017%	[3]	2.50%	4.517%[3]

[1]This rate does not include the $72 million reduction in accordance with Education Code Section 22954. Refer to Note 1, Purchasing Power Protection section, for further discussion.

[2]During its April 2017 meeting, the board exercised its limited authority to increase the state contribution rate by 0.5 percent of the payroll effective July 1, 2017.

[3]The board has limited authority to adjust state contribution rates from July 1, 2017, through June 2046 in order to eliminate the remaining unfunded actuarial obligation associated with the 1990 benefit structure. The board cannot increase the rate by more than 0.50 percent in a fiscal year, and if there is no unfunded actuarial obligation, the contribution rate imposed to pay for the 1990 benefit structure would be reduced to 0 percent. Rates in effect prior to July 1, 2014, are reinstated if necessary to address any remaining 1990 unfunded actuarial obligation from July 1, 2046, and thereafter.

<u>Benefit Enhancements</u>

A school employer may provide, at the employer's cost, an additional two years of service credit to increase the amount of the member's monthly retirement benefit. This may be paid for by the employer in installments not to exceed eight years. If the employer chooses to pay in installments, the employer is charged interest on the unpaid balance at the actuarially assumed rate of return on investments for the DB Program (currently 7.25 percent). As of June 30, 2017, the outstanding balance of receivables for benefit enhancements was $14.7 million.

STRP Defined Benefit Supplement Program

The DBS Program, established pursuant to Chapter 74, Statutes of 2000 (AB 1509), is a cash balance defined benefit pension program that operates within the STRP. All members of the DB Program who make contributions to CalSTRS on creditable compensation earned on or after January 1, 2001, have an account under the DBS Program and are eligible to receive a DBS benefit based on the amount of funds contributed to the DBS account. Membership in the DBS Program is mandatory.

Interest is credited to the nominal DBS Program accounts at the minimum guaranteed annual rate established by the board prior to each plan year, which was 2.88 percent for the fiscal year ending June 30, 2017. The board may credit additional earnings to members' nominal accounts if actual investment earnings exceed the minimum guaranteed annual rate and meet criteria set out in the board policy. In April 2017, the board elected to not award Additonal Earnings Credit (AEC) as the criteria set out in the board policy was not met.

Contributions

Beginning July 1, 2002, for creditable service performed by DB members in excess of one year of service credit within one fiscal year, member contributions of 8 percent and employer contributions of 8 percent are credited to the members' nominal DBS Program account (up to the compensation cap for 2% at 62 members). Also, member contributions of 8 percent and employer contributions of 8 percent for compensation as a result of retirement incentives or limited-term enhancements are credited to the members' DBS Program accounts for CalSTRS 2% at 60 members.

STRP Cash Balance Benefit Program

The CBB Program, established under Chapter 592, Statutes of 1995 (AB 1298), and subsequently merged into the STRP by Chapter 1048, Statutes of 1998 (SB 2085), is a cash balance defined benefit pension program. The CBB Program is designed for employees of California's public schools who are hired to perform creditable service for less than 50 percent of the full-time equivalent for a position in a school district or county office of education or on a part-time or temporary basis for not more than 67 percent of a full-time position in a community college district. Participation in the CBB Program is optional; a school district, community college district, county office of education or regional occupational program may elect to offer the CBB Program. Under such election, the program will automatically cover each eligible employee, unless the employee elects to participate in the DB Program or an alternative plan provided by the employer within 60 days of hire or the election period determined by the employer. As of June 30, 2017, there were 30 contributing school districts and 39,053 contributing participants.

Interest is credited to nominal CBB Program accounts at the minimum guaranteed annual rate established by the board prior to each plan year, which was 2.88 percent for the fiscal year ending June 30, 2017. The board may credit additional earnings to members' nominal accounts if actual investment earnings exceed the minimum guaranteed annual rate and meet criteria set out in the board policy. In April 2017, the board elected to not award AEC as the criteria set out in the board policy was not met.

Contributions

A summary of statutory contribution rates for the CBB Program is as follows:

Participants — 4.0 percent of applicable participant earnings

Employers — 4.0 percent of applicable participant earnings

Employers may enter into a collective bargaining agreement to pay different rates if certain minimum conditions are met.

STRP Replacement Benefits Program

The STRP RB Program is an excess benefits arrangement for DB Program members that is administered as a qualified excess benefit arrangement through a separate pension program apart from the other three STRP programs. It is established in accordance with Internal Revenue Code (IRC) Section 415(m). IRC Section 415(b) imposes a dollar limit on the annual retirement benefits an individual may receive from a qualified defined benefit pension plan. The limit for individual CalSTRS 2% at 60 members varies based on the age at which they retire. For calendar year 2017, the federal dollar limit applicable to a 65-year-old CalSTRS member is $183,781. CalSTRS 2% at 62 members will not receive any benefits in excess of the IRC Section 415(b) limit.

The program is funded as needed. Contributions that would otherwise be credited to the DB Program each month are instead credited to the RB Program to fund monthly program costs. Monthly employer contributions are received and paid to members in amounts equivalent to the benefits not paid as a result of IRC Section 415(b), subject to withholding for any applicable income or employment taxes. As of June 30, 2017, there were 347 retirees, beneficiaries and non-member spouses receiving benefits from the RB Program.

CalSTRS Pension2 Program

Pursuant to Chapter 291, Statutes of 1994 (AB 3064), CalSTRS Pension2 (Pension2) was established to include two tax-deferred defined contribution plans under the IRC Sections 403(b) and 457(b). Voya Financial and Teachers Insurance and Annuity Association (TIAA) are responsible for administrative services, including custody and record-keeping, while CalSTRS performs the investment management functions of determining, monitoring and maintaining the plans' investments.

The IRC 403(b) plan and the IRC 457(b) plan, respectively, had 12,554 and 713 plan participants, and 868 and 54 participating employers (school districts) with account balances, as of June 30, 2017. Pension2 is available to all full-time California pre-kindergarten through community college district and county office of education employees. Part-time employees' eligibility is determined by their employers. Enrollment in the 457(b) plan is by employer adoption only. Employee contributions to the plans are voluntary and require no minimum limitations; however, the IRC imposes an annual maximum amount that can be contributed to the plans. Pension2 is not directly affected by the California Public Employees' Pension Reform Act of 2013 (PEPRA). However, according to PEPRA, employers may provide a contribution to a defined contribution plan, such as Pension2, for 2% at 62 member compensation in excess of the compensation cap.

The Pension2 investments are composed of a selection of mutual funds with underlying investments that include stocks, bonds and real estate investments and guaranteed annuity contracts, which are participant-directed. The Pension2 benefits are the accumulation of contributions and investment earnings credited to the member's account.

Medicare Premium Payment Program

The MPP Program is a cost-sharing multiple-employer other postemployment benefit plan (OPEB) established pursuant to Chapter 1032, Statutes of 2000 (SB 1435). CalSTRS administers the MPP Program, through the Teachers' Health Benefit Fund (THBF). The MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of the DB Program who were retired or began receiving a disability allowance prior to July 1, 2012, and were not eligible for premium-free Medicare Part A. The MPP Program is closed to new entrants as members who retire on or after July 1, 2012, are not eligible for coverage under the MPP Program.

For the year ending June 30, 2017, 6,271 retirees participated in the MPP Program. The number of retired members who will participate in the program in the future is unknown because eligibility cannot be pre-determined.

The MPP Program is funded on a pay-as-you go basis from a portion of monthly employer contributions. In accordance with California Education Code Section 25930, contributions that would otherwise be credited to the DB Program each month are instead credited to the MPP Program to fund monthly program and administrative costs. Total redirections to the MPP Program are monitored to ensure that total incurred costs do not exceed the amount initially identified as the cost of the program.

Teachers' Deferred Compensation Fund

The TDCF was established pursuant to Chapter 655, Statutes of 2006 (SB 1466), and is used to account for ancillary activities associated with various deferred compensation plans and programs offered by CalSTRS to enhance the tax-deferred financial options for the members and their beneficiaries.

The TDCF is funded by the fee revenues received by CalSTRS from deferred compensation plans, a vendor registration program and an employer compliance assistance program.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

CalSTRS maintains our accounting records using the accrual basis of accounting. We recognize member contributions in the period in which the contributions are required by statute. Furthermore, CalSTRS recognizes employer and state contributions when required by statute and the employer or state has made a formal commitment to provide the contributions. Also, CalSTRS recognizes benefits when due and payable in accordance with our retirement and benefits programs. Purchases and sales of investments are recorded on the trade date. Interest income is recorded on an accrual basis. Dividends are recorded on the ex-dividend date.

Use of Estimates in the Preparation of Financial Statements

The preparation of CalSTRS' financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect certain amounts and disclosures. The most significant estimates made by management in the accompanying financial statements include the estimates related to contribution revenues, the total pension liability and the fair value of certain alternative investments. Refer to Notes 3 and 6 respectively for further discussion of these estimates. Actual results could differ from those estimates.

Cash

Cash held by CalSTRS includes foreign currency, deposits with the State Treasury and master custodian and cash held at commercial banks for operational purposes.

Investments

Under the California Constitution, Article 16, Section 17, the board has the sole and exclusive fiduciary responsibility over the assets of the retirement system and to administer the system in a manner that will assure prompt delivery of benefits and related services to the members and their beneficiaries. As a public pension fund, CalSTRS is not subject to the Employee Retirement Income Security Act (ERISA), which governs corporate pension plans. However, the CalSTRS investment decision-making criteria are based on the "prudent investor" standard, for which the ERISA standards serve as a basis.

Additionally, the California Constitution, Article 16, Section 17, and the California Education Code, Part 13, Chapter 4, Section 22250 require the diversification of investments so as to minimize the risk of loss and maximize the rate of return, unless, under the circumstances, it is clearly not prudent to do so. The CalSTRS Investment Policy and Management Plan is established, and may be amended, by a majority vote of the board. It allows for investments consisting of debt and equity securities, alternative investments and derivative instruments. See Note 5 regarding the Schedule of Investments.

In the Statement of Changes in Fiduciary Net Position, CalSTRS presents the net appreciation (depreciation) in the fair value of its investments, which consists of the realized gains and losses on securities sold and the unrealized appreciation (depreciation) on those investments still held in the portfolio.

The value and performance of CalSTRS investments are subject to various risks, including credit risk, interest rate risk, concentration of credit risk, custodial credit risk and foreign currency risk, which are in turn affected by economic and market factors impacting certain industries, sectors or geographies. See Note 5 for disclosures related to these risks.

Most investments are reported at fair value. The diversity of the investment types held by CalSTRS requires a wide range of valuation techniques to determine fair value. See Note 6 for disclosures related to fair value.

Investment Risk Management

CalSTRS enters into currency forwards and option contracts to protect the value of non-U.S. investments against foreign currency fluctuation. CalSTRS could be exposed to risk if the counterparties to the forward and option contracts are unable to meet the terms of their contracts. CalSTRS also enters into futures contracts, swaps and options to hedge risks in the equity and fixed income markets. CalSTRS seeks to minimize risk from counterparties by establishing minimum credit quality standards and the use of master trading agreements, which require a daily exchange of collateral to offset mark-to-market counterparty risk. See Note 5 for disclosures related to these risks.

Capital Assets

Capital assets held by CalSTRS, which consist of land, building, equipment and intangible assets, are recorded at cost and reflected on the Statement of Fiduciary Net Position, net of accumulated depreciation/amortization. The capitalization threshold is $1 million. Depreciation/amortization is charged to operations using the straight-line method on the estimated useful life of the related asset and is included in administrative expenses on the Statement of Changes in Fiduciary Net Position. Estimated useful lives range from one to five years for equipment, 40 years for buildings and a minimum of five years for amortizable intangible assets. As of June 30, 2017, accumulated depreciation/amortization was $75.9 million, and depreciation/amortization expense was $9.6 million. CalSTRS reviews our capital assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. As of June 30, 2017, there has been no impairment of capital assets.

Administrative Expenses

The cost of administering the CalSTRS system is financed through contributions and investment earnings. Schedule VII (Schedule of Administrative Expenses) provides a listing of administrative expenses by type.

Income Taxes

The STRP and MPP Program are organized as tax-exempt retirement plans under the IRC. Pension2, which includes IRC 403(b) and 457(b) plans, is organized as a tax-deferred supplemental program under the IRC. CalSTRS management believes that it has operated these funds and programs within the constraints imposed by federal tax law.

Investment Expenses

Expenses directly associated with investment management, operations and servicing, as well as foreign taxes, have been included as Other Investment Expenses in the Statement of Changes in Fiduciary Net Position. Schedule VIII (Schedule of Investment Expenses) provides a listing of investment expenses by type. Broker commissions for securities trades and private asset fees are capitalized, with the exception of certain equity and derivative securities for which they are expensed.

Securities Lending Transactions

CalSTRS reports securities lent, reinvested cash collateral and the related liabilities resulting from securities lending transactions on the Statement of Fiduciary Net Position. CalSTRS also reports the income earned and costs of lending securities as investment income and expenses on the Statement of Changes in Fiduciary Net Position.

Reserves

CalSTRS maintains accounts within the net position restricted for pension/other postemployment benefits as reserve accounts for various operating purposes. These include four reserve accounts for the DBS Program, four reserve accounts for the CBB Program, one reserve account for the SBMA and other reserves not legally required for disclosure.

Defined Benefit Supplement Annuitant Reserve

Section 25002 of the Education Code formed the DBS Annuitant Reserve to establish and maintain a segregated account for expenditures on annuities payable under the DBS Program. The DBS Program is a cash balance pension plan that provides a supplemental benefit in addition to the regular DB Program benefit. During a member's career, credits and interest accumulate in the DBS Program's Contribution and Accumulated Interest reserves, respectively. When a member retires, the reserve funds are either paid out as a lump sum or transferred to the DBS Annuitant Reserve if the participant elects to receive their benefit as an annuity.

Defined Benefit Supplement Gain and Loss Reserve

Section 25001 of the Education Code established the DBS Gain and Loss Reserve, which represents a segregated account that may be used to: 1) credit interest to member

DBS accounts at the minimum interest rate for plan years in which the obligation cannot be met from the plan's investment earnings, 2) make additional earnings credits to DBS accounts upon a decision by the board to allocate excess investment earnings, or 3) provide additions to the DBS Annuitant Reserve for annuities payable under the DBS Program.

Cash Balance Annuitant Reserve

Section 26204 of the Education Code established the CBB Annuitant Reserve for the payment of monthly annuities with respect to the CBB Program. The CBB Program is an optional cash balance pension plan for part-time certified educators available to CalSTRS employers as an alternative to the CalSTRS DB Program, Social Security and other retirement plans. During a participant's career, credits and interest accumulate in the Cash Balance Active Contribution and Accumulated Interest reserves, respectively, as described in the table below. When a participant retires, the reserve funds are either paid out as a lump sum or transferred to the Cash Balance Annuitant Reserve if the participant elects to receive their benefit as an annuity.

Cash Balance Gain and Loss Reserve

Section 26202 of the Education Code established the CBB Gain and Loss Reserve, which may be used to: 1) credit interest to participants' accounts at the minimum interest rate during years in which CalSTRS investment earnings with respect to the CBB Program are not sufficient for that purpose, 2) make additional earnings credits to participants' accounts upon a decision by the board to allocate excess investment earnings, or 3) where necessary, to provide additions to the CBB Annuitant Reserve for monthly annuity payments.

Supplemental Benefit Maintenance Account

Section 22400 of the Education Code established the SBMA to separately maintain and manage the annual supplemental payments disbursed in quarterly installments to all benefit recipients whose purchasing power has fallen below 85 percent of the purchasing power of the initial allowance, as long as funds are available. The SBMA is primarily funded by contributions from the state, School Lands monies and the interest earned on the SBMA reserve balance credited at the actuarially assumed interest rate.

Other Reserves Not Legally Required For Disclosure

These reserves represent accumulated changes in operations reflecting contributions earned, benefit payments made, investment returns and the costs of plan administration for the STRP, Pension2, MPP Program and TDCF.

The reserve balances as of June 30, 2017, are summarized in the table below:

Reserve Type	Reserve Balance (Dollars in Thousands)
Defined Benefit Supplement Contribution Reserve	$6,387,180
Defined Benefit Supplement Accumulated Interest Reserve	2,392,652
Defined Benefit Supplement Annuitant Reserve	591,850
Defined Benefit Supplement Gain and (Loss) Reserve	3,158,534
Cash Balance Active Contribution Reserve	186,859
Cash Balance Accumulated Interest Reserve	58,465
Cash Balance Annuitant Reserve	5,475
Cash Balance Gain and (Loss) Reserve	58,872
Supplemental Benefit Maintenance Account Reserve	14,235,909
Other Reserves Not Legally Required for Disclosure	184,053,663
Total	**$211,129,459**

3. NET PENSION LIABILITY OF EMPLOYERS AND NONEMPLOYER CONTRIBUTING ENTITY

The components of the net pension liability (NPL) of the STRP for participating employers and the State of California (nonemployer contributing entity) as of June 30, 2017, are as follows (dollars in millions):

	June 30, 2017
Total pension liability	$302,769
Less: STRP fiduciary net position	$210,289[1]
NPL of employers and the State of California	$92,480
STRP fiduciary net position as a percentage of the total pension liability	**69%**

[1] This schedule is rounded for presentation purposes. The STRP fiduciary net position is $210,289,900,000 on the financial statements.

Actuarial Methods and Assumptions

The total pension liability for the STRP was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2016 and rolling forward the total pension liability to the June 30, 2017. In determining the total pension liability, the financial reporting actuarial valuation used the following actuarial methods and assumptions[1,2]:

	June 30, 2017
Valuation Date	June 30, 2016
Experience Study	July 1, 2010, through June 30, 2015
Actuarial Cost Method	Entry age normal
Investment Rate of Return[3]	7.1%
Consumer Price Inflation	2.75%
Wage Growth	3.5%
Postretirement Benefit Increases	2% simple for DB (annually) Maintain 85% purchasing power level for DB Not applicable for DBS/CBB

[1]For the purpose of determining the total pension liability, the assumptions used in the June 30, 2016, financial reporting actuarial valuation, were applied to all periods prior to July 1, 2017. The assumptions applied to those periods on and after July 1, 2017 are reflected in the table above.

[2]The assumptions for investment rate of return, wage growth and inflation used in the June 30, 2016 financial reporting actuarial valuation were 7.60 percent, 3.75 percent and 3.00 percent, respectively.

[3]Net of investment expenses but gross of administrative expenses.

CalSTRS changed the mortality assumptions based on the July 1, 2010, through June 30, 2015, experience study adopted by the board in February 2017. CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among our members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best-estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance–PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2017, are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return[1]
Global Equity	47%	6.30%
Fixed Income	12	0.30
Real Estate	13	5.20
Private Equity	13	9.30
Absolute Return/Risk Mitigating Strategies	9	2.90
Inflation Sensitive	4	3.80
Cash/Liquidity	2	(1.00)

[1]20-year average.

Discount Rate

The discount rate used to measure the total pension liability was 7.1 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers are made at statutory contribution rates in accordance with the rate increases as disclosed in Note 1. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.1 percent) and assuming that contributions, benefit payments and administrative expenses occur midyear. Based on those assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Presented below is the NPL of employers and the state using the current discount rate of 7.1 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 to 3 percent lower or 1 to 3 percent higher than the current rate:

Discount Rate	NPL of Employers and Nonemployer Contributing Entity (Dollars in Millions)
3% Decrease (4.1%)	$260,128
2% Decrease (5.1%)	$190,555
1% Decrease (6.1%)	$135,790
Current Discount Rate (7.1%)	$92,480
1% Increase (8.1%)	$57,331
2% Increase (9.1%)	$28,321
3% Increase (10.1%)	$4,271

4. NET OTHER POSTEMPLOYMENT BENEFIT (OPEB) LIABILITY OF EMPLOYERS

The components of the net OPEB liability of the MPP Program for participating employers as of June 30, 2017, are as follows (dollars in thousands):

	June 30, 2017
Total OPEB liability	$420,749
Less: MPP Program fiduciary net position	$41
Net OPEB liability of employers	$420,708
MPP Program fiduciary net position as a percentage of the total OPEB liability	0.01%

Actuarial Methods and Assumptions

The total OPEB liability for the MPP Program as of June 30, 2017 was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total OPEB liability to June 30, 2017 using the assumptions listed below.

	June 30, 2017
Valuation Date	June 30, 2016
Experience Study	July 1, 2010, through June 30, 2015
Actuarial Cost Method	Entry age normal
Investment Rate of Return	3.58%
Medicare Part A Premium Costs Trend Rate[1]	3.70%
Medicare Part B Premium Costs Trend Rate[1]	4.10%

[1] The assumed increases in the Medicare Part A and Part B Cost Trend Rates vary by year, however; the increases are approximately equivalent to a 3.7 percent and 4.1 percent increase each year for Medicare Part A and Part B, respectively.

In addition, assumptions were made about future participation (enrollment) into the MPP Program because CalSTRS is unable to determine which members not currently participating meet all eligibility criteria for enrollment in the future. Assumed enrollment rates were derived based on past experience and are stratified by age with the probability of enrollment diminishing as the members' age increases. This estimated enrollment rate was then applied to the population of members who may meet criteria necessary for eligibility and are not currently enrolled in the MPP Program. Based on this, the estimated number of future enrollments used in the financial reporting valuation was 571 or an average of 0.32 percent of the potentially eligible population (177,763).

CalSTRS changed the mortality assumptions based on the July 1, 2010, through June 30, 2015, experience study adopted by the board in February 2017. CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among our members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

The MPP Program is funded on a pay-as-you-go basis with contributions generally being made at the same time and in the same amount as benefit payments and expenses coming due. Any funds within the MPP Program as of the June 30, 2017, were to manage differences between estimated and actual amounts to be paid and were invested in the Surplus Money Investment Fund, which is a pooled investment program administered by the State Treasurer.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.58 percent. The MPP Program is funded on a pay-as-you-go basis as described in Note 1, and under the pay-as-you-go method, the OPEB plan's fiduciary net position was not projected to be sufficient to make projected future benefit payments. Therefore, a discount rate of 3.58 percent, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2017, was applied to all periods of projected benefit payments to measure the total OPEB liability.

Presented below is the net OPEB liability of employers using the current discount rate as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1 percent lower or 1 percent higher than the current rate:

Discount Rate	Net OPEB Liability of Employers (Dollars in Thousands)
1% Decrease (2.58%)	$465,753
Current Discount Rate (3.58%)	$420,708
1% Increase (4.58%)	$376,892

Medicare Costs Trend Rate

The June 30, 2016, valuation uses the 2017 Medicare Part A and Part B premiums as the basis for future premium calculations. Future premiums are assumed to increase with a medical trend rate that varies by year, as shown in the following table:

	Trend Assumption	
	Assumed Annual Increase	
Years [1]	Part A	Part B
2017-2026	3.4%	4.0%
2027-2036	4.6%	5.2%
2037-2046	4.1%	4.7%
2047 & Later	3.9%	4.5%

[1] Trend rates indicate medical inflation in the specific year and, therefore, affect the premiums for the following years. For example, the projected 2018 premium is the 2017 premium increased by the assumed 2017 trend rate.

The Part A trend is approximately equivalent to assuming a fixed 3.7 percent increase each year. The Part B trend is approximately equivalent to assuming a fixed 4.1 percent increase each year.

Presented below is the net OPEB liability of employers using the current Medicare costs trend rates, as well as what the net OPEB liability would be if it were calculated using Medicare costs trend rates that are 1 percent lower and 1 percent higher than the current rate:

Medicare Costs Trend Rate	Net OPEB Liability of Employers (Dollars in Thousands)
1% Decrease (2.7% Part A and 3.1% Part B)	$380,174
Current Rates (3.7% Part A and 4.1% Part B)	$420,708
1% Increase (4.7% Part A and 5.1% Part B)	$460,837

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (for example, Medicare premiums) and assumptions about the probability of occurrence of events far into the future (for example, mortality, disabilities and retirees eligible for the program). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of benefit costs. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective and take into account the premiums and surcharges paid after termination of employment until the death of the employee. In many cases, actuarial calculations reflect several decades of payments after termination of employment.

5. DEPOSITS AND INVESTMENTS

Money-Weighted Rate of Return

For the period ended June 30, 2017, the money-weighted rate of return on STRP investments, net of pension plan investment expenses, was 13.4 percent. While the MPP Program is funded on a pay-as-you-go basis, any excess funds are held in the Surplus Money Investment Fund (SMIF). The money-weighted rate of return on MPP Program investments, net of OPEB plan investment expenses, was 0.9 percent. The money-weighted rate of return expresses investment performance, taking into account the impact of cash infusion into and disbursements from the pension plan or OPEB plan.

Schedule of Investments

CalSTRS is authorized to invest and reinvest the monies to meet the objectives of the Investment Policy and Management Plan as established by the board.

The following table represents the detailed investments by type within debt securities, equity securities, alternative investments and derivative instruments presented in the Statement of Fiduciary Net Position.

Schedule of Investments
As of June 30, 2017, CalSTRS investments are as follows:
(Dollars in Thousands)

Investments	State Teachers' Retirement Plan	Pension2 403(b) Plan	Pension2 457(b) Plan	Medicare Premium Payment Program	Teachers' Deferred Compensation	Total
Assets:						
Debt Securities						
Asset-Backed Securities	$429,710	$-	$-	$-	$-	$429,710
Corporate Bonds	11,147,940	-	-	-	-	11,147,940
Foreign Government Issues	970,591	-	-	-	-	970,591
Mortgage-Backed Securities	8,452,786	-	-	-	-	8,452,786
Municipal Securities	198,506	-	-	-	-	198,506
U.S. Government and Agency Obligations	15,589,380	-	-	-	-	15,589,380
Short-Term Securities	4,244,618	4,698	174	606	1,102	4,251,198
Mutual Funds-Bond Funds	-	57,892	2,495	-	-	60,387
Guaranteed Annuity Contracts	-	272,551	9,775	-	-	282,326
Total Debt Securities	**41,033,531**	**335,141**	**12,444**	**606**	**1,102**	**41,382,824**
Equity Securities						
Common Stocks	105,731,011	-	-	-	-	105,731,011
Depository Receipts	2,842,502	-	-	-	-	2,842,502
Mutual Funds-Stock Funds	1,235,851	456,081	21,158	-	-	1,713,090
Preferred Stocks	424,990	-	-	-	-	424,990
Real Estate Investment Trusts	3,098,831	-	-	-	-	3,098,831
Total Equity Securities	**113,333,185**	**456,081**	**21,158**	-	-	**113,810,424**
Alternative Investments						
Debt-Privately Held	2,263,850	-	-	-	-	2,263,850
Equity-Privately Held	27,369,585	-	-	-	-	27,369,585
Real Estate-Directly Held	16,951,450	-	-	-	-	16,951,450
Real Estate-Non-Directly Held	9,798,431	-	-	-	-	9,798,431
Total Alternative Investments	**56,383,316**	-	-	-	-	**56,383,316**
Derivative Instruments						
Forwards	113,909	-	-	-	-	113,909
Futures	7,651	-	-	-	-	7,651
Options	7,932	-	-	-	-	7,932
Rights and Warrants	2,246	-	-	-	-	2,246
Swaps	6,276	-	-	-	-	6,276
Total Derivative Instruments	**138,014**	-	-	-	-	**138,014**
Securities Lending Collateral	**18,191,295**	-	-	-	-	**18,191,295**
Total Investment Assets	**229,079,341**	**791,222**	**33,602**	**606**	**1,102**	**229,905,873**
Liabilities:						
Derivative Instruments						
Forwards	240,823	-	-	-	-	240,823
Futures	13,207	-	-	-	-	13,207
Options	2,882	-	-	-	-	2,882
Swaps	3,221	-	-	-	-	3,221
Total Derivative Instruments	**260,133**	-	-	-	-	**260,133**
Total Investment Liabilities	**260,133**	**-**	**-**	**-**	**-**	**260,133**
Total Net Investments	**$228,819,208**	**$791,222**	**$33,602**	**$606**	**$1,102**	**$229,645,740**

Debt Securities

Debt securities consist primarily of long-term investments issued by the U.S. government and U.S. government-sponsored agencies, municipal securities, foreign governments, corporations, securitized offerings backed by residential and commercial mortgages, and inflation-indexed bonds (also known as inflation-linked bonds). Debt securities also consist of short-term securities that by definition typically have maturities of less than one year. Investments in Pension2 include debt securities such as bond mutual funds and guaranteed annuity contracts.

Short-term investments consist of money market funds, certificates of deposits and similar instruments with maturities and/or holding periods generally of less than one year. Deposits in the Pooled Money Investment Account (classified under short-term securities), administered by the State Treasurer, represent various investments with approximately 194 average days to maturity. The State Treasury pools these monies with those of other state agencies for investing in short-term securities. The monies are available for withdrawal at any time. Deposits in Short-Term Investment Fund, administered by State Street Bank, represent various investments with approximately 24 average days to maturity.

Pension2 offers bond mutual funds and annuity contracts to the individual participants. The annuity contracts offered guarantee a specified minimum interest rate, which is subject to change at any time.

Equity Securities

Equity securities consist primarily of domestic and international common stocks, preferred stocks, depository receipts, real estate investment trusts (REITs), exchange-traded funds (ETFs) and stock mutual funds.

Alternative Investments

Alternative investments consist primarily of limited partnership structures invested in privately held debt, including distressed and mezzanine debt, or privately held equity, including venture capital, buyouts, co-investments and equity expansion, as well as investments in real estate and infrastructure. They include investments held within the private equity, real estate, global equity, inflation sensitive, risk mitigating and innovative asset classes/strategies.

Alternative investments are generally long-term and illiquid in nature. As a result, investors are subject to redemption restrictions, which generally limit distributions and restrict the ability of limited partners to exit a partnership investment prior to its dissolution.

Investments in real estate directly held assets are in separate accounts and joint ventures, which are primarily composed of retail, office, industrial and multi-family properties. Real estate non-directly held investments primarily include commingled limited partnership investments in which CalSTRS does not have a controlling interest.

Corporate governance funds employ specific investment strategies and co-investments, including, but not limited to, publicly traded equity securities of companies on U.S., Canadian and European exchanges.

Derivative Instruments

CalSTRS holds investments in futures, foreign currency forward contracts, options, swaps, rights and warrants.

CalSTRS invests in futures and foreign currency forward contracts. A futures contract is an exchange-traded contract whereby the purchaser agrees to buy an asset at a stated price on a specific future date. A foreign currency forward contract is a customized, bilateral agreement to exchange a specified currency at a specified future settlement date at a forward price agreed to on the trade date.

CalSTRS invests in exchange-traded options and over-the-counter options. An option is a contract that entitles the holder to purchase or sell a specific amount of contracts or notional amount at a specified price (strike price). The underlying asset, quantity of the underlying or notional amount, expiration date and strike price are standardized for exchange-traded options and are customized for over-the-counter options.

Swaps are derivative instruments in which two parties agree to exchange one stream of cash flows against another stream or a guarantee. These streams are called the legs of the swap and usually at least one leg has a rate that is variable. The variable leg can depend on a reference rate, the total return of asset or an economic statistic. Cash flows are calculated based on a notional amount, which are usually not exchanged between counterparties.

Rights and warrants held by CalSTRS are typically acquired through corporate actions. A right is a privilege granted to shareholders of a corporation to subscribe to shares of a new issue of common stock before it is offered to the public. A warrant is a certificate entitling the holder to buy or sell a specific amount of securities at a specific price, usually one higher than the stock price at time of issue.

Securities Lending

State of California statutes and the board policies permit CalSTRS to make short-term, collateralized loans of its securities to broker-dealers and other entities in order to earn incremental income. CalSTRS has contracted with our custodian (State Street Bank), third-party securities lending agents and their respective custodians to lend global equity and debt securities. The majority of the security loans can be terminated on demand by either CalSTRS or the borrower. The underlying securities on loan are reported as assets on the Statement of Fiduciary Net Position. Collateral in the form of cash or other securities is required for 102 percent and 105 percent of the fair value of domestic and international securities loaned, respectively. For non-U.S. debt securities loaned, CalSTRS follows market practice which requires collateral of 102 percent of the fair value of the loaned securities. Since the majority of loans are terminable at will, their duration does not generally match the duration of the investments made with the cash collateral. As of June 30, 2017, the weighted duration difference between the investments and these loans was 30 days.

As of June 30, 2017, the fair value of the securities on loan was $20.0 billion. The securities lending cash collateral obligations were $18.2 billion. The fair value of the re-invested cash collateral was $18.2 billion, the non-cash collateral was $2.4 billion, and the calculated mark (collateral adjustment requested for the next business day) was $(3.1) million. The invested collateral and corresponding obligation are reflected in the Statement of Fiduciary Net Position as assets and liabilities, respectively. The re-invested cash collateral securities in this program are typically held to maturity and expected to mature at par.

In accordance with GASB Statement No. 28, *Accounting and Financial Reporting on Securities Lending Transactions*, the non-cash collateral of $2.4 billion is not reported in the Statement of Fiduciary Net Position because CalSTRS is not permitted to pledge or sell these collateral securities received unless the borrower defaults. The contracts with the securities lending agents require them to indemnify CalSTRS if the borrowers fail to return the securities (or if the collateral is not sufficient to replace the securities lent) or if the borrowers fail to pay CalSTRS for income distributions by the securities' issuers while the securities are on loan.

Real Estate Debt Service

Real estate investments are classified as investments in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Certain real estate investments are leveraged through partnerships using a combination of equity contributions from CalSTRS and other investors and through the utilization of debt. CalSTRS engages real estate advisors and operating partners who are responsible for managing a portfolio's day-to-day activities, performance and reporting. As of June 30, 2017, the estimated fair value of real estate investments (net of all outstanding debt) totaled approximately $26.7 billion. The CalSTRS share of outstanding debt is $9.0 billion, excluding obligations of limited partnership interests in commingled funds. The CalSTRS portion of real estate debt service requirements includes both recourse and nonrecourse loans.

The chart below details the repayment of real estate debt, excluding obligations of limited partnership interests in commingled funds, as of June 30, 2017:

Real Estate Debt Service Requirements
(Dollars in Thousands)

	Principal	Interest	Total
Year Ended June 30, 2018	$2,924,694	$266,681	$3,191,375
2019	1,262,035	196,231	1,458,266
2020	1,652,233	149,680	1,801,913
2021	866,616	113,109	979,725
2022	667,068	75,687	742,755
2023 - 2027	1,433,402	157,673	1,591,075
2028 - 2032	79,879	38,858	118,737
2033 - 2037	82,747	25,229	107,976
2038 - 2042	10,782	3,769	14,551
2043 - Thereafter	15,726	1,033	16,759
Total	**$8,995,182**	**$1,027,950**	**$10,023,132**

This table includes $2.1 billion of loans for CalSTRS interest in real estate investments from the Master Credit Facility Portfolio discussed further below.

Real estate debt currently bears interest at fixed and variable rates ranging from 0.59 to 8.75 percent and 1.82 to 10.00 percent, respectively.

CalSTRS Master Credit Facility Portfolio consists of three separate unsecured credit facilities and one secured loan. The proceeds from the Master Credit Facility Portfolio provide the source of funds for managing capital flows of investment strategies. As of June 30, 2017, the total available lines of credit in the Master Credit Facility Portfolio were $3.45 billion. The total principal amount borrowed was $2.82 billion, and the remaining amount available was approximately $630 million. These credit facilities will mature between October 2017 and December 2019.

The CalSTRS Real Estate Investment Policy states that leverage shall be used to enhance investment returns. Careful consideration is given to the impact of leverage on investment and portfolio risks. Leverage within each segment of the asset class is regularly monitored and reported to the board for compliance. As of June 30, 2017, the loan to value on the Real Estate asset class, excluding obligations of limited partnership interests in commingled funds was 35.4 percent. CalSTRS does not have any debt obligations under the real estate limited partnership interests held in commingled funds.

Investment Risk Schedules

In accordance with GASB Statement No. 40, the following investment risk schedules disclose CalSTRS investments that are subject to certain types of risks, including credit risk, interest rate risk, concentration of credit risk, custodial risk and foreign currency risk. The policies addressing each risk, discussed in more detail below, are contained within the Investment Policy and Management Plan reviewed and approved annually by the board.

CalSTRS has no investment (other than those issued or explicitly guaranteed by the U.S. government) in any one organization that represents 5 percent or more of the STRP's fiduciary net position as of June 30, 2017.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to a debt instrument will not fulfill its obligations. This is measured by the assignment of ratings by nationally recognized statistical rating organizations.

CalSTRS Investment Guidelines require that, at the time of purchase, at least 95 percent of the market value of the corporate securities comprising the credit portion of the core fixed income portfolio be rated investment grade as defined by the Bloomberg Barclays U.S. Aggregate Bond Index. The ratings used to determine the quality of the individual securities in the table below are the ratings provided by S&P McGraw Hill Financial. Obligations issued or guaranteed by the U.S. federal government or government-sponsored agencies are eligible without limit. Furthermore, the total position of the outstanding debt of any non-agency mortgage-backed, asset-backed and commercial mortgage-backed securities issuer shall be limited to 10 percent of the market value of the portfolio, on the basis of each separate trust (pool of assets), at the time of purchase. Obligations of other issuers are not to exceed 5 percent per issuer, at the time of purchase, of the market value of any individual portfolio. The Investment Guidelines also include an allocation to opportunistic strategies, which allows for the purchase of bonds rated below investment grade. Limitations on the amount of debt of any one issuer each investment manager may hold are negotiated on a manager-by-manager basis.

CalSTRS may invest in an unrated security if the security is comparable in quality to other rated securities that are eligible for purchase. The notation NR represents those securities that are not rated, and NA represents those securities for which the rating disclosure requirements are not applicable such as obligations of the U.S. government and obligations explicitly guaranteed by the U.S. government.

As of June 30, 2017, the credit ratings of all debt securities and securities lending collateral are as follows:

Debt Securities
(Dollars in Thousands)

Ratings	Asset-Backed Securities	Corporate Bonds	Foreign Government Issues	Mortgage-Backed Securities	Municipal Securities	U.S. Government and Agency Obligations	Short-Term Securities	Mutual Funds - Bond Funds	Guaranteed Annuity Contracts	Total
Long-term Ratings										
AAA	$247,686	$320,897	$154,668	$113,126	$31,127	$-	$-	$12,602	$-	$880,106
AA	11,112	833,901	81,275	53,865	133,881	1,630,555	-	18,545	-	2,763,134
A	1,706	2,733,233	96,726	25,476	23,411	-	-	-	-	2,880,552
BBB	3,861	4,477,249	184,532	4,856	10,087	-	-	-	-	4,680,585
BB	7,289	1,073,670	67,491	13,052	-	-	-	-	-	1,161,502
B	2,960	1,101,102	7,717	8,986	-	-	-	-	-	1,120,765
CCC	2,071	208,528	1,450	9,789	-	-	-	-	-	221,838
CC	4,674	3,819	-	-	-	-	-	-	-	8,493
D	1,074	3,065	-	10,057	-	-	-	-	-	14,196
NR	147,277	392,476	376,732	6,338,497	-	2,373	-	-	282,326	7,539,681
NA	-	-	-	1,875,082	-	13,956,452	-	29,240	-	15,860,774
Short-term Ratings										
A-1	-	-	-	-	-	-	25,030	-	-	25,030
NR	-	-	-	-	-	-	4,032,020	-	-	4,032,020
NA	-	-	-	-	-	-	194,148	-	-	194,148
Total	**$429,710**	**$11,147,940**	**$970,591**	**$8,452,786**	**$198,506**	**$15,589,380**	**$4,251,198**	**$60,387**	**$282,326**	**$41,382,824**

Securities Lending Collateral
(Dollars in Thousands)

Ratings	Asset-Backed Securities	Corporate Bonds	Mortgage-Backed Securities	Short-Term Securities	Total
Long-term Ratings					
AAA	$1,508,965	$48,014	$31,208	$-	$1,588,187
AA	-	1,372,420	-	-	1,372,420
A	-	786,871	6,814	-	793,685
BB	170	-	-	-	170
CC	328	-	-	-	328
D	-	-	6,232	-	6,232
NR	808,956	60,095	2,741	-	871,792
Short-term Ratings					
A-1	-	-	-	219,241	219,241
NA	-	-	-	49,715	49,715
NR	-	-	-	13,263,576	13,263,576
Total	**$2,318,419**	**$2,267,400**	**$46,995**	**$13,532,532**	**$18,165,346**

Cash and accruals totaling $25,949 (in thousands) are not included in the total above but are included in the Securities Lending Collateral line item in the Statement of Fiduciary Net Position.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

Investments may contain terms that increase the sensitivity of their fair values to increasing and decreasing interest rates. Although CalSTRS has investments that have an inherent prepayment risk as well as caps, floors and step-up features, these are mitigated through the diversification of asset classes, security selection, maturity and credit quality.

The Investment Guidelines allow the core long-term investment grade portfolios the discretion to deviate the average duration of the portfolio within a range of +/- 20 percent (80 to 120 percent) of the weighted average effective duration of the performance benchmark.

The table below represents the net asset values and duration of the long-term Fixed Income Portfolios as of June 30, 2017.

Long-Term Fixed Income Duration
(Dollars in Thousands)

Investment Type (by portfolio)	Portfolio Net Asset Value	Effective Duration	Benchmark Duration	Difference
Core Portfolio				
Commercial Mortgage-Backed Securities	$560,160	5.41	5.37	0.04
Credit Obligations	8,169,977	6.70	6.91	(0.21)
Mortgage-Backed Securities	6,740,341	4.27	4.19	0.08
U.S. Government and Agency Obligations	9,584,751	6.02	5.84	0.18
Debt Opportunistic				
Corporate High Yield	1,603,390	3.48	3.72	(0.24)
Debt Core Plus	3,173,090	5.42	5.48	(0.06)
Leveraged Loans	765,124	0.43	0.25	0.18
Special Situations	42,326	0.10	5.57	(5.47)
Total	**$30,639,159**	**5.37**	**5.57**	**(0.20)**

Global inflation-linked securities, the CalSTRS Home Loan Program and long-duration U.S. treasury securities are not included in the table above. The global inflation-linked securities had a net asset value of $573.6 million with an effective duration of 12.52 compared to the benchmark duration of 12.54. The Home Loan Program had a net asset value of $74.1 million with a weighted average maturity of 22.0 years. The long duration U.S. treasury securities had a net asset value of $4.2 billion with an effective duration of 17.6. Cash and accruals totaling $(159.9) million and swaps and other collateral totaling $2.5 million are included in the total net asset value within the Fixed Income asset class but are not included in debt securities on the Statement of Fiduciary Net Position.

As of June 30, 2017, the segmented time distribution for the short-term securities based upon the expected maturity and/or first reset dates are as follows:

Short-Term Fixed Income Segmented Time Distribution
(Dollars in Thousands)

Investment Type	0–30 days	31–90 days	91–120 days	121–180 days	181–365 days	366+ days	Total
Asset-Backed Securities	$105,042	$43,556	$9,136	$-	$-	$-	$157,734
Corporate Bonds	95,187	198,777	-	-	-	-	293,964
Money Market Securities	1,775,051	1,074,016	94,737	25,002	-	-	2,968,806
Mortgage-Backed Securities	685	129	-	-	-	-	814
Pooled Money Investment Account	149,249	-	-	-	-	-	149,249
Short-Term Investment Fund	308,545	-	-	-	-	-	308,545
U.S. Government and Agency Obligations	635,943	367,690	229,391	169,293	115,344	34,851	1,552,512
Total	**$3,069,702**	**$1,684,168**	**$333,264**	**$194,295**	**$115,344**	**$34,851**	**$5,431,624**
Weightings	**56.52%**	**31.00%**	**6.14%**	**3.58%**	**2.12%**	**0.64%**	**100.00%**

The primary investment objective for the short-term investments is to seek the preservation of capital and liquidity and to generate the highest possible current income consistent with a prudent level of risk. The above table includes $1.2 billion debt securities that are managed within the short-term fixed income portfolio but may have original maturities of over a year. The Investment Guidelines of the short-term portfolio state that the average maturity of the investments shall be managed such that it will not exceed 180 days.

As of June 30, 2017, the segmented time distribution based upon the expected maturity and/or first reset date for the invested Securities Lending Cash Collateral are as follows:

Securities Lending Collateral Segmented Time Distribution
(Dollars in Thousands)

Investment Type	0–1 days	2–6 days	7–29 days	30–59 days	60–89 days	90+ days	TOTAL
Asset-Backed Securities	$-	$-	$2,241,900	$-	$21,699	$54,820	$2,318,419
Corporate Bonds	-	105,181	475,146	1,016,502	670,571	-	2,267,400
Mortgage-Backed Securities	-	-	12,642	-	34,353	-	46,995
Short-Term Securities	1,283,515	3,460,971	4,280,170	1,734,725	1,710,947	1,062,204	13,532,532
Total	**$1,283,515**	**$3,566,152**	**$7,009,858**	**$2,751,227**	**$2,437,570**	**$1,117,024**	**$18,165,346**
Weightings	**7.06%**	**19.63%**	**38.59%**	**15.15%**	**13.42%**	**6.15%**	**100.00%**

Cash and accruals totaling $25,949 (in thousands) are not included in the total above but are included in the Securities Lending Collateral line item in the Statement of Fiduciary Net Position.

The invested Securities Lending Cash Collateral is diversified among different asset classes with the maximum remaining effective maturity of any instrument being three years at the time of purchase. The fund must remain liquid to meet collateral returns.

Pension2

The primary objectives of Voya Fixed Plus III and TIAA Traditional Annuity/Annuities are the guarantee of principal and a guaranteed minimum interest rate of 1.0 percent for the life of the contract. The interest rate guarantees under the contracts are subject to Voya Retirement Insurance and Annuity Company (VRIAC) and TIAA's claim paying abilities.

As of June 30, 2017, the weighted average maturity of investments for the Pension2 IRC 403(b) and 457(b) plans on the Statement of Fiduciary Net Position are as follows:

Pension2 Weighted Average Maturity
(Dollars in Thousands)

Investment Type	Maturity	Fair Value
Federated U.S. Treasury Cash	50 days	$4,758
Money Market Securities	49 days	114
Vanguard Inflation Protected Securities Fund Institutional	8.6 years	29,239
Vanguard Short-Term Bond Index Fund Institutional	2.9 years	18,546
Vanguard Total Bond Market Index Fund	8.4 years	12,602
Total		**$65,259**

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of CalSTRS' investment in a single issuer. As of June 30, 2017, CalSTRS has no single issuer that exceeds 5 percent of total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools and other pooled investments are excluded. The CalSTRS Investment Policy and Management Plan states that no more than 3 percent of the total fund shall be invested or exposed to any one security or corporation, with the exception of U.S. Treasury or Agency Obligations.

Custodial Credit Risk

Custodial credit risk is the risk that if a depository institution or counterparty fails, CalSTRS would not be able to recover the value of our deposits, investments or collateral securities. As of June 30, 2017, all of CalSTRS non-cash investments are not exposed to custodial credit risk because they are held in CalSTRS name. Demand and time deposits held by the various financial institutions and the state banks are insured up to $250,000 by the Federal Deposit Insurance Corporation (FDIC) or by collateral held by the State Treasurer's Office or an agency of that office in the state's name. CalSTRS does not have a general policy relating to custodial credit risk.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. As of June 30, 2017, CalSTRS investments in foreign currencies are as follows:

Foreign Currency Risk
(Dollars in Thousands)
(In U.S. Dollar Equivalents)

Currency Name	Cash	Equity	Fixed Income	Spot Contracts	Forward Contracts	Total Exposure
Argentine Peso	$220	$-	$2,569	$-	$(313)	$2,476
Australian Dollar	15,921	2,216,122	21,239	3	(1,210)	2,252,075
Brazilian Real	1,712	715,975	20,738	1	(3,066)	735,360
Canadian Dollar	33,429	3,232,492	40,858	257	534	3,307,570
Chilean Peso	382	36,621	-	-	(1,102)	35,901
Colombian Peso	69	6,697	-	21	(2,864)	3,923
Czech Koruna	11	167	-	(53)	5,216	5,341
Danish Krone	1,257	697,319	-	-	-	698,576
Egyptian Pound	11	1,315	-	-	-	1,326
Euro Currency	89,575	13,359,030	246,681	(416)	(128,275)	13,566,595
Hong Kong Dollar	15,843	3,199,662	(186,720)	-	(105)	3,028,680
Hungarian Forint	238	70,201	-	-	(2,616)	67,823
Indian Rupee	1,930	978,428	-	15	520	980,893
Indonesian Rupiah	1,533	269,383	27,696	4	47	298,663
Japanese Yen	179,770	8,610,464	11,632	181	4,799	8,806,846
Malaysian Ringgit	1,092	174,927	13,634	-	(2)	189,651
Mexican Peso	5,242	256,587	22,111	-	4,937	288,877
New Israeli Sheqel	504	104,787	(15,774)	-	(3,160)	86,357
New Taiwan Dollar	3,482	1,287,893	(11,682)	-	(615)	1,279,078
New Zealand Dollar	1,287	85,400	46,364	-	(2,308)	130,743
Norwegian Krone	897	285,485	-	(7)	(489)	285,886
Pakistan Rupee	-	29,970	-	-	-	29,970
Peruvian Nouveau Sol	4	-	-	-	352	356
Philippine Peso	177	71,760	-	81	3	72,021
Polish Zloty	648	70,230	12,616	-	2,220	85,714
Pound Sterling	44,787	6,471,319	220,504	245	(3,807)	6,733,048
Qatari Rial	164	36,354	-	-	-	36,518
Russian Ruble	729	-	9,543	-	(5,270)	5,002
Singapore Dollar	5,026	508,227	-	9	(1,281)	511,981
South African Rand	1,488	667,630	16,114	86	2,884	688,202
South Korean Won	12,445	1,930,524	(75,723)	(40)	4,314	1,871,520
Swedish Krona	4,431	1,017,051	5,362	162	(1,476)	1,025,530
Swiss Franc	3,999	2,578,092	-	(1)	(2,772)	2,579,318
Thailand Baht	1,104	229,800	6,779	(8)	344	238,019
Turkish Lira	615	286,091	16,417	2	7,620	310,745
UAE Dirham	1,051	70,905	-	-	-	71,956
Yuan Renminbi	13,150	39,377	3,991	93	27	56,638
Total	**$444,223**	**$49,596,285**	**$454,949**	**$635**	**$(126,914)**	**$50,369,178**

CalSTRS investments denominated in foreign currencies are reported within derivative instruments and investment receivables or payables on the Statement of Fiduciary Net Position.

Foreign currency is composed of international investment proceeds and income to be repatriated into U.S. dollars and funds available to purchase international securities. Foreign currency is held temporarily in foreign accounts until it is able to be repatriated or expended.

In accordance with the Investment Policy and Management Plan, CalSTRS has established a strategic allocation to non-dollar public and private equity assets (i.e. private equity investments and real estate). Considering this commitment to non-dollar assets and the impact currency fluctuations can have on the total return of dollar-based investors, CalSTRS has recognized the need to implement strategies designed to address the management of currency risk. CalSTRS believes that our Currency Management Program should emphasize the protection of the value of its non-dollar public and private equity assets against a strengthening U.S. dollar first, yet recognizes that there also exists opportunities for alpha generation (the ability to derive a return in excess of a market return) within the currency markets.

CalSTRS Fixed Income staff has management and/or oversight responsibilities for the Currency Management Program. The position range has been designed to allow for some degree of symmetry around the underlying exposure to the foreign denominated assets within CalSTRS in order to both protect the translation value of the assets against a strengthening U.S. dollar and to enhance returns in a declining U.S. dollar environment.

As of June 30, 2017, the Pension2 403(b) and 457(b) plans do not expose CalSTRS to foreign currency risk.

Derivative Instruments

As of June 30, 2017, the derivative instruments held by CalSTRS are considered investments and not hedges for accounting purposes. The term hedging, as it is used elsewhere in the notes to these financial statements, denotes an economic activity and not an accounting method. The gains and losses arising from this activity are recognized as incurred in the Statement of Changes in Fiduciary Net Position.

All investment derivatives discussed below are included within the Investment Risk Schedules, which precede this section. Investments in derivative instruments are disclosed separately to provide a comprehensive view of this activity and its impact on the overall investment portfolio.

The table below presents the related net appreciation (depreciation) in fair value, the fair value amounts and the notional amounts of derivative instruments outstanding as of June 30, 2017.

Investment Derivative Disclosure
(Dollars in Thousands)

	Net Appreciation (Depreciation) in Fair Value of Investments through June 30, 2017		Fair Value as of June 30, 2017		
	Classification	Amount	Amount	Notional (Amount/Shares)	
Investment Derivatives Instruments					
Credit Default Swaps	Investment Income / (Loss)	$(7,643)	$202	47,358	
Interest Rate Swaps	Investment Income / (Loss)	7,428	2,648	223,270	
Total Return Swaps	Investment Income / (Loss)	32,613	205	(329,500)	
Foreign Currency Forwards	Investment Income / (Loss)	60,027	(126,914)	13,704,860	
Futures (Domestic and Foreign)	Investment Income / (Loss)	303,142	(5,556)	(79,572)	
Options[1]	Investment Income / (Loss)	(45,023)	5,050	704,687	
Rights	Investment Income / (Loss)	10,600	2,243	4,856	Shares
Warrants	Investment Income / (Loss)	(1,775)	3	485	Shares
Total Derivative Instruments		**$359,369**	**$(122,119)**		

[1]The total options amount of $5,050 is composed of options bought and options written of $7,932 and $(2,882), respectively (dollars in thousands).

Counterparty Credit Risk

The table below depicts the counterparty credit ratings of CalSTRS non-exchange traded investment derivative instruments outstanding and subject to loss as of June 30, 2017.

Counterparty Credit Rating[1]
(Dollars in Thousands)

S&P Rating	Credit Default Swaps	Interest Rate Swaps	Total Return Swaps	Foreign Currency Forwards	Total
AA	$-	$-	$-	$7,468	$7,468
A	39	-	-	10,043	10,082
BBB	423	2,836	479	869	4,607
Subtotal Investments in Asset Position	**$462**	**$2,836**	**$479**	**$18,380**	**$22,157**
Investments in Liability Position	(260)	(188)	(274)	(145,294)	(146,016)
Total Investments in Asset / (Liability) Position	**$202**	**$2,648**	**$205**	**$(126,914)**	**$(123,859)**

[1]The counterparty credit exposure for similar instruments with the same counterparty is netted for presentation purposes.

The ratings used to determine the quality of the individual counterparty are S&P ratings. The aggregate fair value of investment derivative instruments in an asset position subject to counterparty credit risk as of June 30, 2017, was $22.2 million. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted. However, master agreements exist that call for daily exchange of collateral for the mark-to-market to minimize this risk.

CalSTRS may enter into a master netting arrangement with a counterparty. In the event of default or early termination, the master agreement permits the non-defaulting party the right to close-out all transactions in a single net settlement to one net amount payable by one counterparty to the other.

As of June 30, 2017, there were assets of $11.1 million, including cash collateral held by CalSTRS, and liabilities of $17.9 million from non-exchange traded derivatives subject to master netting agreements. As of June 30, 2017, CalSTRS did not have any significant exposure to counterparty credit risk with any single party.

Custodial Credit Risk

The custodial credit risk disclosure for exchange traded derivative instruments is made in accordance with the custodial credit risk disclosure requirements of GASB Statement No. 40. As of June 30, 2017, all of CalSTRS investments in derivative instruments are held in CalSTRS name or CalSTRS nominee's name and are not exposed to custodial credit risk as of June 30, 2017.

Interest Rate Risk

As of June 30, 2017, CalSTRS is exposed to interest rate risk on its derivative instruments described below by maturity period.

Investment Maturities
(Dollars in Thousands)

		Investment Maturities (in years)			
Investment Type	**Fair Value**	**Less Than 1**	**1–5**	**6–10**	**More than 10**
Credit Default Swaps	$202	$99	$71	$32	$-
Interest Rate Swaps	2,648	-	(656)	3,304	-
Total Return Swaps	205	205	-	-	-
Total	**$3,055**	**$304**	**$(585)**	**$3,336**	**$-**

The table below shows swaps that are highly sensitive to changes in interest rates. The table below details the reference rate, fair value and notional amount of these derivative instruments:

Derivative Instruments Highly Sensitive to Interest Rate Changes
(Dollars in Thousands)

Investment Type	Reference Rate	Fair Value	Notional
Interest Rate Swap	Pay Fixed 1.897%, Receive Variable 3M LIBOR	$143	$41,600
Interest Rate Swap	Pay Fixed 1.9%, Receive Variable 3M LIBOR	311	64,728
Interest Rate Swap	Pay Fixed 1.58%, Receive Variable 3M LIBOR	999	18,380
Interest Rate Swap	Pay Fixed 1.26653%, Receive Variable 3M LIBOR	1,850	43,392
Interest Rate Swap	Receive Fixed 1.185%, Pay Variable 3M LIBOR	(467)	18,420
Interest Rate Swap	Receive Fixed 1.0345%, Pay Variable 3M LIBOR	(188)	36,750
Interest Rate Swaps Total		**$2,648**	**$223,270**
Total Return Swap	Receive MSCI Daily TR NET Brazil USD, Pay 1D Overnight Brazil Interbank Deposit (CETIP)	(51)	7,464
Total Return Swap	Receive MSCI Daily TR NET EM Poland USD, Pay 6M Poland Warsaw Interbank Offer Rate (WIBOR)	(11)	10,338
Total Return Swap	Receive MSCI Daily Net EM Mexico, Pay 28D Mexican Interbank Rate (TIIE)	(3)	190
Total Return Swap	Receive MSCI Daily TR NET Brazil USD, Pay 1D Overnight Brazil Interbank Deposit (CETIP)	(5)	383
Total Return Swap	Receive MSCI Daily TR NET EM Poland USD, Pay 6M Poland Warsaw Interbank Offer Rate (WIBOR)	15	1,769
Total Return Swap	Receive MSCI Daily TR NET EM Turkey USD, Pay 3M Bank Assoc of Turkey offer rate (TRLIBOR)	(24)	2,696
Total Return Swap	Receive MSCI Daily TR NET EM South Africa USD, Pay ZAR 3M Johannesburg Interbank Agreed Rate (JIBAR)	273	15,570
Total Return Swap	Receive MSCI Daily TR NET EM South Africa USD, Pay ZAR 3M Johannesburg Interbank Agreed Rate (JIBAR)	(4)	544
Total Return Swap	Receive NIFTY 50 Index, Pay 3M LIBOR	37	19,132
Total Return Swap	Receive MSCI Daily TR NET EM Turkey USD, Pay 3M Bank Assoc of Turkey offer rate (TRLIBOR)	-	13,721
Total Return Swap	Receive MSCI Daily TR NET EM Poland USD, Pay 6M Poland Warsaw Interbank Offer Rate (WIBOR)	5	509
Total Return Swap	Receive NIFTY 50 Index, Pay 3M LIBOR	(274)	(99,644)
Total Return Swap	Receive KOPSI 200 Index, Pay KRW 3M Ceritificate of Deposit Rate (KWCDC)	1,193	(75,723)
Total Return Swap	Receive MSCI Daily TR NET Hong Kong Local, Pay HKD - 3M Hong Kong Interbank Offer Rate (HIBOR)	80	(14,213)
Total Return Swap	Receive NIFTY 50 Index, Pay 3M LIBOR	114	(11,682)
Total Return Swap	Receive MSCI Daily TR NET Hong Kong Local, Pay HKD - 3M Hong Kong Interbank Offer Rate (HIBOR)	193	(21,802)
Total Return Swap	Receive MSCI Daily TR NET Hong Kong Local, Pay HKD - 3M Hong Kong Interbank Offer Rate (HIBOR)	(1,223)	(148,667)
Total Return Swap	Receive NIFTY 50 Index, Pay 3M LIBOR	(97)	(12,273)
Total Return Swap	Receive MSCI Israel Index, Pay 3M Tel Aviv Interank Offer Rate (TELBOR)	-	(15,774)
Total Return Swap	Receive MSCI Daily TR NET Hong Kong Local, Pay HKD - 3M Hong Kong Interbank Offer Rate (HIBOR)	(13)	(2,038)
Total Return Swaps Total		**$205**	**$(329,500)**

Foreign Currency Risk

As of June 30, 2017, CalSTRS is exposed to foreign currency risk on its investments in derivative instruments.

Foreign Currency Risk
(Dollars in Thousands)
(In U.S. Dollar Equivalents)

						Currency Forward Contracts		
Currency Name	Futures	Options	Rights	Swaps	Warrants	Investment Asset	Investment Liability	Total Exposure
Argentine Peso	$-	$-	$-	$-	$-	$-	$(313)	$(313)
Australian Dollar	247	364	171	-	-	2,478	(3,688)	(428)
Brazilian Real	-	-	-	(57)	-	1,166	(4,232)	(3,123)
Canadian Dollar	(749)	-	-	-	-	12,514	(11,980)	(215)
Chilean Peso	-	-	-	-	-	27	(1,129)	(1,102)
Colombian Peso	-	-	-	-	-	972	(3,836)	(2,864)
Czech Koruna	-	-	-	-	-	12,114	(6,898)	5,216
Euro Currency	(873)	2,878	2,035	(20)	-	17,789	(146,064)	(124,255)
Hong Kong Dollar	(343)	-	-	(962)	-	21	(126)	(1,410)
Hungarian Forint	-	-	-	-	-	854	(3,470)	(2,616)
Indian Rupee	-	-	-	-	-	913	(393)	520
Indonesian Rupiah	-	-	-	-	-	244	(197)	47
Japanese Yen	1,091	-	-	-	-	16,398	(11,599)	5,890
Malaysian Ringgit	(25)	-	-	-	-	64	(66)	(27)
Mexican Peso	(69)	-	-	(3)	-	5,884	(947)	4,865
New Israeli Sheqel	-	-	20	-	-	115	(3,275)	(3,140)
New Taiwan Dollar	-	-	-	114	-	181	(796)	(501)
New Zealand Dollar	-	-	6	-	-	1,563	(3,871)	(2,302)
Norwegian Krone	-	-	-	-	-	1,357	(1,846)	(489)
Peruvian Nouveau Sol	-	-	-	-	-	564	(212)	352
Philippine Peso	-	-	-	-	-	647	(644)	3
Polish Zloty	-	-	-	9	-	2,280	(60)	2,229
Pound Sterling	(2,176)	10	-	-	-	10,653	(14,460)	(5,973)
Russian Ruble	-	-	-	-	-	751	(6,021)	(5,270)
Singapore Dollar	(13)	-	-	-	3	949	(2,230)	(1,291)
South African Rand	9	-	-	268	-	3,498	(614)	3,161
South Korean Won	411	-	-	1,193	-	5,233	(919)	5,918
Swedish Krona	-	-	-	-	-	1,401	(2,877)	(1,476)
Swiss Franc	-	-	-	-	-	4,733	(7,505)	(2,772)
Thailand Baht	(1)	-	-	-	-	580	(236)	343
Turkish Lira	-	-	-	(24)	-	7,820	(200)	7,596
Yuan Renminbi	-	-	-	-	-	146	(119)	27
Total	**$(2,491)**	**$3,252**	**$2,232**	**$518**	**$3**	**$113,909**	**$(240,823)**	**$(123,400)**

As of June 30, 2017, the net unrealized loss on the foreign currency forward contracts was $(126.9) million.

Investment Allocation Policy

In accordance with GASB Statement No. 67 for pension plans and GASB Statement No.74 for OPEB plans, CalSTRS discloses investment policies pertaining to asset allocation and changes to any significant Investment policies. The board approves the allocation of investment assets as described in the board policy manual. The key goal of the asset allocation process is to develop an asset allocation policy that maximizes the likelihood that the investment portfolio's assets will, over the planning horizon, fund plan benefits. CalSTRS conducts an asset allocation study every three years, or more frequently if there is a significant change in the liabilities or assets. The asset allocation study involves a comprehensive review of the financial condition of the plan, including the actuarial requirements of the plan, such as future benefit payments and expected cash flow of contributions. In conjunction with the long-term strategic target, a range for each asset class is established to provide flexibility designed to reduce rebalancing costs and adapt to changing market conditions. The board approved changes to asset allocation ranges effective June 30, 2017.

The following table displays the previous and current board-approved target allocation, the policy range and the actual allocation for the STRP per the portfolio allocation and management structure as of June 30, 2017.

Asset Class / Strategy	Previous Target Allocation as of June 30, 2016	Current Target Allocation as of June 30, 2017	Policy Range	Actual Allocation as of June 30, 2017
Global Equity	55.0%	55.0%	+/- 6%	56.4%
Fixed Income	17.0%	15.0%	+/- 3%	14.7%
Real Estate	13.0%	12.0%	+/- 3%	12.6%
Private Equity	13.0%	8.0%	+/- 3%	8.1%
Cash / Liquidity	1.0%	2.0%	+/- 3%	1.5%
Inflation Sensitive	1.0%	2.0%	+/- 3%	1.3%
Risk Mitigating Strategies	0.0%	6.0%	+/- 3%	5.1%
Innovative Strategies	0.0%	0.0%	+/- 3%	0.2%
Strategic Overlay	0.0%	0.0%		0.1%
Total Asset Allocation	**100.0%**	**100.0%**		**100.0%**

All excess monies from the MPP Program and TDCF are invested into the SMIF, which is a pooled investment program administered by the State Treasurer.

6. FAIR VALUE MEASUREMENTS

The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). Fair value is a market-based measurement, not a CalSTRS-specific measurement; hence, valuation assumptions reflect those that market participants would use to price assets and liabilities at the measurement date.

U.S. General Accepted Accounting Principles (GAAP) establishes a hierarchy that prioritizes and ranks the inputs to valuation techniques used to measure fair value based on observability. Market price observability may be affected by a number of factors, including the investment type, the investment-specific characteristics, the state of the marketplace and the existence and transparency of transactions between market participants.

CalSTRS follows the fair value measurement and disclosure guidance under U.S. GAAP, which establishes a hierarchical disclosure framework. This framework prioritizes and ranks the level of market price observability used in measuring investments at fair value. U.S. GAAP also allows investments to be valued at cost or Net Asset Value (NAV). The Fair Value Leveling Hierarchy table that follows presents CalSTRS investments at their fair value level but also includes certain investments at cost or NAV.

Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices in an orderly market generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. In all cases, an instrument's level within the hierarchy is based upon the market pricing transparency of the instrument and does not necessarily correspond to CalSTRS' perceived risk or the liquidity of the instrument.

Assets and liabilities measured at fair value are classified into one of the following categories:

Level 1 – Fair value is determined using unadjusted quoted prices in active markets for identical assets or liabilities accessible on the measurement date.

Level 2 – Fair value is determined using quoted prices in inactive markets or significant observable inputs (including, but not limited to, quoted prices for similar investments, interest rates, foreign exchange rates, volatility and credit spreads), either directly or indirectly. These inputs may be derived principally from, or corroborated by, observable market data through correlation or by other means.

Level 3 – Fair value is determined using unobservable inputs, including situations where there is little market activity, if any, for the asset or liability.

The fair value hierarchy level within which a fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The availability of valuation techniques and observable inputs may vary and is affected by factors such as the type of security, whether the security is established in the marketplace and market liquidity. Inputs used to measure fair value may require significant judgment or estimation, and CalSTRS may use models or other valuation methodologies to estimate fair value. Accordingly, the degree of judgment exercised by CalSTRS in estimating fair value is greatest for assets and liabilities categorized in Level 3.

Fair Value Leveling Hierarchy
(Dollars in Thousands)

		Fair Value Measurements Using		
	June 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investments by Fair Value Level				
Debt Securities				
Asset-Backed Securities	$429,710	$-	$356,324	$73,386
Corporate Bonds	11,147,940	-	11,124,214	23,726
Foreign Government Issues	970,591	-	970,591	-
Mortgage-Backed Securities	8,452,786	-	8,449,926	2,860
Municipal Securities	198,506	-	198,506	-
U.S. Government and Agency Obligations	15,589,380	-	15,589,380	-
Short-Term Securities	3,849,394	313,418	3,535,976	-
Mutual Funds-Bond Funds	60,387	60,387	-	-
Guaranteed Annuity Contracts	282,326	-	-	282,326
Total Debt Securities	**40,981,020**	**373,805**	**40,224,917**	**382,298**
Equity Securities				
Common Stocks	105,731,011	105,377,097	342,099	11,815
Depository Receipts	2,842,502	2,834,749	-	7,753
Mutual Funds-Stock Funds	1,713,090	1,713,090	-	-
Preferred Stocks	424,990	420,411	4,579	-
Real Estate Investment Trusts	3,098,831	3,084,687	14,144	-
Total Equity Securities	**113,810,424**	**113,430,034**	**360,822**	**19,568**
Alternative Investments				
Debt-Privately Held	8,204	-	-	8,204
Equity-Privately Held	181,942	-	-	181,942
Real Estate-Directly Held	16,951,450	-	-	16,951,450
Total Alternative Investments	**17,141,596**	**-**	**-**	**17,141,596**
Derivative Instruments				
Forwards	113,909	-	113,909	-
Futures	7,651	7,651	-	-
Options	7,932	-	7,932	-
Rights and Warrants	2,246	1,137	1,109	-
Swaps	6,276	-	6,276	-
Total Derivative Instruments	**138,014**	**8,788**	**129,226**	**-**
Securities Lending Collateral	**14,814,442**	**973,195**	**13,841,247**	**-**
Total Investment Assets Recorded at Fair Value	**$186,885,496**	**$114,785,822**	**$54,556,212**	**$17,543,462**
Investments Measured at Cost				
Short-Term Securities	401,804			
Securities Lending Collateral	3,376,853			
Total Investments Measured at Cost	**3,778,657**			
Investments Measured at NAV				
Debt-Privately Held	2,255,646			
Equity-Privately Held	27,187,643			
Real Estate-Non-Directly Held	9,798,431			
Total Investments Measured at NAV	**39,241,720**			
Total Investment Assets	**$229,905,873**			
Liabilities:				
Investments by Fair Value Level				
Derivative Instruments				
Forwards	240,823	-	240,823	-
Futures	13,207	13,207	-	-
Options	2,882	-	2,882	-
Swaps	3,221	-	3,221	-
Total Derivative Instruments	**260,133**	**13,207**	**246,926**	**-**
Total Investment Liabilities Recorded at Fair Value	**$260,133**	**$13,207**	**$246,926**	**$-**
Total Net Investments	**$229,645,740**			

Level 1 measurements are generally valued at the official closing price (usually the last trade price) or the last bid price on the security's primary exchange. Such investments generally include common stock, REITs, depository receipts, and mutual funds.

Level 2 measurements are generally valued using indicative prices from vendors, brokers or ask prices. These indicative measurements often use matrix pricing, the Black-Scholes-Merton model or a lattice model and incorporate observable inputs such as yield, prepayment speeds, credit spreads, volatility curves or currency curves. Such investments generally include debt securities, bonds and over-the-counter derivatives. Other factors such as infrequent trading, inactive market or adjusted quoted prices may also result in Level 2 measurements.

Level 3 measurements are generally valued using significant inputs that are unobservable to the marketplace. This may occur if an investment is illiquid or is internally estimated. For CalSTRS, such investments primarily include directly held real estate. Properties are appraised using discounted cash flows, income capitalization, adjusted comparable sales and replacement cost (if recent) methods. The method chosen is the one most relevant to how an investor would assess a property as a potential buyer.

Debt Securities

Certain debt securities have an active market for identical securities and are valued using the close or last traded price on a specific date. Debt securities that are not as actively traded are valued by pricing vendors using modeling techniques that include market observable inputs as well as unobservable inputs required to develop a fair value. Typical inputs include recent trades, yields, price quotes, cash flows, maturity, credit ratings and other assumptions based upon the specifics of the investment type.

Short-term investments are reported at fair value or at cost or amortized cost. For those investments which are reported at fair value, the investments are valued using similar methodologies as debt securities traded in active markets.

Bond mutual funds offered by Voya and TIAA are open-ended funds that are priced daily at NAV based generally upon the exchange traded official closing price of the securities held by the funds. CalSTRS allocation in the Voya annuity contracts is carried at contract value, which approximates fair value.

Equity Securities

The majority of equity securities held by CalSTRS are actively traded on major stock exchanges. These exchanges make information on trades of securities available daily on a last trade or official close basis. If such information is not available, other pre-established means are used to determine a price. Stock mutual funds, held in the STRP and Pension2, are open-ended funds that are priced daily at NAV by the fund sponsor based generally upon the exchange traded official closing price of the securities held by the fund.

Alternative Investments

Partnership interests are valued using their respective NAV calculated in accordance with the general partner's fair valuation policy as of the measurement date and are audited annually. The most significant input into the NAVs of such an entity is the fair value of its investment holdings, which are typically valued on a quarterly or semi-annual basis by the general partners. The valuation assumptions are based upon the nature of the investment and the underlying business. The valuation techniques vary by investment type and involve a certain degree of expert judgment.

Corporate Governance funds structured as limited partnerships have been valued using the NAV of the entity, with the most significant input into the NAV being the value of its investment holdings. The general partners obtain prices for their holdings in a manner similar to that described above for CalSTRS Global Equity holdings.

Investments in real estate directly held assets are subject to independent third-party appraisals performed annually in accordance with the Uniform Standards of Professional Appraisal Practice. On a quarterly basis, fair values are estimated by the third-party advisor or operating partner using general market and property-specific assumptions, which are reviewed by CalSTRS valuation consultant. Leverage may be used to enhance investment returns as set forth in the CalSTRS Real Estate Investment Policy. See Note 5 regarding the disclosure relating to Real Estate leverage.

Real estate investments in non-directly held limited partnership interests in commingled funds are valued by CalSTRS using the NAV of the partnership provided by the general partner. The most significant input into the NAV of such an entity is the fair value of its investment holdings. These holdings are valued using the general partners' fair valuation policy on a continuous basis, audited annually and periodically appraised by an independent third-party as directed by the governing document for each commingled fund investment. The valuation assumptions use both market and property-specific inputs.

Derivative Instruments

The fair value of exchange-traded derivative instruments such as futures, options, rights and warrants are determined based on the quoted market prices or mean prices. The fair value of derivative instruments that are not exchange-traded such as swaps is determined by external pricing services.

Futures contracts are exchange-traded financial instruments that derive their value from underlying securities, indices or reference rates and are marked-to-market at the end of each day. The fair value of futures variation margins are accounted for as unrealized appreciation or depreciation until the contract is closed.

The fair value of the foreign currency forward contracts is the unrealized gain or loss calculated based on the difference between the specified exchange rate and the closing forward rate as of June 30, 2017.

Investment in Certain Entities that Calculate Net Asset Value Per Share

CalSTRS measures certain investments that do not have a readily determinable fair value using NAV as a practical expedient. These investments are generally structured as limited partnerships with an investment manager and are created by raising pools of capital from investors that will be invested according to one or more specific investment strategies. Investors commit capital to the fund, and as the investment manager identifies investment opportunities, the committed capital is called to purchase the investments.

NAV is calculated using measurement principles similar to investment companies. CalSTRS updates the NAV for cash contributions, cash distributions and changes in the fair value of the underlying investments using capital account statements and estimates if the NAV is not updated as of the reporting date. CalSTRS does not currently have any plans to sell any of these investments before their stated term.

The following table displays information regarding investments that use NAV per share (or equivalent) as their fair value measurement:

NAV Practical Expedient
(Dollars in Thousands)

	Fair Value June 30, 2017	Total Unfunded Commitments	Redemption Frequency if Currently Eligible	Redemption Notice Period
Debt-Privately Held[1]	$2,255,646	$1,325,468	N/A	N/A
Equity-Privately Held				
Private Equity Funds[2]	16,505,084	9,911,025	N/A	N/A
Corporate Governance Funds[3]	3,104,610	237,251	N/A, Annually	60-120 days
Other[4]	7,577,949	30,000	Monthly, Quarterly	2-90 days
Real Estate-Non-Directly Held				
Real Estate Funds[5]	6,626,748	3,295,937	N/A	N/A
Other[6]	3,171,683	61,453	Quarterly, Annually	30-90 days
Total Investments Measured at NAV	**$39,241,720**	**$14,861,134**		

[1]This category includes private equity funds that invest in privately held debt, such as distressed debt and mezzanine debt. CalSTRS investment in each fund is generally not subject to redemption and is normally returned through distributions as a result of the liquidation of the underlying assets over a weighted-average period of approximately nine years as of June 30, 2017.

[2]This category includes private equity funds that invest in nonmarketable securities of private companies, which ultimately may become public in the future and whose strategies include leveraged buyouts, expansion capital and venture capital. Generally, CalSTRS investment in each fund in this category may not be subject to redemption and is normally returned through distributions as a result of the liquidation of the underlying assets over a weighted-average period of approximately nine years as of June 30, 2017.

[3]This category includes funds that invest strategically in publicly traded equities of companies on U.S. and non-U.S. exchanges to achieve capital appreciation and income. The funds in this category are generally subject to a lockup period before redemption is permissable. Investments representing 11.3 percent and 75.3 percent of the value of the investments in this category can be redeemed annually and at the end of a three-year or rolling three-year period, respectively. The remaining 13.4 percent of the value of the investments in this category is not subject to redemption and is normally returned through distributions as a result of the liquidation of the underlying assets.

[4]This category includes funds that invest primarily in equities, fixed income securities, opportunistic and other funds. Investments representing 92.8 percent and 7.2 percent in this category can be redeemed monthly and quarterly, respectively, upon written notice.

[5]This category includes funds that invest directly in real estate and real estate related assets, including retail, industrial, office, residential and hotels. Generally, CalSTRS investment in each fund in this category may not be subject to redemption and is normally returned through distributions as a result of the liquidation of the underlying assets over a weighted-average period of approximately five years as of June 30, 2017.

[6]This category includes open-ended funds that invest directly in real estate and real estate related assets, including retail, industrial, office, residential and hotels. Investments representing 93.1 percent and 6.9 percent in this category can be redeemed quarterly and annually, respectively, upon written notice.

7. CONTINGENCIES

CalSTRS is involved in litigation relating to various matters. In the opinion of management, after consultation with legal counsel, the outcome of these matters is not expected to have a material adverse effect on CalSTRS financial statements.

8. COMMITMENTS

In connection with the purchase of partnership interests under various investment portfolios, CalSTRS has remaining unfunded commitments of approximately $25.0 billion as of June 30, 2017.

The following table depicts the unfunded commitments by asset strategy:

Asset Class / Strategy	Unfunded Commitments (Dollars in Thousands)
Global Equity (Corporate Governance)	$237,251
Inflation Sensitive (Infrastructure)	1,218,068
Innovative Strategies	239,932
Private Equity	13,878,530
Real Estate	9,445,273
Total	**$25,019,054**

These unfunded commitments include agreements for acquisition not yet initiated, which are not included in the NAV Practical Expedient table. Real Estate unfunded commitments include joint ventures, which are directly held investments. Real Estate's total unfunded commitment amount of $9.4 billion is composed of discretionary and non-discretionary amounts of $5.3 billion and $4.1 billion, respectively. Discretionary contractual arrangements provide CalSTRS the ability to cancel or redirect its investment commitment.

Medicare Premium Payment Program

Under current board policy, assets are set aside from the future employer contributions to the DB Program to fund the MPP Program. The assets set aside are equal to the actuarial obligation of the MPP Program less the value of any assets already in the program. As of June 30, 2016, the future employer contributions committed to funding the MPP Program totaled $315 million, which equals the projected cost of the program.

This amount is a funding measure that assumes the value of these contributions will be available to fund the MPP Program benefits in future periods, as the assets currently in the program are not sufficient to fund the projected future benefits. This differs from the net OPEB liability as of June 30, 2017, of $420.7 million, which was measured in accordance with GASB Statement No. 74 and represents the actuarial present value of projected benefit payments that is attributable to the MPP Program participants.

9. NEW ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, addresses reporting by OPEB plans that administer benefits on behalf of governments. This statement replaces GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB Statement No. 74 improves financial reporting primarily through enhanced note disclosures and schedules of required supplementary information presented by OPEB plans within its scope. The new information enhances the decision-usefulness of the financial reports of these OPEB plans, their value for assessing accountability, and their transparency by providing information about measures of net OPEB liabilities and explanations of how and why those liabilities changed from year to year. The provisions of this statement have been implemented in the financial statements for the year ended June 30, 2017.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, addresses reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. GASB Statement No. 75 replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement requires governments to report a liability on the face of the financial statements for the OPEB that they provide by reporting, according to specified criteria, either a net OPEB liability, their proportionate share of the collective OPEB liability or the total OPEB liability related to their employees. GASB Statement No. 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information about their OPEB liabilities. The provisions in this statement are effective for fiscal years beginning after June 15, 2017. Management is evaluating the impact of the adoption of this standard on our financial statements.

GASB Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*, improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The requirements of this statement are effective for reporting periods beginning after June 15, 2016. Management evaluated GASB Statement No. 80 and determined it does not have an effect on CalSTRS' financial reporting.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this statement are effective for reporting periods beginning after December 15, 2016. Management is evaluating GASB Statement No. 81 and its impact to CalSTRS financial reporting and, if applicable, will implement it in the financial statements for the fiscal year ending June 30, 2018.

GASB Statement No. 83, *Asset Retirement Obligations* (AROs), addresses accounting and financial reporting for certain AROs. An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. GASB Statement No. 83 establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. Recognition is required to occur when the liability is both incurred and reasonably estimable. The requirements of this statement are effective for reporting periods beginning after June 15, 2018. Management is evaluating GASB Statement No. 83 and its impact to CalSTRS financial reporting and, if applicable, will implement it in the financial statements for the fiscal year ending June 30, 2019.

GASB Statement No. 84, *Fiduciary Activities*, establishes criteria that determine whether a government is controlling the assets of the fiduciary activity and the beneficiaries with whom a fiduciary relationship exists. The requirements of this statement are effective for reporting periods beginning after December 15, 2018. Management is evaluating GASB Statement No. 84 and its impact to CalSTRS financial reporting and, if applicable, will implement it in the financial statements for the fiscal year ending June 30, 2020.

GASB Statement No. 85, *Omnibus 2017*, specifically addresses timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus, recognizing on-behalf payments for pensions or OPEB in employer financial statements, presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB, and various other topics. The requirements of this statement are effective for reporting periods beginning after June 15, 2017. Management is evaluating GASB Statement No. 85 and its impact to CalSTRS financial reporting and, if applicable, will implement it in the financial statements for the fiscal year ending June 30, 2018.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, improves consistency in accounting and financial reporting for elimination of reported debt by providing guidance for transactions in which cash and other monetary assets previously acquired are placed in an irrevocable trust for the sole purpose of extinguishing debt. The requirements of this statement are effective for reporting periods beginning after June 15, 2017. Management is evaluating GASB Statement No. 86 and its impact to CalSTRS financial reporting and, if applicable, will implement it in the financial statements for the fiscal year ending June 30, 2018.

GASB Statement No. 87, *Leases*, increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities that previously were classified as operating leases. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. Management is evaluating GASB Statement No. 87 and its impact to CalSTRS financial reporting and, if applicable, will implement it in the financial statements for the fiscal year ending June 30, 2021.

Required Supplementary Information (Unaudited)

SCHEDULE OF CHANGES IN NET PENSION LIABILITY OF EMPLOYERS AND NONEMPLOYER CONTRIBUTING ENTITY

(Dollars in Millions) **Schedule I**

State Teachers' Retirement Plan

Year ended June 30[1]	2017	2016	2015	2014
Total Pension Liability				
Service Cost	$6,064	$5,874	$5,556	$5,338
Interest	20,227	19,332	18,556	17,822
Differences between expected and actual experience	399	(1,209)	(1,312)	-
Changes of assumptions[6]	19,988	-	-	-
Benefit payments, including refunds of member contributions	(13,903)	(13,149)	(12,565)	(12,035)
Net Change in Total Pension Liability	32,775	10,848	10,235	11,125
Beginning Total Pension Liability	**269,994**	**259,146**	**248,911**	**237,786**
Ending Total Pension Liability (a)	**302,769**	**269,994**	**259,146**	**248,911**
Plan Fiduciary Net Position				
Member Contributions	3,441	2,957	2,510	2,264
Employer Contributions	4,173	3,391	2,678	2,272
State Contributions	2,478	1,940	1,426	1,383
Net Investment Income	25,165	2,305	7,612	30,402
Other Income	72	42	4	2
Benefit Payments, including Refunds of Member Contributions	(13,903)	(13,149)	(12,565)	(12,035)
Administrative Expense	(182)	(180)	(145)	(154)
Borrowing Costs	(58)[4]	-	-	-
Other Expenses	(10)	(15)	(10)	(9)
Net Change in Plan Fiduciary Net Position	**21,176**	**(2,709)**	**1,510**	**24,125**
Beginning Plan Fiduciary Net Position (as previously stated)	**189,113**	**191,822**	**190,474**	**166,349**
Adjustment For Application of GASB 68[2]	**-**	**-**	**(162)**	-
Beginning Plan Fiduciary Net Position (as adjusted)	**189,113**	**191,822**	**190,312**	**166,349**
Ending Plan Fiduciary Net Position (b)	**210,289[5]**	**189,113**	**191,822**	**190,474**
Ending Net Pension Liability of Employers and the State (a) - (b)[3]	**$92,480**	**$80,881**	**$67,324**	**$58,437**

[1]This is a 10-year schedule. However, the information in this schedule is not available for periods prior to fiscal year 2013–14. Years will be added to this schedule in future fiscal years until 10 years of information is available.

[2]An adjustment was made to the STRP due to the implementation of GASB Statement No. 68, which resulted in a decrease in the beginning net position for fiscal year 2014-15.

[3]The Net Pension Liability for fiscal year 2013–14 does not include a $161.9 million reduction to the net position as a result of CalSTRS implementation of GASB Statement No. 68.

[4] Borrowing costs of $58 million associated with the master credit facility portfolio, which were previously recorded within Net Investment Income, have been reclassified for the year ended June 30, 2017.

[5]This schedule is rounded for presentation purposes. The STRP fiduciary net position is $210,289,900,000 on the financial statements.

[6] The assumptions used in determining the Total Pension Liability of the STRP changed as a result of the actuarial experience study for the period starting July 1, 2010 and ending June 30, 2015. The assumption changes were to price inflation, wage growth, discount rate and the mortality tables.

SCHEDULE OF NET PENSION LIABILITY OF EMPLOYERS AND NONEMPLOYER CONTRIBUTING ENTITY

(Dollars in Millions) **Schedule II**

State Teachers' Retirement Plan

Year Ended June 30[1]	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	NPL of Employers and the State (a - b)	Plan Fiduciary Net Position as a Percentage of Total Pension Liability (b/a)	Covered Payroll (c)	NPL of Employers and the State as a Percentage of Covered Payroll (a-b)/c
2017	$302,769[5]	$210,289[4]	$92,480	69%	$34,126	271%
2016	269,994	189,113	80,881	70%	31,910	253%
2015	259,146	191,822	67,324	74%	32,026[2]	210%
2014	248,911	190,474	58,437[3]	77%	27,486	213%

[1]This is a 10-year schedule. However, the information in this schedule is not available for periods prior to fiscal year 2013–14. Years will be added to this schedule in future fiscal years until 10 years of information is available.

[2]In fiscal year 2013–14, CalSTRS reported pensionable compensation as part of GASB Statement No. 67 implementation. In fiscal year 2014–15, GASB clarified the requirement to be covered-employee payroll, which includes both pensionable and non-pensionable compensation. In fiscal year 2015–16, GASB No. Statement 82 was issued, which amended GASB Statements No. 67 and 68, to instead require the presentation of covered payroll, which is pensionable compensation. The covered payroll amount for fiscal year 2014–15 is $30.5 billion.

[3]The Net Pension Liability for fiscal year 2013–14 does not include a $161.9 million reduction to the net position as a result of CalSTRS' implementation of GASB Statement No. 68.

[4]This schedule is rounded for presentation purposes. The STRP fiduciary net position is $210,289,900,000 on the financial statements.

[5] The assumptions used in determining the Total Pension Liability of the STRP changed as a result of the actuarial experience study for the period starting July 1, 2010 and ending June 30, 2015. The assumption changes were to price inflation, wage growth, discount rate and the mortality tables.

SCHEDULE OF PENSION CONTRIBUTIONS FROM EMPLOYERS AND NONEMPLOYER CONTRIBUTING ENTITY

(Dollars in Millions) **Schedule III**

The information presented in this schedule for the STRP is required for defined benefit pension plans.

State Teachers' Retirement Plan

Year Ended June 30[1]	Actuarially Determined Contributions (a)	Legally Required Contributions for Employers and the State	Employer Contributions[2][3] (b)	State Contributions[4] (c)	Total Contributions (b + c)	Contribution Deficiency (excess) a - (b + c)	Covered Payroll (d)	Contributions as % of Covered Payroll (b + c)/d
2017	$7,959	$6,651	$4,173	$2,478	$6,651	$1,308	$34,126	19%
2016	7,748	5,318	3,378	1,940	5,318	2,430	31,910	17%
2015	7,707	4,093	2,667	1,426	4,093	3,614	32,026[5]	13%
2014	7,158	3,641	2,258	1,383	3,641	3,517	27,486	13%

[1]This is a 10-year schedule. However, the information in this schedule is not available for periods prior to fiscal year 2013–14. Years will be added to this schedule in future fiscal years until 10 years of information is available.

[2]Excludes $13.3 million, $13.5 million, $12.5 million and $14.5 million for fiscal years 2016–17, 2015–16, 2014–15 and 2013–14, respectively, in contributions to separately finance specific liabilities, such as benefit enhancements, of an individual employer.

[3]Includes employer contributions under Education Code Sections 22711, 22713, 22905, 22950, 22951, 24260 and 26503.

[4]Includes state contributions under Education Code Sections 22954 and 22955, as well as Public Resources Code Section 6217.

[5]In fiscal year 2013–14, CalSTRS reported pensionable compensation as part of GASB Statement No. 67 implementation. In fiscal year 2014–15, GASB clarified the requirement to be covered-employee payroll, which includes both pensionable and non-pensionable compensation. In fiscal year 2015–16, GASB Statement No. 82 was issued, which amended GASB Statements No. 67 and 68, to instead require the presentation of covered payroll, which is pensionable compensation. The covered payroll amount for fiscal year 2014–15 is $30.5 billion.

Methods and Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contribution (ADC) for the STRP for 2017 presented in this Schedule of Pension Contributions from Employers and Nonemployer Contributing Entity was determined based on the assumptions used in the June 30, 2015 actuarial valuation. The following actuarial methods and assumptions were used to determine the ADC:

	State Teachers' Retirement Plan[1]
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Payroll Basis
Amortization Period	Closed/Open[2]
Remaining Amortization Period	30 years
Asset Valuation Method	Adjustment to market value
Actuarial Assumptions:	
Investment Rate of Return	7.50%[3]
Interest on Accounts	4.50%
Wage Growth	3.75%
Consumer Price Inflation	3.00%
Postretirement Benefit Increases	2.00% simple

[1]The assumptions shown above are for the ADC of the DB Program. For the portion of the STRP ADC attributable to the DBS, CBB and SBMA programs, contributions recognized on an accrual basis for the current year have been used.

[2]The actuarial gains/losses and the unfunded actuarial obligation are amortized over a closed period for the DB Program, in contrast to the use of an open amortization period for the DBS and CBB programs.

[3]The actuarially determined contribution for the fiscal year ending June 30, 2017 was calculated based on the economic and demographic assumptions in place for the funding actuarial valuation as of June 30, 2015. This valuation was performed using a 7.50 percent assumed investment rate of return, net of investment and administrative expenses. For financial reporting purposes, the Net Pension Liability (shown in Note 3) was calculated using new actuarial assumptions adopted in 2017 which included an assumed rate of return of 7.10 percent, net of investment expenses but gross of administrative expenses.

SCHEDULE OF MONEY-WEIGHTED INVESTMENT RETURNS FOR STATE TEACHERS' RETIREMENT PLAN AND MEDICARE PREMIUM PAYMENT PROGRAM

Schedule IV

State Teachers' Retirement Plan	
Year Ended June 30[1]	**Money-Weighted Rate of Return, Net of Investment Expenses**
2017	13.4%
2016	1.2%
2015	4.1%
2014	18.6%

[1]This is a 10-year schedule. However, the information in this schedule is not available for periods prior to fiscal year 2013–14. Years will be added to this schedule in future fiscal years until 10 years of information is available.

Medicare Premium Payment Program[1]	
Year Ended June 30[2]	**Money-Weighted Rate of Return, Net of Investment Expenses**
2017	0.9%

[1]The funds within the MPP Program as of the June 30, 2017, were to manage differences between estimated and actual amounts to be paid and were invested in the Surplus Money Investment Fund, which is a pooled investment program administered by the State Treasurer.

[2]This is a 10-year schedule. However, the information in this schedule is not available for periods prior to fiscal year 2016–17. Years will be added to this schedule in future fiscal years until 10 years of information is available.

SCHEDULE OF CHANGES IN NET OPEB LIABILITY OF EMPLOYERS

(Dollars in Thousands) **Schedule V**

Medicare Premium Payment Program

Year ended June 30[1]	2017
Total OPEB Liability	
Interest	$12,928
Differences Between Expected and Actual Experience	(41)
Changes of Assumptions	(31,240)
Benefit Payments, including Refunds of Member Contributions	(28,929)
Net Change in Total OPEB Liability	(47,282)
Total OPEB liability—beginning	468,031
Total OPEB liability—ending (a)	420,749
Plan Fiduciary Net Position	
Employer Contributions	29,117
Net Investment Income	11
Premiums Paid	(28,929)
Administrative Expense	(168)
Net Change in Plan Fiduciary Net Position	31
Beginning Plan Fiduciary Net Position	10
Ending Plan Fiduciary Net Position (b)	41
Ending Net OPEB Liability of Employers (a) - (b)	**420,708**

[1]This is a 10-year schedule. However, the information in this schedule is not available for periods prior to fiscal year 2016–17. Years will be added to this schedule in future fiscal years until 10 years of information is available.

SCHEDULE OF NET OPEB LIABILITY OF EMPLOYERS

(Dollars in Thousands) **Schedule VI**

Medicare Premium Payment Program

Year Ended June 30[1]	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability of Employers (a - b)	Plan Fiduciary Net Position as a Percentage of Total OPEB Liability (b/a)	Covered Payroll[2] (c)	Net OPEB Liability of Employers as a Percentage of Covered Payroll (a-b)/c
2017	$420,749	$41	$420,708	0.01%	N/A	N/A

[1]This is a 10-year schedule. However, the information in this schedule is not available for periods prior to fiscal year 2016–17. Years will be added to this schedule in future fiscal years until 10 years of information is available.

[2]As of June 30, 2012, active members are no longer eligible for future enrollment in the MPP Program; therefore, the covered payroll disclosure is not applicable.

Other Supplemental Information

SCHEDULE OF ADMINISTRATIVE EXPENSES

(Dollars in Thousands) **Schedule VII**

	State Teachers' Retirement Plan	Pension2 IRC 403(b) Plan	Pension2 IRC 457(b) Plan	Medicare Premium Payment Program	Teachers' Deferred Compensation	Totals
Personnel Services:						
Salaries and Wages	$64,102	$-	$-	$150	$467	$64,719
Staff Benefits	13,697	-	-	40	164	13,901
Accrued Pension and OPEB Expense	20,245	-	-	36	(69)	20,212
Total Personnel Services	**98,044**	**-**	**-**	**226**	**562**	**98,832**
Operating Expenses and Equipment:						
General	1,167	-	-	(70)	95	1,192
Depreciation/Amortization	9,573	-	-	-	-	9,573
Printing	602	-	-	-	9	611
Communications	962	-	-	-	-	962
Postage	912	-	-	-	-	912
Insurance	303	-	-	-	-	303
Travel	856	-	-	-	22	878
Training	781	-	-	-	-	781
Facilities Operations	15,456	-	-	-	-	15,456
Consultants and Professional Services	27,971	1,975	79	-	800	30,825
Information Technology	11,697	-	-	-	-	11,697
Indirect State Central Services	9,317	-	-	12	54	9,383
Equipment	4,595	-	-	-	-	4,595
Other	131	-	-	-	-	131
Total Operating Expenses and Equipment	**84,323**	**1,975**	**79**	**(58)**	**980**	**87,299**
Total	**$182,367**	**$1,975**	**$79**	**$168**	**$1,542**	**$186,131**

SCHEDULE OF INVESTMENT EXPENSES

(Dollars in Thousands) **Schedule VIII**

	Contract Start Date	Amount
Investment Management Fees		
Aberdeen Asset Management, Inc.	12/15/06	$2,413
AGF Investments America, Inc.	3/19/07	934
Analytic Investors, LLC	9/1/14	451
AQR Capital Management Holdings, LLC	12/1/14	13,181
Arrowstreet Capital, Ltd.	8/1/15	5,177
Baillie Gifford Overseas, Ltd.	1/15/06	6,319
Bivium Capital Partners, LLC	2/15/08	2,469
BlackRock Financial Management, Inc.	3/12/07	6,100
BlackRock Institutional Trust, N.A.	10/27/98	2,040
Capital Prospects, LLC	2/15/08	(149)
Chicago Equity Partners	11/1/98	377
Columbia Management Investment Advisers, LLC	10/1/11	1,195
Credit Suisse Asset Management, LLC	9/1/11	1,491
Delaware Investment Advisors	11/1/98	2,096
FDO Partners, LLC	1/1/10	2,744
Fidelity Institutional Asset Management Trust Co.	2/1/00	2,583
First Quadrant, LP	11/1/98	740
FIS Group, Inc.	2/27/04	2,501
Gateway Investment Advisers, LLC	12/1/14	229
Generation Investment Management	3/19/07	25,129
Geneva Capital Management, LLC	5/1/16	1,194
JP Morgan Investment Management, Inc	1/1/14	4,298
Lazard Asset Management, LLC	5/18/99	12,104
Leading Edge Investment Advisors, LLC	2/15/08	2,214
Lee Overlay Partners, Ltd.	10/15/09	2,762
LM Capital Group, LLC	12/1/06	867
Lyxor Asset Management, Inc.	8/1/16	3,544
Millennium Global Investments, Ltd.	7/1/10	3,750
Mondrian Investment Partners, Ltd.	5/13/99	12,960
Northern Trust Global Advisors, Inc.	1/23/04	(158)
Oechsle International Advisors, LLC	5/19/99	2,768
Parametric Portfolio Associates, LLC	12/1/14	316
Post Advisory Group, LLC	1/31/02	1,612
Progress Investment Management	2/15/08	2,808
Pzena Investment Management, LLC	7/1/15	3,217
QS Investors, LLC	5/11/99	1,558
Sasco Capital, Inc.	10/30/98	775
Schroder Investment Management	9/1/14	5,754
Silvercrest Asset Management	7/1/11	1,428
State Street Bank & Trust Co	12/1/00	4,533
Sterling Capital Management, LLC	3/11/04	1,693
T. Rowe Price Associates, Inc.	1/15/06	5,977
Templeton Asset Management, Ltd.	5/18/99	3,403
UBS Global Asset Management (Americas)	5/12/99	(9)

SCHEDULE OF INVESTMENT EXPENSES

(Dollars in Thousands) **Schedule VIII (Continued)**

	Contract Start Date	Amount
Western Asset Management Co.	10/30/06	$3,589
Miscellaneous	N/A	5
Total Investment Management Fees		**$160,982**
Advisors and Consultants		
Altus Group U.S., Inc.	7/1/15	609
Bard Consulting, LLC	9/20/07	990
Bickmore Risk Services and Consulting	12/1/14	117
Callan Associates	9/20/07	197
Cambridge Associates, LLC	5/31/14	2,826
Courtland Partners, Ltd.	9/20/07	53
Crosswater Realty Advisors, LLC	6/1/16	37
David L. Bonuccelli & Associates, Inc.	9/20/07	2,276
Lyxor Asset Management, Inc.	8/1/11	1,300
Meketa Investment Group, Inc.	1/1/12	1,003
ORG Portfolio Management, LLC	5/1/16	19
Pavilion Alternatives Group, LLC	1/1/12	1,186
Pension Consulting Alliance, LLC	6/1/14	637
The Townsend Group, Inc.	3/1/13	365
Valuation Research Corporation	8/1/01	195
Total Advisors and Consultants		**$11,810**
External Services-Legal and Attorney Fees		
BLA Schwartz, PC	11/1/13	498
Covington & Burling, LLP	4/20/11	149
Cox, Castle & Nicholson, LLP	11/30/09	3,079
Girard Gibbs, LLP	1/1/11	20
Grant & Eisenhofer	9/1/10	16
Jackson Walker, LLP	7/30/15	540
Morgan, Lewis & Bockius, LLP	12/9/10	520
Pepper Hamilton, LLP	4/1/11	74
Proskauer, LLP	3/9/11	827
Reed Smith, LLP	7/1/15	346
Sheppard Mullin Richter & Hampton, LLP	4/5/10	161
Miscellaneous	N/A	9
Total External Services-Legal and Attorney Fees		**$6,239**
Master Custodian		
State Street Bank & Trust Co	7/1/01	3,002
Total Master Custodian		**$3,002**
Research and Rating Services		
Accounting Research & Analytics, LLC	1/1/17	25
Activist Insight, Ltd.	9/1/16	15

SCHEDULE OF INVESTMENT EXPENSES

(Dollars in Thousands) **Schedule VIII (Continued)**

	Contract Start Date	Amount
CEM Benchmarking, Inc.	1/1/16	$ 70
Cornerstone Macro, LP	1/1/17	69
CoStar Portfolio Strategy, Inc.	7/1/16	68
CPR & CDR Alpha, LLC	3/1/17	60
Creditsights, Inc.	12/30/16	26
Equilar, Inc.	7/1/16	42
eVestment Alliance, LLC	8/1/16	29
FactSet Research System, Inc.	7/1/16	716
Glass Lewis & Co., LLC	6/1/17	255
GNA Services, LLC	1/1/17	25
ICE Benchmark Administration	7/1/16	16
IdealsWork, Inc.	7/1/16	12
Informa Investment Solutions	1/12/17	24
Institutional Shareholder Services	7/20/16	87
KDP Investment Advisors, Inc.	10/1/16	37
London Stock Exchange PLC	1/1/16	64
Management CV, Inc.	2/1/17	15
Moody's Investors Service	1/1/17	252
MSCI ESG Research, Inc.	10/1/15	120
MSCI, Inc.	7/1/16	218
PEI Media, Ltd.	3/28/17	14
Preqin Limited	5/31/16	58
Real Estate Research Corporation	7/1/15	138
Russell Investment Group	7/1/16	40
Standard & Poor's	7/1/16	485
Strategas Securities, LLC	7/1/16	63
Style Research, Inc.	5/15/17	101
Sustainable Investments Institute	7/1/16	29
Sustainalytics U.S., Inc.	1/1/17	10
Technical Analysis Group, LLC	2/3/17	28
Thomson Reuters Markets, LLC	7/1/16	147
Trepp, LLC	7/1/16	86
Trucost PLC	7/1/16	59
Miscellaneous	N/A	16
Total Research and Rating Services		**$3,519**
Risk Management Systems		
Barclays Bank PLC	7/1/16	112
BlackRock Financial Management, Inc.	7/1/06	6,126
MSCI, Inc. d/b/a Barra, LLC	4/1/17	104
Total Risk Management Systems		**$6,342**
Trading Systems		
Bloomberg, LP	3/1/16	919
Fixed Income Clearing Corporation	7/1/16	11

SCHEDULE OF INVESTMENT EXPENSES

(Dollars in Thousands) **Schedule VIII (Continued)**

	Contract Start Date	Amount
Intex Solutions, Inc.	9/1/16	$160
IPC Systems, Inc	9/15/16	29
Market Axess Corporation	7/1/16	16
Markit N.America Inc. / Markit Group	7/1/13	186
Omgeo, LLC	11/1/09	20
Miscellaneous	N/A	19
Total Trading Systems		**$1,360**
Operating Expenses		
Administrative Costs		34,803
Aon Risk Insurance		1,339
Council of Institutional Investors		30
Total Operating Expenses		**$36,172**
Subtotal		**$229,426**
Other Investment Expenses		
Foreign Tax Withheld		52,776
Real Estate		407
Broker Commissions		25,051
Miscellaneous		7,122
Total Other Investment Expenses		**$85,356**
Total		**$314,782**

SCHEDULE OF CONSULTANT AND PROFESSIONAL SERVICES EXPENSES

(Dollars in Thousands) **Schedule IX**

Individual or Firm	Commission/Fee	Nature of Services
State Teachers' Retirement Plan		
Cheiron, Inc.	$150	
Milliman, Inc.	572	
Segal Consulting	169	
	$891	**Actuarial Services**
Crowe Horwath, LLP	2,310	
KPMG, LLP	309	
Macias, Gini & O'Connell, LLP	152	
	$2,771	**Auditing Services**
22nd Century Technologies, Inc.	94	
Acuity Technical Solutions	135	
Advologix.com, LLC	24	
Agile Global Solutions, Inc.	31	
Aon Hewitt Invest Consulting, Inc.	104	
Background Profiles, Inc.	15	
Business Advantage Consulting, Inc.	194	
CEB, Inc.	83	
CEM Benchmarking Inc.	45	
CGI Technologies and Solutions Inc.	30,377	
Ciber, Inc.	2,606	
Cloud Services Integrators, Inc.	150	
Daniel J. Edelman, Inc.	130	
Deloitte & Touche, LLP	2,459	
Deloitte Consulting, LLP	705	
Department Of General Services	31	
Department Of Human Resources	29	
Digital Deployment, Inc.	65	
Dr. Robert Yetman	91	
Entisys 360, Inc.	143	
ePlus Technology, Inc.	274	
Estrada Consulting Inc	146	
Eventus Solutions Group, LLC	52	
ExamWorks, Inc.	71	
Forrester Research, Inc.	389	
Gartner, Inc.	246	
GoldLink Pacific, Inc.	589	
GovDelivery, LLC	88	
Government Operations Agency	170	
Grant Thornton, LLP	618	
Guardian Protection Force, Inc.	54	
Image Access Corp	15	
Infinite Solutions Inc.	13	
InfoCap Networks, LLC	129	

SCHEDULE OF CONSULTANT AND PROFESSIONAL SERVICES EXPENSES

(Dollars in Thousands) **Schedule IX (Continued)**

Individual or Firm	Commission/Fee	Nature of Services
Infojini, Inc.	$137	
IntelliSurvey	95	
International Network Consulting	476	
Iron Mountain	11	
Jaykumar Maistry	169	
KPMG, LLP	494	
LexisNexis	18	
Linea Solutions, Inc.	241	
Macias, Gini & O'Connell, LLP	190	
Mailing Systems, Inc.	46	
MaritzCX Research, LLC	25	
Matthew Bender & Company, Inc.	17	
Maximus Human Services, Inc.	2,483	
McLagan Partners, Inc.	159	
MG Systems and Software, LLC	424	
Montridge Consulting	161	
Morningstar, Inc.	11	
Natl Disability Evaluations, Inc.	75	
Nexus IS, Inc.	37	
NTT DATA, Inc.	375	
O.C. Tanner Recognition Company	39	
Oak Technical Services, LLC	330	
OnCore Consulting, LLC	270	
Pension Benefit Information, Inc.	24	
Pinnacle Consulting	229	
Providence Technology Group	436	
R Systems Inc.	156	
Sierra Metrics, Inc.	128	
Sirsi Corporation	17	
SouthTech Systems, Inc.	14	
State Controller's Office	1,500	
State Personnel Board	27	
SupportFocus, Inc.	186	
Thomas V. Ennis Consulting	180	
Thomas/Ferrous, Inc.	135	
University Enterprises, Inc.	186	
Vasquez & Company, LLP	187	
Vector Consulting, Inc.	121	
Visionary Integration Professionals	1,167	
	$51,341	**Consulting Services**
California Department Of Justice	664	
Hogan Lovells US, LLP	240	
Kaplan & Walker LLP	12	
Klinedinst, PC	59	

SCHEDULE OF CONSULTANT AND PROFESSIONAL SERVICES EXPENSES

(Dollars in Thousands) **Schedule IX (Continued)**

Individual or Firm	Commission/Fee	Nature of Services
Murphy Austin Adams Schoenfeld, LLP	$110	
Olson, Hagel & Fishburn, LLP	17	
Pillsbury Winthrop Shaw Pittman LLP	71	
Reed Smith, LLP	32	
Shaw Law Group, PC	11	
Shaw Valenza, LLP	11	
Sheppard Mullin Richter & Hampton	1,748	
	$2,975	**Legal Services**
Fresno County Office Of Education	317	
Humboldt County Office Of Education	40	
Kern County Office of Education	181	
Placer County Office Of Education	107	
San Diego County Office Of Education	150	
Santa Barbara County Office of Education	140	
Santa Cruz County Office of Education	152	
	$1,087	**Regional Counseling Services**
Others	69	
	$69	**Various Services Under $10K**
Gross Consulting and Professional Services	**$59,134**	
Less: Amounts Capitalized	31,163	
Consulting and Professional Services Net of Amounts Capitalized:	**$27,971**	
IRC 403(b) Plan		
TIAA	34	
Voya Institutional Plan	1,941	
Consulting and Professional Services:	**$1,975**	**Administrative Services**
IRC 457(b) Plan		
TIAA	1	
Voya Institutional Plan	78	
Consulting and Professional Services:	**$79**	**Administrative Services**
Teachers' Deferred Compensation Fund		
22nd Century Technologies, Inc.	19	
Jem Resource Partners, LP	461	
Meridian Wealth Management	11	
MG Systems and Software, LLC	3	
Morningstar, Inc.	61	
OnCore Consulting, LLC	245	
Consulting and Professional Services:	**$800**	**Consulting Services**