California State Teachers' Retirement System Investment Reports

December 31, 2011

Introduction

The California State Teachers' Retirement System (CalSTRS) is required to report to the Legislature on specific areas regarding the Teachers' Retirement Fund's investments and CalSTRS actions as they relate to specific investments and holdings. This report is submitted in compliance with the direction of the following statutes:

- Chapter 442, Statutes of 2006 (AB 2941-Koretz) - Sudan.
- Chapter 671, Statutes of 2007 (AB 221-Anderson) - Iran.
- Chapter 341, Statutes of 1999 (SB 105-Burton) - Northern Ireland.
- Chapter 216, Statutes of 1999 (SB 1245-Hayden) - World War II Slave Labor.

Background on CalSTRS

With over 98 years of experience, CalSTRS is one of the nation's oldest teacher pension systems. CalSTRS' members include California public school employees, pre-kindergarten through community college, who teach, are involved in the selection and preparation of instructional materials, or are supervising persons engaged in those activities. CalSTRS members are employed by approximately 1,400 school districts, community college districts, county offices of education, and regional occupational programs. CalSTRS is administered by a 12-member Teachers' Retirement Board (Board). The Board sets the policies and is responsible for ensuring benefits are paid by the system in accordance with the law. The Board is comprised of:

- Three member-elected positions representing current educators;
- A retired CalSTRS member appointed by the Governor and confirmed by the Senate;
- Three public representatives appointed by the Governor and confirmed by the Senate;
- A school board representative appointed by the Governor and confirmed by the Senate; and
- Four board members who serve in an ex-officio capacity by virtue of their office.

One of the Board's key core values is to ensure the strength of the retirement system by proactively addressing the risks of investing. The value permeates the investment portfolio, where the Board has adopted the Investment Policy for Mitigating Environmental, Social, and Geopolitical Risks (ESG). The policy requires managers to consider 21 separate risk factors when investing for CalSTRS. A copy of the policy is included as Attachment A.

Teachers' Retirement Fund

The Teachers' Retirement Fund (Fund), from which CalSTRS benefit payments are made, is valued at about $145 billion as of November 30, 2011. Historically, investment returns have contributed roughly two-thirds of the costs of the educators' defined benefit retirement plan. The Board's investment actions reflect a policy of investing on a long-term basis. This is done in a comprehensive, measured manner. In July 2011, the CalSTRS Board adopted its long-term target investment asset allocation:

Global Equity	47 percent
Fixed Income	20 percent
Real Estate	15 percent
Private Equity	12 percent
Inflation Sensitive	5 percent
Cash	1 percent

At that time, the CalSTRS Board also reviewed and updated its 10-year financial plan. Although future events may arise that would require adjustment to the plan, having a plan insures easier management of unexpected shifts. The development of a long-term plan is relatively new ground for public pension plans; most of CalSTRS' peers only plan year-to-year through the traditional budget process. The specific components of the plan will be incorporated as needed into the discussion within this paper, and the plan in its entirety is included as Attachment B.

Strategic Response: Policy Review

CalSTRS has contracted with ISS, a division of MSCI (formerly known as: RiskMetrics) to provide data on World War II Forced Labor and companies with operations in Northern Ireland. CalSTRS had contracted with two external service providers (KLD and RiskMetrics) to provide it with monthly research on companies with possible ties or exposure to Iran and Sudan specific investments and holdings. However, in late 2009 RiskMetrics purchased KLD, and subsequently RiskMetrics was purchased by MSCI. MSCI is currently rebranding the service back to ISS. For some time after the merger, the two groups continued to provide independent research on Iran and Sudan. ISS completed the combination of the research groups in 2011 at which time CalSTRS contracted with IW Financial to be our secondary provider of information relating to Iran and Sudan.

In addition to the service providers, CalSTRS also receives information from governmental and non-governmental organizations (NGOs), such as the Conflict Risk Network (formerly the Sudan Divestment Task Force), Amnesty International, Human Rights Watch, the American Israel Public Affairs Committee (AIPAC), the Government Accounting Office (GAO), and other public pension plans. The information from these sources is compiled, vetted, and compared to the CalSTRS portfolio. After reviewing the information, staff determine which companies potentially meet the criteria of the statutes.

The companies identified are then presented to the ESG Risk Committee (formerly the Geopolitical Investments Review Committee). In 2011, the Geopolitical Investments Review Committee was expanded to review all environmental, social, and geopolitical risks to the Fund and renamed the ESG Risk Committee. Additionally, the committee was expanded from fixed income and equity to include representatives of all asset classes and operations. The ESG Risk Committee consists of 12 senior staff members: the Chief Investment Officer, the Deputy Chief Investment Officer, two staff members from Global Equities, two staff members from Fixed Income, two staff members from Corporate Governance, one staff member from Private Equity, one staff member from Real Estate, one staff member from Operations, and one staff member from the Innovation and Risk Group. The Committee reviews the companies identified to determine if they meet the requirements of the law. Companies that are determined to meet the requirements of the law are placed on restricted or related securities lists as noted in this report. After placing the companies on the respective lists, the list of restricted securities is sent out to all of CalSTRS' managers.

Additionally, CalSTRS engages with all of the companies on the Sudan and Iran related securities lists in which it has holdings. When a company is added to the list, they receive a letter requesting information on their ties to the respective investments and holdings (Attachments C & D). In addition to the letter requesting information, CalSTRS makes every attempt to have senior investment staff meet with senior executives of the company. All the companies are sent a letter requesting an update of the company's operations in those restricted areas specified in statute (Attachments E & F).

In addition to the companies in its portfolio, CalSTRS continually monitors its portfolio for the companies it does not hold that have been designated as possibly problematic. If securities of these companies enter the portfolio, the ESG Risk Committee is notified, and the engagement process is started. Additionally, the Private Equity and Real Estate groups are updated with the lists of restricted securities, and they review their portfolios to monitor for possible related securities.

Additionally, CalSTRS will continue to work with groups such as the Conflict Risk Network, United Nations Principles for Responsible Investment (UNPRI), and Global Compact to improve transparency and encourage corporations to act responsibly when dealing with conflict prone areas.

Planned Actions

CalSTRS intends to maintain its relationships with independent research providers and to continue to review publicly available information regarding investments with ties to the restricted areas. CalSTRS also plans to continue the research and engagement process indefinitely. If there are investments in the portfolio that fall within the terms of the statutes and the Board finds that it is consistent with its fiduciary duty, those investments will be eliminated.

CalSTRS Response to Sudan Risk

Process

Though AB 2941 was not signed until September of 2006, CalSTRS had already identified a list of 24 companies with some level of business operations in Sudan. The legislation defined "active business operations" to mean a company engaged in business operations that provide revenue to the government of Sudan or a company engaged in oil-related operations. Those distinctions provided assessment framework and supported the qualitative aspect of CalSTRS process. The initial list was divided into four sections of various levels of involvement and holding levels. The list is fluid, and at any time, there will be companies that are in the "Being Reviewed" or second tier, and companies in the "Being Monitored" or third tier. The initial list was based on the list contained in the April 2006 Investment Committee agenda item published by the University of California Regents. The initial list has been updated based on data provided by CalSTRS independent research contractors, NGOs, and engagement work.

Tactical Response: Investments Identified

At the June 2006 Teachers' Retirement Board meeting, staff presented a list of 24 investments that could have ties to Sudan. Companies were placed on the Sudan related securities list in one of four sections: Restricted Companies, Companies Being Monitored, Companies Being Reviewed, or Non-Holdings That Possibly Meet the Divestment Criteria. The list critically focused on 10 companies that fell within the definition of the statute. Since that time, three companies have been removed from the list and two companies have been added. Currently, nine companies are subject to the most severe restrictions under the law. As of October 4, 2008, the CalSTRS portfolio has been free of PetroChina, Petronas, Sinopec (Kunlun Energy, formerly CNPC Hong Kong), and MISC Bhd, all of which were restricted under the Sudan Divestment law. Additionally, the CalSTRS portfolio has restricted and has no holding in Bharat Heavy Electricals, Dongfeng Motor Group, Oil and Natural Gas Company of India, PECD Berhad, or Sudan Telecom.

In addition to the nine restricted companies, CalSTRS has identified four companies in its portfolio that have ties to Sudan but do not meet the requirements for divestment. CalSTRS maintains these companies on its list as "Being Monitored" status (third tier category) and continues to engage them to confirm they keep with their commitments and their status does not change. Currently, there are no companies in the second tier or "Being Reviewed" category (determining if criteria for divestment is met).

Over the past year, CalSTRS has removed five companies that were in either the "Being Reviewed" or "Being Monitored" categories for ties to Sudan. While these companies have been removed, they continue to be monitored by our third party vendors and will be subject to the law if new information comes forward. Moreover, CalSTRS continues to monitor the portfolio for both investments with new ties or companies with existing ties entering the portfolio. Attachment G lists the companies in all four categories.

Lastly, all asset classes were reviewed for any investments that could have ties to Sudan. Only the Global Equities asset class was found to have investments potentially affected by the legislation.

Actions Taken

CalSTRS staff have continued to engage with the companies on the Sudan related securities list. In addition to engaging with individual companies, CalSTRS is a founding member and serves on the advisory board of the Conflict Risk Network. The Conflict Risk Network is the successor to the Sudan Divestment Task Force. The network is intended to increase responsible foreign investment and leverage the influence of members in areas afflicted by genocide and other atrocities. Additionally, CalSTRS continues to be a member of the expert group working on responsible investment in conflict-affected areas. The project was a collaborative effort between the UNPRI and Global Compact to develop a set of best practices regarding stakeholder and corporate engagement when companies operate in conflict prone areas, such as Sudan.

CalSTRS Response to Iran Risk

Process

As directed by legislation, CalSTRS identified and created a list of companies noted as having some level of or possible business ties to Iran, such as operations in the oil, nuclear, or defense industries. These distinctions provided the assessment framework and supported the qualitative aspect of CalSTRS' process. The initial CalSTRS list was divided into three sections of various levels of involvement and holding levels. The list was based on the information provided by independent research providers, NGOs, and engagement work.

The initial list has been updated, and currently, companies that are determined to meet the requirements of the law are placed on the list in one of three sections: Restricted Companies, Companies Being Monitored, or Companies Being Reviewed.

Tactical Response: Investments Identified

The initial list comprised the names of 23 companies identified as having some level of business ties to Iran. The list was presented to the Board in June 2008 and included three companies that were already restricted under the Sudan Divestment law, 18 companies that were under review, and two companies that were being monitored but were not CalSTRS holdings.

At this time, CalSTRS has 19 investments identified as having ties to Iran. Currently, six companies are subject to the most severe restrictions under the law. As of October 4, 2008, CalSTRS' portfolio was free of PetroChina, Petronas, Sinopec (Kunlun Energy, formerly CNPC Hong Kong), and MISC Bhd, all of which were restricted under Chapter 442, Statutes 2006 (AB 2941-Koretz) the Sudan Divestment law. Additionally, the CalSTRS portfolio has restricted and has no holding in Oil and Natural Gas Company of India and Daelim Industrial Co. PTT was moved from the "Restricted" list to the "Being Monitored" list after taking significant steps toward, and committing to, ending their ties to Iran.

In addition to the six "Restricted" companies, there are 10 companies in the "Being Reviewed" or second tier category (determining if criteria for divestment are met). Staff have been engaging with these companies to determine if they fall within the terms of the statute to divest, if the Board determines it would be consistent with its fiduciary responsibility. After the review is complete, these companies will either be classified as "Restricted," "Being Monitored," or removed from the list.

Lastly, CalSTRS has identified three companies in its portfolio that have ties to Iran but do not meet the requirements for divestment. CalSTRS maintains these companies as "Being Monitored" (third tier) and continues to engage them to confirm they keep with their commitments and their status does not change.

Over the past year, CalSTRS has removed 23 companies that were in either the "Being Reviewed" or "Being Monitored" categories for ties to Iran. While these companies have been removed, they continue to be monitored by our third party vendors and will be subject to the law if new information comes forward. Moreover, CalSTRS continues to monitor the portfolio for both investments with new ties or companies with existing ties entering the portfolio. Attachment H lists the companies in all four categories.

All asset classes were reviewed for any investments that could have ties to Iran. Only the Global Equities and Fixed Income asset classes were found to have investments potentially affected by the legislation.

Actions Taken

CalSTRS has continued to monitor the situation with regards to Iran and engage companies identified as having ties to the country. Over the past year, CalSTRS staff have met with identified companies in Fort Worth, Chicago, New York, and Beijing.

CalSTRS Report on Northern Ireland Related Securities

Process

CalSTRS contracted with the ISS, a division of MSCI, to provide a list of companies with business operations in Northern Ireland and those companies' efforts toward substantial action relating to affirmative action in Northern Ireland. In addition, CalSTRS has consistently voted in favor of shareholder proposals relating to companies' operations in Northern Ireland.

Companies with Exposure to Northern Ireland

The following list is comprised of companies that have been identified as having ties to Northern Ireland. CalSTRS has determined that it holds $1,909,286,928 worth of equity with exposure to Northern Ireland, which represents 2.64 percent of CalSTRS' equity holdings. Additionally, CalSTRS holds $1,129,238,749 worth of bonds with exposure to Northern Ireland, which represents 4.02 percent of its fixed income portfolio. In total CalSTRS holds $3,038,525,677 worth of securities with exposure to Northern Ireland, which represents 2.09 percent of the total fund.

CalSTRS has identified 20 holdings, representing 18 companies, it believes have not made substantial action toward the goals of inclusiveness in Northern Ireland. CalSTRS has sent a letter to each of the companies requesting they take actions toward inclusiveness in Northern Ireland (Attachment I).

Company Name	Security Type	Shares/Par Value	Market Value
Abertis Infraestructuras SA	Stock	347,862	$5,542,030
C&C Group PLC	Stock	280,082	$1,149,949
Canon Inc.	Stock	2,407,205	$106,049,737

Charter International Plc	Stock	238,880	$3,499,742
France Telecom SA	Stock	2,462,428	$42,429,423
Fred Olsen Energy ASA	Stock	29,438	$986,438
Genting Singapore PLC	Stock	5,705,673	$6,702,078
HCL Technologies Limited	Stock	135,165	4993,704
Hutchison Whampoa Limited	Stock	2,411,577	$20,237,335
J D Wetherspoon PLC	Stock	122,383	$832,300
Kyocera Corp	Stock	183,351	$15,966,157
Mouchel Group Plc	Stock	18,373	$3,540
Saipem S.p.A.	Stock	925,710	$41,185,091
The Capita Group Plc	Stock	533,352	$5,284,791
TNT N.V.	Stock	338,928	$2,442,296
Willis Group Holdings Limited	Stock	532,644	$18,781,027
WPP Plc	ADR	72,400	$3,798,828
WPP Plc	Stock	2,190,203	$23,010,929
WPP Plc	Bonds	2,400,000	$2,348,801
Yell Group PLC	Stock	965,960	$75,963
		Stock	$299,172,530
		ADR's	$3,798,828
		Bonds	$2,348,801
		Total	$305,320,159

CalSTRS has identified 82 holdings, representing 62 companies, that have exposure to Northern Ireland but have taken substantial action by adopting the MacBride principles or have global human rights policy that substantially contains the principle of MacBride.

Company Name	Security Type	Shares/Par Value	Market Value
Adecco SA	Stock	114,183	$4,945,442
Akzo Nobel NV	Stock	215,299	$10,874,228
Allianz SE	Stock	507,244	$52,564,004
Anglo American PLC	Stock	1,495,620	$56,927,444
Anglo American PLC	Bonds	7,700,000	$8,976,991
Associated British Foods plc	Stock	310,240	$5,411,313
Axa SA	Stock	1,778,265	$25,661,668
Axa SA	Bonds	7,370,000	$6,937,616
Banco Santander, S.A.	Stock	8,674,314	$65,379,142
Banco Santander, S.A.	ADR	42,400	$2,828,504
Banco Santander, S.A.	Bonds	5,800,000	$5,749,096
Bank of Ireland	Stock	16,789,921	$2,080,676

Barclays PLC	Stock	14,794,275	$41,941,339
Barclays PLC	Bonds	96,120,000	$96,283,113
Barloworld Ltd	Stock	963,800	$8,616,036
Bombardier Inc.	Stock	1,467,389	$5,455,353
Bombardier Inc.	Bonds	2,635,000	$2,849,086
BT Group PLC	Stock	9,597,103	$28,679,204
BT Group PLC	Bonds	15,000,000	$21,737,359
BUNZL PLC	Stock	286,028	$3,733,877
Celesio AG	Stock	132,664	$2,115,348
Coca-Cola Hellenic Bottling Company S.A.	Stock	158,733	$2,429,525
Coca-Cola Hellenic Bottling Company S.A.	Bonds	8,000,000	$8,534,515
Compass Group PLC	Stock	2,539,070	$23,521,407
CRH PLC	Stock	758,891	$14,525,747
CRH PLC	Bonds	15,000,000	$15,310,307
Danske Bank A/S	Stock	583,689	$8,135,480
DCC PLC	Stock	77,919	$1,886,778
De La Rue plc	Stock	171,368	$2,447,310
Deutsche Lufthansa AG	Stock	227,103	$2,939,142
Deutsche Post AG	Stock	844,030	$12,742,386
Diageo PLC	Stock	2,511,028	$53,790,055
Diageo PLC	ADR	52,421	$4,487,762
Diageo PLC	Bonds	18,701,000	$22,012,098
Fujitsu Ltd	Stock	2,234,673	$11,514,482
G4S Plc	Stock	1,234,314	$4,971,742
Glanbia Plc	Stock	202,851	$1,259,725
Home Retail Group plc	Stock	756,403	$1,065,944
HSBC Holdings PLC	Stock	20,257,460	$157,203,275
HSBC Holdings PLC	Bonds	320,433,000	$320,490,559
Independent News & Media	Stock	38,865	$11,301
Johnston Press plc	Stock	125,190	$9,107
Kerry Group PLC	Stock	121,085	$4,526,857
Kingfisher PLC	Stock	2,549,977	$10,251,099
Kone Oyj	Stock	221,107	$12,426,608
Kuehne & Nagel International AG	Stock	76,808	$9,358,905
Lafarge SA	Stock	199,608	$7,276,461
Lafarge SA	Bonds	5,000,000	$5,211,667
Legal and General Group Plc	Stock	10,843,410	$18,094,834
Linde AG	Stock	155,848	$23,958,573

Lloyds Banking Group PLC	Stock	51,883,781	$20,257,890
Lloyds Banking Group PLC	Bonds	12,160,000	$12,066,387
Marks and Spencer Group PLC	Stock	1,586,319	$8,238,363
Metro AG	Stock	302,233	$14,880,579
Michelin (CGDE) B	Stock	237,947	$15,112,342
Mitchells & Butlers plc	Stock	208,697	$752,651
NEXT plc	Stock	167,413	$7,059,262
Nortel Networks Corporation	Bonds	1,635,000	$1,704,775
Nutreco N.V.	Stock	131,660	$8,618,012
Provident Financial PLC	Stock	108,709	$1,716,614
Randstad Holding NV	Stock	108,263	$3,367,283
Sainsbury (J) PLC	Stock	1,526,779	$7,300,004
Schlumberger N.V.	Stock	4,101,702	$308,981,211
Schlumberger N.V.	Bonds	2,760,000	$2,792,703
Signet Jewelers Limited	Stock	402,823	$17,837,002
Sodexo	Stock	81,864	$5,942,052
Telefonica S.A.	Stock	4,504,550	$84,771,954
Telefonica S.A.	Bonds	30,245,000	$30,967,968
Tesco PLC	Stock	11,810,493	$75,268,072
Thales SA	Stock	85,448	$2,695,631
The Royal Bank of Scotland Group PLC	Stock	15,399,571	$5,083,869
The Royal Bank of Scotland Group PLC	Bonds	300,215,487	$532,507,116
ThyssenKrupp AG	Stock	341,170	$8,781,169
Trinity Mirror PLC	Stock	114,588	$86,507
Tyco International Ltd.	Stock	1,436,339	$68,886,818
Tyco International Ltd.	Bonds	3,090,000	$4,076,274
Vodafone Group PLC	ADR	81,500	$2,212,725
Vodafone Group PLC	Stock	68,719,135	$190,100,180
Vodafone Group PLC	Bonds	25,889,212	$28,682,318
WH Smith PLC	Stock	139,975	$1,155,801
Wincanton PLC	Stock	20,099	$19,362
Zurich Financial Services AG	Stock	187,134	$41,142,134
		Stock	$1,596,786,579
		ADR's	$9,528,991
		Bonds	$1,126,889,948
		Total	$2,733,205,518

Shareholder Proposals Relating to Northern Ireland

In 2011, there were no shareholder proposals requesting implementation of the MacBride principles. In accordance with the law and CalSTRS fiduciary duty, CalSTRS generally votes for such proposals when placed on the ballot. CalSTRS will continue to support shareholder proposals related to operations in Northern Ireland when they are in line with CalSTRS fiduciary duties.

CalSTRS Report on Companies with Possible Exposure to World War II Forced Labor

Process

CalSTRS contracted with ISS, a division of MSCI, to provide a list of companies with potential exposure to forced labor reparations. CalSTRS compared the list to CalSTRS holdings in order to produce this report.

Companies with Potential Forced Labor Exposure

The following list is comprised of companies that have been identified as having a past tie to World War II forced labor. As noted above, not all of the portfolio companies are facing lawsuits over this behavior, but CalSTRS is presenting the global list for the purposes of the potential scope of the risk to the CalSTRS portfolio. CalSTRS has determined that it holds $2,220,092,924 worth of equity with exposure to World War II forced labor, which represents 3.07 percent of its equity holdings. Additionally, CalSTRS holds $749,294,674 worth of bonds with exposure to World War II forced labor, which represents 2.66 percent of its fixed income portfolio. In total CalSTRS holds $2,969,387,598 worth of securities with exposure to World War II forced labor, which represents 2.04 percent of the total fund.

CalSTRS has identified four holdings that are currently facing lawsuits or have previously adjudicated suits being appealed regarding their past involvement in forced labor. CalSTRS has sent a letter to each of the companies requesting they resolve all matters relating to forced labor (Attachment J).

Company Name	Security Type	Shares/Par Value	Market Value
Kajima Corporation	Stock	1,623,746	$4,789,873
Mitsubishi Materials Corp.	Stock	1,268,249	$3,447,128
Mitsui Mining and Smelting	Stock	509,626	$1,273,573
Taisei Corp.	Stock	2,129,827	$5,404,817
		Stock	$14,915,391
		Total	$14,915,391

CalSTRS has identified 14 holdings that have had cases filed against them that were either dismissed or rejected and have not had appeals filed or have run out of appeals.

Company Name	Security Type	Shares/Par Value	Market Value
Furukawa Co.	Stock	216,000	$175,293
Ishihara Sangyo Kaisha Ltd.	Stock	239,000	$270,926
Kawasaki Heavy Industries	Stock	1,527,298	$3,816,769
Mitsubishi Heavy Industries	Stock	3,266,978	$13,382,700
Mitsui & Co.	Stock	3,329,174	$50,690,244
Mitsui Engineering and Shipbuilding Co.	Stock	721,299	$1,077,814
Mitsui OSK Lines Ltd.	Stock	1,311,135	$4,036,600
Nippon Sharyo, Ltd.	Stock	45,000	$169,844
Nippon Steel Corp.	Stock	5,884,874	$13,872,626
Nittetsu Mining Co. Ltd.	Stock	41,000	$160,556
Sumitomo Chemical Co. Ltd.	Stock	1,907,726	$7,077,484
Sumitomo Heavy Industries	Stock	565,753	$3,315,955
Taiheiyo Cement Corp.	Stock	910,325	$1,723,789
UBE Industries Ltd.	Stock	1,730,003	$4,746,756
		Stock	$104,517,356
		Total	$104,517,356

CalSTRS has identified 26 holdings, representing 23 companies, which are accused of using forced labor or have evidence that they used forced labor but do not have any lawsuits filed against them. CalSTRS will continue to monitor these companies and contact them if lawsuits are filed.

Company Name	Security Type	Shares/Par Value	Market Value
Daido Steel Co. Ltd.	Stock	277,318	$1,812,105
Dow Chemical Co.	Stock	4,257,227	$117,967,760
Dow Chemical Co.	Bonds	42,000,000	$45,059,842
Hitachi Zosen	Stock	642,500	$819,368
Holcim	Stock	258,045	$14,416,951
Honeywell International Inc.	Stock	2,429,213	$131,541,883
Honeywell International Inc.	Bonds	12,000,000	$13,333,194
IHI Corp.	Stock	2,016,547	$4,571,844
Kloeckner Werke	Stock	91,610	$1,198,679
Mitsubishi Corp.	Stock	2,942,087	$58,781,102
Namura Shipbuilding Co. Ltd.	Stock	25,300	$96,142

Nippon Express	Stock	1,468,083	$5,465,361
Nippon Soda Co.	Stock	131,000	$538,310
Nissan Motor Co. Ltd.	Stock	3,311,868	$29,436,931
Nissan Motor Co. Ltd.	Bonds	5,000,000	$5,140,080
OC Oerlikon Corporation AG	Stock	150,586	$847,113
Pitney Bowes Inc.	Stock	505,613	$9,419,570
Saint-Gobain (Compagnie de)	Stock	515,286	$21,784,157
Shin-Etsu Chemical Co. Ltd.	Stock	647,752	$30,286,945
Showa Denko KK	Stock	1,515,480	$3,025,884
Sulzer AG	Stock	20,380	$2,268,301
Sumitomo Corp.	Stock	1,242,705	$16,120,107
Sumitomo Metal Industries Ltd.	Stock	8,931,757	$15,302,379
Toshiba	Stock	4,435,635	$19,826,940
Von Roll Holding Ltd.	Stock	35,402	$98,798
Yodogawa Steel Works Ltd.	Stock	136,000	$592,142
		Stock	$486,218,772
		Bonds	$63,533,116
		Total	$549,751,888

CalSTRS has identified 54 holdings, representing 40 companies, that have a past tie to World War II forced labor and have participated in, had a subsidiary participate in, or had a previous entity participate in a reparations program, such as the German "Remembrance, Responsibility and the Future" Foundation, the Swiss Banks settlement, or their own settlement agreement. Given the current judicial climate, it is unlikely (but not impossible) that they will face any further liabilities related to WWII forced labor.

Company Name	**Security Type**	**Shares/Par Value**	**Market Value**
ABB	Stock	3,444,470	$65,396,299
ABB	Bonds	7,000,000	$7,147,025
BASF AG	Stock	1,013,351	$73,719,137
BASF AG	ADR	15,100	$1,099,431
Bayer AG	Stock	979,041	$64,262,584
Bayerische Motoren Werke Aktiengesellschaft	Stock	591761	$44593632
Bayerische Motoren Werke Aktiengesellschaft	Preferred Stock	47747	$2502855
Beiersdorf AG	Stock	164,997	$9,445,261
Bucher Industries AG	Stock	5,583	$945,273
Continental AG	Stock	66,950	$4,721,637

Daimler AG	Stock	920,511	$41,647,708
Daimler AG	Bonds	23,340,000	$25,798,994
Deere & Co.	Stock	1,311,519	$103,937,881
Deere & Co.	Bonds	85,000,000	$86,051,151
Deutsche Bank AG	Stock	1,060,770	$40,860,962
Deutsche Bank AG	Bonds	381,500,000	$381,257,178
Deutz AG	Stock	80,812	$433,726
E.ON AG	Stock	1,973,397	$48,773,144
Eastman Kodak Co.	Stock	606,236	$654,735
Ford Motor Co.	Stock	10,687,174	$113,284,044
Ford Motor Co.	Bonds	28,985,000	$33,504,535
GEA Group AG	Stock	252,525	$7,444,613
General Motors Corp.	Stock	2,306,477	$49,104,894
General Motors Corp.	Bonds	614,000	$11,844
Georg Fischer AG	Stock	3,191	$1,177,145
Hochtief AG	Stock	43,782	$2,498,641
Jenoptik AG	Stock	65,711	$441,046
JFE Holdings	Stock	988,419	$17,685,353
Lonza Group AG	Stock	95,474	$5,853,375
MAN SE	Stock	141897	$12,265,054
Merck KGAA	Stock	141,762	$14,083,474
Nachi-Fujikoshi Corp.	Stock	155,000	$700,824
NCR	Stock	531,544	$9,296,705
Nestle SA	Stock	4,054,910	$227,884,026
Nippon Yakin Kogyo	Stock	60,000	$91,202
Nishimatsu Construction Co.	Stock	330,000	$522,865
Novartis AG	Stock	3,339,816	$179,587,400
Rheinmetall	Stock	32,230	$1,558,224
Roche Holding AG	Stock	954,420	$146,833,166
Roche Holding AG	Bonds	7,280,000	$8,597,559
Salzgitter AG	Stock	31,631	$1,634,011
Sanofi-Aventis	Stock	1,690,562	$114,246,348
Sanofi-Aventis	ADR	61,199	$2,142,577
Sanofi-Aventis	Bonds	7,280,000	$8,597,559
Sanofi-Aventis	Rights	40,800	$1,428,408
Siemens AG	Stock	1,031,740	$104,151,908
Solvay SA	Stock	52,041	$4,880,033
Teijin	Stock	1,050,154	$3,124,895

ThyssenKrupp AG	Stock	341,170	$8,781,169
Tui AG	Stock	166,000	$924,458
UBS	Stock	3,567,799	$43,825,735
UBS	Bonds	133,955,318	$134,795,713
Volkswagen AG	Stock	44,951	$6,807,466
Volkswagen AG	Preferred Stock	169,860	$29188081
		Stock	$1,578,080,053
		ADR	$3,242,008
		Preferred Stock	$31,690,936
		Rights	$1,428,408
		Bonds	$685,761,558
		Total	$2,300,202,963

Conclusion

As noted in this report, CalSTRS will continue to invest its funds in a responsible and prudent manner. CalSTRS will continue to implement the California statutes referenced in this report and adhere to the Board's Investment Policy for Mitigating Environmental, Social, and Geopolitical Risks.

CalSTRS continues to secure a strong retirement fund for the teachers of California while remaining consistent with its ethical responsibilities and fiduciary obligations. Thus, the philosophy of identifying and addressing risks is interwoven in the business goals of CalSTRS. CalSTRS' investment goals are to:

a) Achieve a rate of return on the total assets of the Fund that in the long run exceeds the actuarial discount rate used to value the liabilities of the State Teachers' Retirement Plan for funding purposes, so as to ensure that sufficient assets are available to meet the liabilities on an on-going basis.

b) Reduce the contributions required to fund those liabilities by maximizing the long-term investment return on assets at a level of risk that is acceptable to the Board.

c) Maintain a certain level of stability in pension contributions so as not to adversely impact the long-term viability of CalSTRS and its ability to continue to meet pension obligations.

d) Manage the investments of the Fund in a prudent manner so as to maintain the confidence of members as well as the general public in the California State Teachers' Retirement System.

Attachment A: Investment Policy for Mitigating Environmental, Social, and Geopolitical Risks (ESG)

PRINCIPLES

The fiduciary responsibility of the Board, as described in detail within the overall Investment Policy and Management Plan, is to discharge its responsibility in the sole and exclusive interest of the participants and beneficiaries in a manner that will assure the prompt delivery of benefits and related services.

CalSTRS invests a multi-billion dollar fund in a unique and complex social-economic milieu and recognizes it can neither operate nor invest in a vacuum. The System's investment activities impact other facets of the economy and the globe. As a significant investor with a very long-term investment horizon and expected life, the success of CalSTRS is linked to global economic growth and prosperity. Actions and activities that detract from the likelihood and potential of global growth are not in the long-term interests of the Fund. Therefore, consideration of environmental, social, and governance issues (ESG), as outlined by the CalSTRS 21 Risk Factors, are consistent with the Board fiduciary duties.

Consistent with its fiduciary responsibilities to our members, the Board has a social and ethical obligation to require that the corporations and entities in which securities are held meet a high standard of conduct and strive for sustainability in their operations. As an active owner, CalSTRS incorporates ESG into its ownership policies and practices.

Since CalSTRS is a long-term investor and may hold an investment in a corporation or entity for decade after decade, short-term gains at the expense of long-term gains are not in the best interest of the Fund. Sustainable returns over long periods are in the economic interest of the Fund. Conversely, unsustainable practices that hurt long-term profits are risks to the System's investment.

Since CalSTRS must invest huge sums of moneys for long periods of time to pay for future benefits promised to California Teachers, our actions to invest in securities of a corporation predominately reflects a judgment that the ownership will produce a sustainable rate of return which will make it an attractive investment and help CalSTRS meet its long-term obligations. It is important to note that CalSTRS ownership of a security in a company does not signify that CalSTRS approves of all of the company's practices or its products or that CalSTRS believes a particular company is an attractive investment since the security may be owned due to its membership in a particular index or for risk mitigation purposes.

Since 1978, CalSTRS has used a written policy, the Statement of Investment Responsibility (SIR), to navigate the complex landscape of ESG issues. The long history of this document is testimony to the national leadership of CalSTRS among pension funds in addressing ESG matters through a written policy. The SIR will continue its longevity as guidance on proxy voting; however this Policy now replaces the SIR as CalSTRS's preeminent policy on ESG matters.

POLICY

Geopolitical Risks and Social Risks: To help manage the risk of investing a global portfolio in a complex geopolitical environment, CalSTRS has developed a series of procedures to follow when faced with any major geopolitical and social issue as identified by the 21 risk factors. It is important to note that fiduciary standards do not allow CalSTRS to select or reject investments based solely on social criteria.

When faced with a corporate decision that potentially violates CalSTRS Policies; the Investment Staff, CIO and Investment Committee will undertake the following actions:

A. The CIO will assess the gravity of the situation both as an ESG risk and as to the System. The extent of the responsibility of the System to devote resources to address these issues will be determined by: 1) the number of shares held in the corporation, and 2) the gravity of the violation of CalSTRS Policies.

B. At the CIO's direction, the Investment Staff will directly engage corporate management to seek information and understanding of the corporate decision and its ramifications on ESG issues.

C. The CIO and investment staff will provide a report to the Investment Committee of the findings and recommend any further action of engagement or need to commit further System resources. The Investment Committee can marshal further resources given the gravity of the situation.

To assist CalSTRS Staff and external investment managers in their investment analysis and decision-making, CalSTRS has developed a list of 21 risk factors that should be included within the financial analysis of any investment decision. This list is not exhaustive and does not attempt to identify all forms of risk that are appropriate to consider in a given investment transaction; however they do provide a framework of other factors that might be overlooked. These risk factors should be reviewed for an investment in any asset class whether within the U.S. or across the globe.

CalSTRS expects all investment managers, both internal and external to assess the risk of each of the following factors when making an investment. The manager needs to balance the rate of return with all the risks including consideration of the specific investments exposure to each factor in each country in which that investment or company operates.

CALSTRS 21 RISK FACTORS
Monetary Transparency The long-term profitability by whether or not a country or company has free and open monetary and financial data, and its observance of applicable laws.
Data Dissemination The long-term profitability by whether or not a country is a member of the IMF (or similar organization) and satisfies the conditions for access, integrity, and quality for most data categories.
Accounting The long-term profitability by whether or not the accounting standards are formulated in accordance with International Accounting Standards or the U.S. Generally Accepted Accounting Principles.
Payment System: Central Bank The long-term profitability by whether the activities of a country's central bank encompass implementing and ensuring compliance with principles and standards which are established to promote safe, sound, and efficient payment and settlement systems.
Securities Regulation The long-term profitability by exposure to operations in countries that have not complied with IOSCO objectives, which provide investor protection against manipulation and fraudulent practices.
Auditing The investment's long-term profitability by whether or not the country uses International Standards on Auditing in setting national standards.
Fiscal Transparency The investment's long-term profitability by its exposure or business operations in countries that do not have not some level of fiscal transparency such as publication of financial statistics, sound standards for budgeting, accounting, and reporting.

Corporate Governance The investment's long-term profitability by whether or not the government recognizes and supports good corporate governance practices and whether it generally adheres to OECD principles.
Banking Supervision The investment's long-term profitability from its exposure to countries that have not endorsed/complied with the Basel Core Principles. An endorsement includes an agreement to review supervisory arrangements against the principles and bring legislation in line with the principles where necessary.
Payment System: Principles The investment's long-term profitability by whether a country complies with the 10 Core Principles for Systemically Important Payment Systems, which includes operational reliability, efficiency, real time settlement, final settlement in central bank money; and whether rules and procedures are clear and permit participants to understand the financial risks resulting from participation in the system.
Insolvency Framework The investment's long-term profitability from its business operations and activities in specific countries with regard to bankruptcy reform or insolvency legislation.
Money Laundering The investment's long-term profitability from exposure and whether or not a country has implemented an anti-money laundering regime in line with international standards; consideration should be given to compliance with the 40 recommendations in the Financial Action Task Force (FATF) on Money Laundering; and whether it is a member of FATF.
Insurance Supervision Whether or not a country has a regulatory framework in line with International Association of Insurance Supervisors (IAIS) Principles.
Respect for Human Rights The investment's long-term profitability from its business operations and activities in countries that lack or have a weak judicial System. Assess the risk to an investment's long-term profitability from its business operations and activities in a country that engages in or facilitates the following: arbitrary or unlawful deprivation of life, disappearance, torture and other cruel, inhuman, or degrading treatment or punishment, arbitrary arrest, detention, or exile, arbitrary interference with privacy, family, home, or correspondence, use of excessive force and violations of humanitarian law in internal conflicts. Consideration should be given to governmental attitude regarding international and non-governmental investigation of alleged violations of human rights.
Respect for Civil Liberties The investment's long-term profitability from operations, activities, and business practices in countries or regions that do not allow freedom of speech and press, freedom of peaceful assembly and association, freedom of religion, freedom of movement within the country, allowance for foreign travel, emigration, and repatriation.

Respect for Political Rights The investment's long-term profitability from business practices and activities in countries that do not allow their citizens the right to advocate for change to their government.
Discrimination Based on Race, Sex, Disability, Language, or Social Status The investment's long-term profitability from business practices and activities on discrimination, such as discrimination against women, children, and persons with disabilities, national/racial/ethnic minorities, or indigenous people.
Worker Rights The investment's long-term profitability from management and practices globally in the area of worker's rights; specifically the right of association, the right to organize and bargain collectively, prohibition of forced or bonded labor, status of child labor practices and minimum age for employment, acceptable work conditions, or human trafficking.
Environmental The investment's long-term profitability from activities and exposure to environmental matters such as; depleting or reducing air quality, water quality, land protection and usage, without regard for remediation. Consideration should be given to how a company is dealing with the impact of climate change, including whether the government is taking steps to reduce its impact, exacerbating the problem, or oblivious to the risk.
War/Conflicts/Acts of Terrorism The investment's long-term profitability from business exposure to a country or region that has an internal or external conflict, war, acts of terrorism or involvement in acts of terrorism, and whether the country is a party to international conventions and protocols.
Human Health The risk to an investment's long-term profitability from business exposure to an industry or company that makes a product which is highly detrimental to human health so that it draws significant product liability lawsuits, government regulation, United Nations sanctions and focus, and avoidance by other institutional investments.

CALSTRS

SUSTAINABILITY^2

CalSTRS Investments Branch Business Plans for Fiscal Year 2011-12

CalSTRS Investments Branch Value Statements

Respect

We strive to not only treat others as we would like to be treated, but to go the extra mile and treat others as *they* would like to be treated.

Personal Development

We support an individual's career and personal goals.

Balance

We encourage employees to balance a strong work ethic with interests outside of the office.

Worth

We strive to recognize everyone's efforts and contributions to the organization.

Challenge

We are honored to accept the challenges placed upon us and strive to create an innovative work environment.

Purpose

We work toward a common goal, thereby making a difference for others and ourselves.

Honesty

We are truthful to ourselves, to peers, to supervisors, the Board and to the organization; our word is our bond.

Attachment B

Table of Contents

CalSTRS Investments Branch Business Plans for Fiscal Year 2011-12

Attachment B

Investment Risk Climate - Fiscal Year 2011-12

Fiscal year 2010-11 is closing out to be one of the best years in the CalSTRS Investments Branch history. Our fiscal year investment return is around 20 percent, the second or third highest of all time. We were named the Large Public Pension Investment Manager of the Year by Institutional Investor magazine. It was the type of year you'd be national or world champs and, while most sports teams set a goal to repeat, we know very well in the investment business that the top is more of a mountain peak than a plateau. Stock market history shows, once at the top, there's typically a downside the next year. Look at the S&P 500 index in years following a positive 30 percent or greater year.

1936	33.92	1937	-35.02
1938	31.14	1939	-0.42
1945	36.41	1946	-8.07
1950	31.74	1951	24.02
1954	52.62	1955	31.55
1955	31.55	1956	6.56
1958	43.37	1959	11.98
1975	37.21	1976	23.85
1980	32.42	1981	-4.91
1985	32.16	1986	18.47
1989	31.68	1990	-3.12
1991	30.48	1992	7.64
1995	37.57	1996	22.95
1997	33.36	1998	28.57

Of the 14 years since the Great Depression that had a positive 30 percent return or more, five of the following years were negative and half were below the historic average for the U.S. stock market. In fact, if you toss out the go-go internet craze years in the late 1990's, the 12-year arithmetic average return is a paltry six percent. While at least positive, it is far from our expected return for U.S. stocks. With the European debt crisis, weak U.S. housing market and anemic global economy, it's not hard to be very worried about financial markets in fiscal year 2011-12.

With history and the current climate all pointing to a rough and tumble year, the theme for this year's Investments Branch business plan is straightforward and on the core mission: "**Make Money and Protect the Assets**".

Like most things in life, easier said than done. But the theme is core to our mission in the Investments office of achieving a 7.75 percent annual return and diversifying the assets to reduce risk. The annual goal starting fresh each July 1st is to make $10 billion dollars of profits. With our negative cash flow, that puts us right about on target to earn the actuarial assumed rate. It is also a neat slogan the staff can repeat and recall all year.

Make Money

So how do we go about making $10 billion in profits in what might be a very tough year. Obviously we can't squeeze that type of profit from a negative or flat global equity market, but we can deploy some strategies to make added profit over what the markets give us. First and foremost is to increase the amount of internally managed assets as has been discussed in the previous three Investment Committee meetings. Right off the bat, it will save us on fees which will improve the bottom line return. Both the Global Equity and Fixed Income business plans outline portfolios and ideas that can be managed internally at one tenth (1/10th) the cost of external money managers.

The second idea to help generate the $10 billion profit is to expand the Innovation portfolio. In fiscal year 2011-12, we will roll out the Global Macro hedge fund portfolio and initial allocation to commodities, as well as several other ideas. Individually, they are not large enough to move the needle for the Total Fund but, added together, they can help the bottom line. Steven Tong's Innovation and Risk business plan outlines just some of the ideas brewing in our laboratory.

The other new addition to the portfolio that may be very timely is the effort to increase our Inflation Sensitive assets within the Absolute Return portfolio. Led by Deputy CIO John Petzold, we will continue in fiscal year 2011-12 to expand the portfolio exposure to real assets and inflation linked investments. Several economists have predicted that, with the sheer size of the global monetary stimulus, inflation may increase in the near future. Similar to the Innovation portfolio, the sheer size of the exposure is not large enough compared to our huge asset base, but it may well serve as yet another push in the fiscal year to help generate the goal of $10 billion in profit.

Margot Wirth's Private Equity business plan and Trish Taniguchi's Global Equity business plan also outline areas that will help us generate our profit goal for the fiscal year. Michelle Cunningham outlines ideas to both protect the assets if interest rates do in fact rise during the year, but also ways to make money through different fixed income instruments.

Efforts in Fiscal Year 2011-12 to Protect the Assets

If our concerns for the next fiscal year prove out, we will be playing defense for most of the year. The key tool we have used historically is diversification across multiple assets; yet, as we have discussed several times, diversification is not as effective in this globally linked and daily connected world. To help, we have developed new tools; the new Risk Factors to not only measure market risks but, in the fall of 2011, outline strategies to help navigate the portfolio during turbulent times. These new risk strategies will be the core Investment Committee objective for the first half of fiscal year 2011-12. These could include expanding or enhancing policies to allow the use of more derivative instruments or wider ranges to allow a dynamic asset allocation overlay. At the center of all of these will be the effort to make the huge portfolio a bit more nimble in a highly dynamic investment climate.

The second protection effort and likely most critical next year, will be active asset allocation shifts to the Total Portfolio. To be very clear, we are not proposing market timing or short-term trading of the massive portfolio. The objective will be strategic tilts or over- and under-weights versus the target allocation to factor in long-term market conditions. An excellent example of this is the current minimum weighting in Fixed Income. With two red flags signaling risk factors, the slope of the yield curve and the historic low interest rates, it warrants an asset allocation tilt. Over the past six years, the TAAC (Tactical Asset Allocation Committee) comprised of the CIO, directors and portfolio managers, has been able to achieve added value with their tilts each and every year. But past performance does not foretell future results and this year maybe the most challenging of all. If the markets are as dynamic and soft as we fear, this team will be pressed more than ever to make timely and solid decisions that add considerable value to the portfolio. Within each director's business plan, they also attempt to assess the current risk within each asset class.

The third effort will be in the one asset class that has yet to recover from the global financial meltdown in 2008, real estate. With the simple and straightforward goal of "buying low and selling high" the Real Estate unit is going to continue to expand our core real estate portfolio in line with the Investment Committee's instructions. Since the asset class hasn't rebounded, it might be a bit more immune to fluctuations in the global equity markets. However, since real estate is pushed by the job market, a continued anemic economy may delay any price rebound. Mike DiRe's business plan outlines their plans to transition to the new real estate structure.

Year in and year out a key area we strive to protect the assets in is Corporate Governance. Anne Sheehan's business plan outlines core areas to help promote global best practices for corporations and across the financial industry. Another core area we use to protect the assets is by solid accounting and custody of the assets. Debra Smith's business plan details our best-in-class front and middle office systems for the Investments branch. Her largest endeavor is helping Robin Madsen modernize the back office accounting system. The Investment Accounting Project (IAP) must be completed by calendar year-end in order for the larger enterprise wide Corporate Accounting and Reporting Project (CARM) to begin implementing their solutions. The investment Branch has already spent considerable resources to help implement IAP and will do whatever it takes to get the project done by year end.

10 Year Financial Plan

Since 2002, the Investments branch has been developing and managing to a 10-year financial plan. Despite coming through one of the most volatile and difficult decades in financial history, the experiences fell within the plan and it served as an invaluable tool. As still one of the handful of pension plans to use a financial planning tool, CalSTRS remains a leader in planning our work and working our plan.

On the following pages, this plan is first and foremost conservative. The best piece of evidence to prove that point is that it assumes that, with the same size assets as two of our present day peers, CalSTRS will manage the same amount of money with 2/3rds the staff and at 3/4ths of the total cost. While internal staff pushes for a more aggressive plan, the budget officials push for a more conservative plan; therefore, this is a nice balance and is acknowledged to be lean compared to U.S. and global peers. The model assumes a lower growth of personnel (PY's – personnel years) than prior plans. This is to maintain the approximate economies of scale as assets grow. It also assumes that external investment fees grow. While one would hope fees decline over time, we have found that not to be the case over the past 20 years. In fact, new strategies and innovative ideas have proven to be very expensive, at an average of 200 basis points of cost.

Attachment B

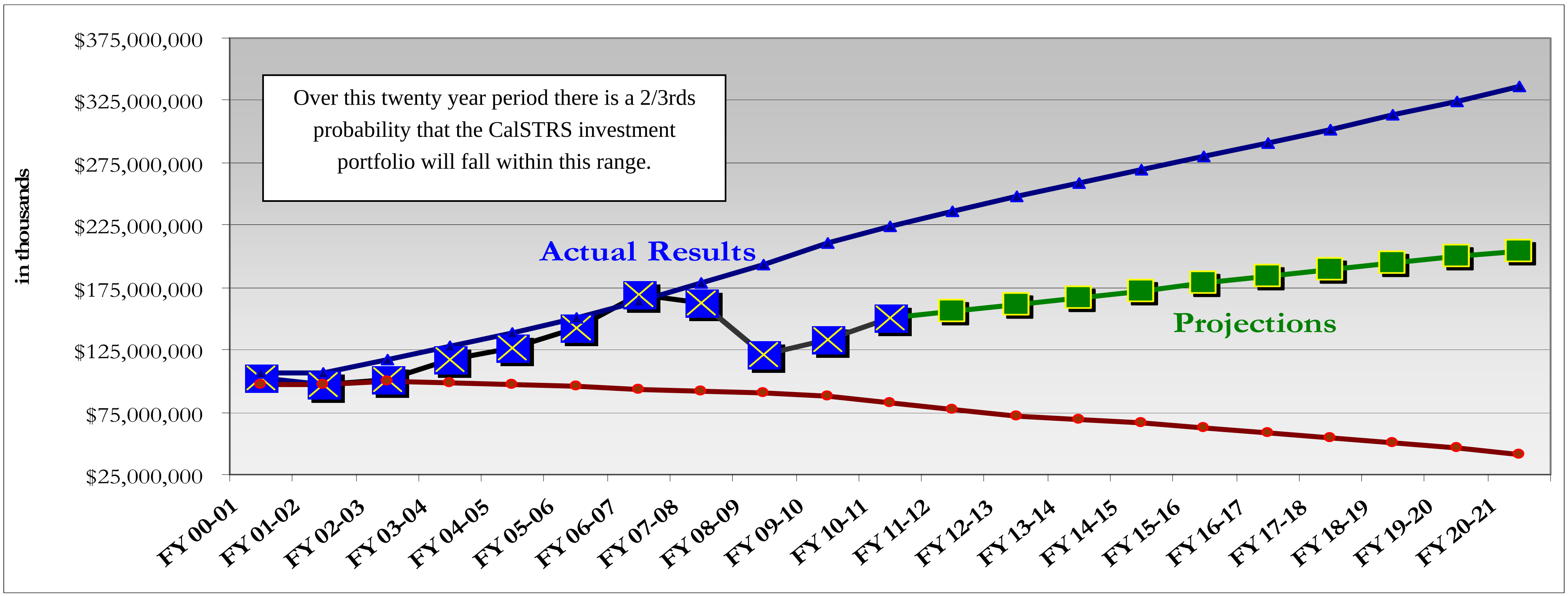
Portfolio Growth Forecast

(in thousands)	FY 10-11	FY 11-12	FY 12-13	FY 13-14	FY 14-15	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Defined Benefit Plan	$ 142,040,000	$ 147,649,000	$ 153,372,675	$ 159,108,626	$ 164,939,773	$ 170,865,255	$ 176,805,150	$ 182,727,536	$ 188,615,101	$ 194,418,234	$ 200,113,601
Def. Benefit Supplemental	$ 8,048,000	$ 8,027,040	$ 7,966,499	$ 7,807,169	$ 7,651,026	$ 7,098,005	$ 6,556,045	$ 6,024,924	$ 5,504,426	$ 4,994,337	$ 4,494,451
Pension2®*	$ 301,103	$ 345,213	$ 393,735	$ 447,108	$ 505,819	$ 570,401	$ 641,441	$ 719,585	$ 805,543	$ 900,098	$ 1,004,108
Total (less Pension2)	**$ 150,088,000**	**$ 155,676,040**	**$ 161,339,174**	**$ 166,915,795**	**$ 172,590,798**	**$ 177,963,261**	**$ 183,361,195**	**$ 188,752,460**	**$ 194,119,527**	**$ 199,412,571**	**$ 204,608,052**

PENSION2 assets: 403(b), 457, Roth IRA & IRA assets managed outside the Investment Branch and not included in growth estimate.

Low Return Environment**	$ 82,577,908	$ 77,533,908	$ 72,183,908	$ 69,376,449	$ 66,118,883	$ 62,384,757	$ 58,067,532	$ 54,153,976	$ 50,040,829	$ 45,717,912	$ 41,174,525
High Return Environment**	$ 223,546,591	$ 236,609,864	$ 247,822,555	$ 259,403,134	$ 269,643,531	$ 280,186,074	$ 290,962,796	$ 301,955,453	$ 313,161,646	$ 324,547,830	$ 336,108,343

***Return assumptions based on CalSTRS capital market assumptions for 10 year period. High and low estimate based on 10 year standard deviation for CalSTRS current asset mix. June 30, 2000 starting date.*



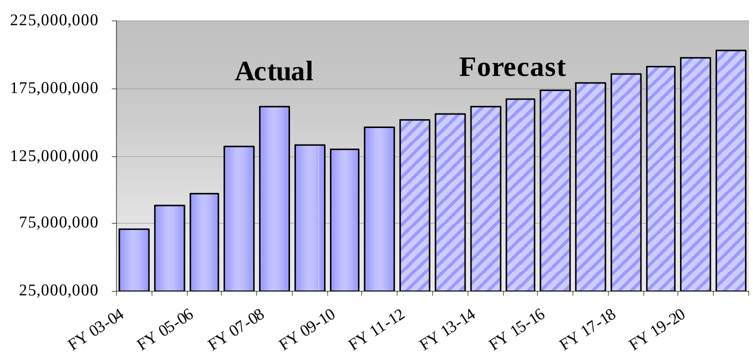
This forecast is based upon the current CalSTRS capital market assumptions over the next ten years. Actual results will vary widely. Since this chart is based upon a ten year average, individual years return can and will vary significantly. The purpose of the chart is to help explain the potential growth in the investment portfolio. Asset allocation shifts and changes in the assumptions will move the chart. As described above this only includes one standard deviation, or two thirds of the potential outcomes. This information is for estimation of the CalSTRS business plan and should not be used for any other forecast without the consultation of the CalSTRS Investment Branch.

CalSTRS Investment Branch 10 Year Comprehensive Financial Plan

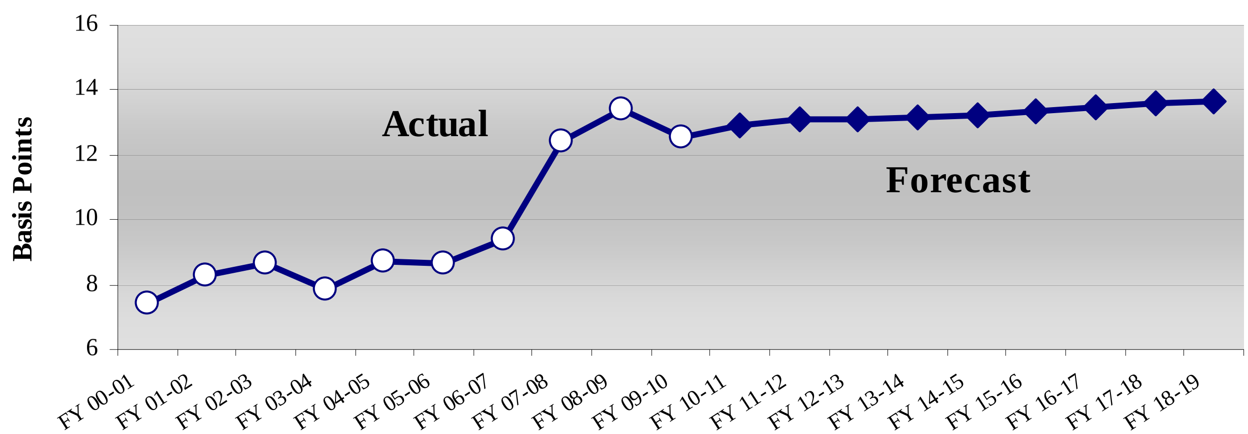
Investment Branch

		FY 10-11	FY 11-12	FY 12-13	FY 13-14	FY 14-15	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
	Fiscal Year	FY 10-11	FY 11-12	FY 12-13	FY 13-14	FY 14-15	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
	Total Assets (in billions)	$ 150.1	$ 155.7	$ 161.3	$ 166.9	$ 172.6	$ 178.0	$ 183.4	$ 188.8	$ 194.1	$ 199.4	$ 204.6
	Investment Branch Support Budget											
1	**Total Staff - PY's** (Personnel years)	**110**	**115**	**119**	**124**	**128**	**132**	**136**	**140**	**144**	**148**	**152**
2	Salaries (w/ Benefits & Est. Incentives)	$ 17,723,742	$ 18,472,148	$ 19,284,715	$ 20,169,668	$ 21,041,085	$ 22,003,379	$ 22,820,445	$ 23,574,948	$ 24,704,573	$ 27,819,617	$ 28,921,516
3	General Expense & IT exp.	$ 145,448	149,198	156,658	164,491	172,715	181,351	190,419	199,940	209,937	220,433	231,455
4	Travel (In State, U.S. & Non-U.S.)	$ 781,372	863,372	922,802	986,365	1,054,384	1,127,177	1,205,084	1,288,469	1,377,723	1,473,266	1,575,546
5	CP&S & Misc. (Print, Comm., Training)	$ 490,550	500,050	521,354	543,686	567,101	591,659	617,424	644,462	672,845	702,648	733,953
6	**TOTAL SUPPORT BUDGET**	$ 19,141,112	$ 19,984,768	$ 20,885,529	$ 21,864,210	$ 22,835,285	$ 23,903,566	$ 24,833,371	$ 25,707,818	$ 26,965,077	$ 30,215,964	$ 31,462,470
	Continuous Appropriation											
7	Investment Managers	146,311,441	152,089,116	155,708,920	161,532,243	167,452,213	173,467,955	179,498,329	185,510,927	191,488,175	197,379,703	203,161,825
8	Custodian & Legal Fees	9,375,253	9,844,016	10,336,216	10,853,027	11,395,679	11,965,463	12,563,736	13,191,922	13,851,519	14,544,095	15,271,299
9	Consultants Fees	7,525,050	7,901,303	8,296,368	8,711,186	9,146,745	9,604,083	10,084,287	10,588,501	11,117,926	11,673,822	12,257,514
10	Corp. Gov. (Staff & expenses & Inv Mngrs)	3,256,200	3,304,049	3,594,024	3,736,186	4,163,655	4,314,604	4,652,698	5,171,276	5,289,584	5,554,063	5,831,766
11	Research & Market Data	2,352,505	2,493,655	2,643,275	2,801,871	2,969,983	3,148,182	3,337,073	3,537,298	3,749,536	3,974,508	4,212,978
12	Risk systems (Barra, Bloomberg, Blackrock)	3,601,680	5,817,781	7,166,848	7,596,859	8,052,670	8,535,830	9,047,980	9,590,859	10,166,310	10,776,289	11,422,866
13	Trading Systems	1,140,250	1,208,665	1,281,185	1,358,056	1,439,539	1,525,912	1,617,466	1,714,514	1,817,385	1,926,428	2,042,014
15	Misc.	866,752	901,422	937,479	974,978	1,013,977	1,054,536	1,096,718	1,140,587	1,186,210	1,233,658	1,283,005
16	**TOTAL CONTINUOUS**	$ 174,429,131	$ 183,560,006	$ 189,964,314	$ 197,564,406	$ 205,634,462	$ 213,616,565	$ 221,898,287	$ 230,445,884	$ 238,666,645	$ 247,062,567	$ 255,483,268
17	**TOTAL EXPENSES**	**$ 193,570,243**	**$ 203,544,774**	**$ 210,849,842**	**$ 219,428,616**	**$ 228,469,747**	**$ 237,520,131**	**$ 246,731,658**	**$ 256,153,703**	**$ 265,631,722**	**$ 277,278,531**	**$ 286,945,738**
18	**% of ASSETS (BPs)**	**12.90**	**13.07**	**13.07**	**13.15**	**13.24**	**13.35**	**13.46**	**13.57**	**13.68**	**13.90**	**14.02**

External Investment Manager Costs (excluding Partnership Fees)



Investment Management Costs (excluding Partnership fees)



A critical driver of our costs and an impediment to producing strong returns is our long-standing and antiquated state government business model for a financial services organization. Similar to most public pension plans in the U.S., we operate in a structure designed in the late 1970's to early 80's. As a global investment manager, our government business model hampers our efforts and results now more than ever. Several other State pension plans are having discussions around the same issue. Oregon, Missouri and a couple others are looking to implement a better business model. Some state plans such as Colorado have considerable independence from their sponsoring government while others labor under even greater restrictions than CalSTRS. The vast majority of the Canadian pension plans have moved to a different model. In each of the past five Investment Branch business plans, we have cited the Ennis Knupp study that concluded the government business model costs a fund on average 40 basis points per year. Since our current business model is over 30 years old, has not improved and has in fact gotten less effective as we have grown, it is worthy of noting it yet again in the annual business plan. If the other States continue the discussion, it is worth our time to join in and evaluate other business models and structures. The board did examine several alternative legal structures during the early part of the decade such as: establishing a joint powers authority, or a not-for-profit entity, or fully contracting out, as we were facing some immediate difficulties restructuring the compensation plan. Ultimately those compensation issues were resolved and the alternative structures were not pursued at that time, but it may be time to revisit these ideas.

With the accelerating pace and complexity of global business transactions and accompanying expectations of responsiveness by our external partners, the government business model has had an increasing impact on our ability to effectively carry out the investment mission. Over the past five years, the consequence of existing legal constraints and control practices has escalated; as other business sectors have become more efficient, in the public sector we are still tied to business processes designed to meet 20th century operational requirements. Public contracting legal requirements envisioned to provide for fair and competitive procurement thirty years ago are not allowing us to be nimble in the 21st century. As a result, engaging business partners takes too long for the current investment environment. It can take up to six to nine months to complete a formal procurement solicitation process and there is a backlog of 12 RFPs to develop and present to the business community.

To be clear, it is not a matter of diverting more staff to relieve the backlog. To date, our internal service providers have tried to be very responsive where they can, but the government model significantly slows the work process. In addition, the cost of internal services charged directly to the Investments has risen significantly over the past four years. The general expenses paid by the Investment Branch have increased from $1.2 million to $4.2 million per year. The direct charged expenses now exceed one quarter of our internal investment management costs.

State of California legal constraints and control practices are also designed to create operational consistency under a single business process. While the established process may be helpful to other State agencies, or in complying with requirements associated with the receipt and management of federal funds, they hamper the effectiveness of CalSTRS, where we are required to compete in a highly dynamic global investment market. In fact, they put us at a competitive disadvantage compared to other public investors and Sovereign Wealth Funds. Some level of relief and/or a new business process model must be considered. To help manage the workload and expectations John Petzold, Deputy Chief Investment Officer, will be working to establish service level agreements with all our internal service providers.

There are several interesting business ideas worth discussing and debating that are better suited for a more casual environment than the formal annual business plan. Innovative ideas on business models, the efficiency of operations, and branding will be discussed at future workshops and planning meetings.

Key Initiatives in Fiscal Year 2011-12

Investment Committee Work Plan

There are four major projects to complete with the Investment Committee during the fiscal year. First is to develop new strategies and policy changes that allow us to be more nimble in periods of high risk. Second is to help integrate the new Board members in early 2012. Third is to host a Request for Proposal (RFP) and final interview for the Investment Committee's expert Private Equity Consultant. Lastly, if approved at the July Board meeting, is to engage in a review of the Global Equity portfolio near the end of the fiscal year.

Staff Projects

The second group of core initiatives is a combination of projects by staff listed on the Investment Committee Work Plan. Highlights include the increase in internal management, the efforts in climate change and the implementation of the 5-year diversity business plan.

Make $10 billion in Fiscal Year 2011-12

The final initiative is actually the most important and both straightforward and daunting, make $10 billion between July 1st 2011 and June 30, 2012. We have well designed policies and detailed procedures to guide us. We have hired some of the brightest investment managers across the globe, we have access to the brightest economists and researchers in the industry, and, most importantly, the most valuable asset we have are the 110 dedicated hard-working internal investment staff. At the same time, we have challenges both on the external financial landscape and within our own interior structure. We know it will not be easy, but the staff and these business plans are up for the challenge. While there are impediments, we can and will rise to the occasion.

We accomplished the major initiatives and, again most importantly, the goal of earning $10 billion last year. Now we just need to do it again. As we start the new fiscal year, “bring it on”.

Global Equity Unit Description

Assets	**$74,500,000,000**
Expected Annual Net Profit for the Unit	
• Market based net-profit goal	$7,077,500,000
• Extra value added net- profit	$303,960,000
Total Net Profit for the Unit	**$7,381,460,000**
Expected Cost to Produce Net Profit	$77,970,243

Risk Management

Current Level of Risk

In order to understand what risks are present in equities, it is important to summarize what happened last fiscal year. Global equity markets continued to recover during the fiscal year 2010-11 year returning nearly 25 percent in the first six months. The second half of the fiscal year proved more challenging for equities as the markets were plagued by an onslaught of negative news. Investor concerns grew regarding the possible ending of quantitative easing, the sustainability of global economic growth as political upheaval in the Middle East pushed oil prices higher, and authorities in European and Asian nations continued to rein in their liquidity measures.

A slightly longer-term perspective on risk takes us back to March of 2009, when the markets recorded decade lows. Since that time, the markets, as illustrated by the S&P 500, are up 98 percent. With such a dramatic recovery off the lows, a simple lack of continued good news could lead to a market correction. Looking forward, Global Equity faces both challenges in continuing to generate positive absolute returns while also achieving positive alpha.

One of the most significant "game changing" issues going forward is the level of inflation both in the United States and globally. Inflation is of particular concern because of the impact it has on market performance. As inflation rises beyond the target rate, the Fed will likely be forced to raise interest rates, which directly impacts economic growth and therefore equity valuations.

From 1920 to 2010, the S&P 500 has averaged a 7.4 percent annual return while the average rate of inflation (CPI-U) has been 2.9 percent. From a long-term perspective, since equities outperform inflation, equities appear to be a hedge. When looking at shorter periods of time however, a different story is told. During high inflationary environments, equities have historically suffered. In highly competitive industries, rising input costs cannot be passed along the chain to end customers in the short-term, which squeezes profit margins.

Unfortunately, inflation is not the only risk anticipated to impact equity returns over the next fiscal year. So called global interconnectedness means everything from sovereign debts (e.g., Greece) to political instability makes the worldwide drivers of equity risks and returns very similar. One of the major positives over the last year was the continued record recovery in earnings. Going forward, it is not clear that high earnings growth can continue. Many other speed bumps remain to continued global growth such as the state of the housing market, high levels of joblessness and whether any additional quantitative easing is necessary or even possible.

Efforts in Fiscal Year 2011-12 to Protect Assets

The next fiscal year will require that Global Equity considers protecting the significant gains both from the lows of 2009 and last fiscal year. Wisely protecting gains in equities is neither simple nor costless. Recognizing that some reasonable cost is acceptable to protect the strong recent gains in equities will lead to using accepted portfolio construction methodologies such as holding tactical cash balances (generally less than 5%). Another attractive strategy is rebalancing to areas that offer defensive characteristics (e.g., utilities).

In an inflationary environment, certain segments of the equity market are positioned to outperform (e.g., companies with pricing power). Protecting equities in inflationary environments may require different sources of passive exposure than simple broad benchmarks. Active managers with proven track records in inflationary environments or sectors that perform well in inflationary environments (e.g., energy) are historically attractive.

As always, risk control remains the first and highest priority when assessing choices in the equity portfolio. With double digit returns in recent history, flexibility to keep those gains is more important than ever.

Efforts in Fiscal Year 2011-12 to Achieve Return

While protecting assets is extremely important, staff cannot lose sight of participating with the markets and achieving the portfolio's performance goals. The balance between preserving capital and generating alpha is complicated and will require staff to actively manage the portfolio in a disciplined, risk controlled manner.

When uncertainty pervades the equity markets, it elevates risk but it can also provide opportunities. As trends develop in the market, staff will tactically allocate assets to the market segments that exhibit the most rewarding risk/return profile. By having this flexibility, staff can quickly respond to changing market conditions and take advantage of market inefficiencies when they occur.

Another way that staff plans on meeting the portfolio's return objectives is to carefully evaluate our current and potential investment managers. The goal of this effort is to ensure that we are partnering with the highest conviction investment managers who will generate positive alpha. When evaluating external managers, staff does not just focus on investment returns since performance is a lagging indicator. Instead, staff thoroughly evaluates the people, process and philosophy of each investment manager to understand why a manager is able to produce excess returns and why they are sustainable. In addition, during this due diligence, staff discovers how each manager performs in different market regimes (e.g., high growth, slow growth, recession). Through this process, staff will replace low conviction managers with investment managers from a pool of higher conviction managers and will also rebalance assets between investment managers to maximize the risk-adjusted return of the Global Equity portfolio. Evaluating and adjusting the mix of the portfolio's active investment managers is an important step in achieving excess returns.

Controlling costs will again be a high priority, given the difficult economic and budgetary environment. Over the past two years, most of CalSTRS' external managers agreed to lower fee schedules resulting in roughly a 15 percent cost savings. Staff will continue this effort to reduce asset management costs with the remaining external managers.

Key Initiatives in Fiscal Year 2011-12

In addition to tactically managing the portfolio in a risk controlled manner, the Global Equity team will focus on implementing the initiatives approved at the conclusion of the Internal/External Management Study (Study) at the June 2011 Investment Committee Meeting.

Implement an Enterprise Investment Management System (EIMS) – In Part 3 of the Study, staff identified several passive non-U.S. strategies that are likely candidates for internal management. While staff has extensive experience managing passive portfolios, the current EIMS is antiquated and limited in regards to providing trade order management, portfolio administration, sophisticated risk analytics, and operations management for non-U.S. securities. Staff has reviewed and evaluated several potential EIMS platforms and has determined that the platform that CalSTRS Fixed Income unit has been using for the past five years would meet all of the requirements to manage non-U.S. equity portfolios internally. Since the infrastructure has already been established within Investments, expanding the platform to Global Equity should not require significant resources.

- **Internally Managed Strategies** – Staff will be implementing internally managed strategies that the Investment Committee approved at the conclusion of the Internal/External Study. The first priority will be those strategies that can be implemented with no additional staff and only minimal data requirements, e.g., the R3000 passive portfolio and the U.S. tactical strategy.
- **Global Equity Portfolio Review** – Depending on the outcome of the Investment Committee's Work Plan directives, staff will prepare a comprehensive review of the Global Equity portfolio for presentation at the April and June 2012 Investment Committee meetings.
- **Policy Updates** – Staff will update the Global Equity policy as needed to clarify and define the various management strategies that are appropriate for the portfolio.

Fixed Income Business Plan for Fiscal Year 2011-12

Fixed Income Unit Description

Assets	**$27,000,000,000**
Expected Annual Net Profit for the Unit	
• Market based net-profit goal	$810,000,000
• Extra value added net- profit	$40,500,000
Total Net Profit for the Unit	**$850,500,000**
Expected Cost to Produce Net Profit	$22,795,297

Risk Management

Current Level of Risk

Last year at this time, we were seeing some cyclical improvements in economic activity as a direct result of stimulative policy actions and massive injections of capital into the banking system after the financial crisis. At the same time however, we were also seeing troubling initial signs of longer-term, structural issues, such as ballooning government debt and European budgetary problems.

Twelve months later, we're experiencing a sense of déjà vu. A key difference now however, as compared to last year, is that the economy is anticipating the start of the removal of the unprecedented stimulus and accommodative policies that restored confidence in the global financial system after the crisis. The key question at this juncture is, will economic growth become self-sustaining without the fiscal and, perhaps, monetary policy support? As a result, the risk for fixed income assets is at a potentially significant turning point: (1) either the economy will be able to withstand the removal of the stimulus and grow at a moderate pace or, (2) the economy stumbles and the Fed has to continue on with its quantitative easing (QE) program(s). In the first case above, interest rates will likely go up along with the U.S. dollar. If the Fed feels the need to implement QE3, 4, or 5, rates will likely re-test their crisis lows and the U.S. dollar will continue to be under pressure. Turning points are always difficult to call, but we expect to get more conclusive evidence within the next quarter or two.

One of the consequences of the stimulative policies over the past several years has been the effect on the market's propensity to be self-correcting. That is, given the extremely accommodative nature of the policies over the past several years, certain risk/valuation metrics have ratcheted to extreme levels. Importantly, three of the four investment risk metrics identified by Pension Consulting Alliance (PCA) within their Investment Market Risk Metrics reporting package relate to the fixed income markets and are at extreme levels, warranting close monitoring. The slope of the yield curve, the level of breakeven inflation, and interest rate risk are all at the top decile of their historical ranges.

These risk/valuation metrics serve as a red flag and/or corroborate that a turning point for fixed income assets may be forthcoming. Although we've learned that extreme levels can continue for a surprisingly long period and, therefore, be painful for early positioners, the major risk to fixed income assets is higher interest rates.

Efforts in Fiscal Year 2011-12 to Protect Assets

As higher interest rates represent the most significant risk to the fixed income assets, staff has developed a number of strategies to manage and mitigate the impact of higher rates across the portfolio(s) (long and short-term fixed income) and program(s) (Currency Management and Securities Lending) under our purview.

Fixed Income

One of the most conventional strategies for managing interest rate risk is to reduce the exposure within the portfolio to those assets which will be subjected to the greatest loss of principal. At the highest level to mitigate this risk, staff has underweighted the fixed income asset class within the Total Investment portfolio to the bottom of the policy range. Within the fixed income portfolio(s), staff has taken a measured approach to implementing a variety of strategies that include buying securities with coupons that adjust to changes in interest rates, buying securities that have a shorter maturity than the policy benchmark, using derivatives to provide protection against higher rates in the future (i.e., a combination of swaps and swaptions), and tactically selling bond futures targeting specific maturities that we believe are most at risk.

Currency Management

CalSTRS has a strategic allocation to non-U.S. assets dating back over almost two decades. A key component to the returns of non-U.S. assets is from currency. In an environment of rising interest rates, the risk of a strengthening U.S. dollar increases. A rising U.S. dollar would impair the return of non-U.S. dollar assets. As a result, staff will look for opportunities to sell those non-U.S. currencies approved within policy that we believe will underperform the U.S. dollar.

Securities Lending Collateral

CalSTRS manages nearly half of the securities lending cash collateral assets internally. Although these assets are very high quality and short-term in nature, in an environment in which short-term interest rates rise quickly, these assets would be significantly impacted. As a result, staff will increase the weighting of adjustable rate securities and reduce the overall weighted average maturity of the portfolio.

Efforts in Fiscal Year 2011-12 to Achieve Return

The CalSTRS Investments Branch has been developing business plans annually since 1998. Despite the changing and often volatile market environment and the challenges and opportunities described over the years, two key factors consistently appear in the discussion of meeting our performance objectives: (1) the recruitment and retention of well-qualified staff and, (2) the enabling of the investment staff to focus on the core, return-producing priorities within the constantly evolving, increasingly volatile markets.

Other themes that resonate throughout the return discussion over the years, and continue to be relevant include: (1) the ability to be tactical in developing and implementing strategies and, (2) the need to review, evaluate, and revise the structure of the investment portfolios/programs to be as cost efficient and competitive as possible. As discussed earlier, with interest rates near multi-decade lows and key risk metrics at extreme levels, staff will continue to concentrate on positioning the portfolios/programs to reflect the environment, while recognizing the timing of such a move will be difficult to gauge, given the tenuous economic and geopolitical situation. While the need to be tactical has become more important over the years, due to increasing market volatility and complexity, the value over the long-run of a well structured, cost efficient investment program cannot be understated. Over the past several months, staff has worked with the Investment Committee and Pension Consulting Alliance to develop a criteria matrix designed to standardize the internal vs. external management implementation decision for existing and new strategies. This framework will facilitate and help prioritize staff's efforts to meet our return objectives across our portfolios/ programs.

Key Initiatives in Fiscal Year 2011-12

Based upon the investment environment described above and, in large part, the findings of the Internal/External Asset Management Study (i.e., Study) completed in June 2011, the Fixed Income team will be focusing on the following major projects this upcoming fiscal year:

- **Internally Managed High-yield Strategy**

  This initiative is based upon the findings and recommendations from the Study referenced earlier. A portion of the high-yield mandate that has been entirely managed externally since

2002 will be brought in-house. Staff envisions starting with an initial allocation of $250-$500 million, building up to $1+ billion, or roughly half of the strategic allocation to the strategy, if deemed appropriate, and will be managing to a lower tracking error and active risk. Given our existing internal credit expertise and trading infrastructure, very modest additional informational and data feeds are anticipated to be needed at this time. As the portfolio size increases toward potentially half the allocation to the high-yield strategy, additional staffing resources may be necessary. Staff believes it will be able to manage these assets at one-quarter of the cost of external management, saving approximately $1 million in asset management fees annually on $500 million.

- **Internally Managed non-U.S. Dollar Contributions and Distributions (Currency Management)**

This initiative is also based upon the findings and recommendations from the Study referenced earlier. The currency translation for non-U.S. dollar contributions and distributions for Private Equity, Real Estate and Corporate Governance assets have historically been executed externally by the Master Custodian. Currency management and operations staff estimate that these transactions amount to roughly $1.5 billion per year and will work together to streamline and automate the processes to execute these transactions internally. While staff feels confident that these transactions can be executed internally for no additional cost at this time, it is anticipated that some reallocation of staffing resources within the currency management team will be necessary. The cost savings to the Fund for this initiative is estimated to be approximately $2 million annually.

- **Securities Lending Request for Proposal (RFP)**

It's been nearly ten years since the last major restructuring of the Securities Lending Program (Program) as a result of an RFP. At that time, the Program was reorganized in such a way to take advantage of multiple lending agents and multiple asset managers, in order to benefit from both diversification and competition. Although that structure is still considered to reflect best practices within the industry, staff will be conducting a Securities Lending Agent search early in the upcoming fiscal year. The intent of the search is to refresh our agent pool and ensure that we continue to have high quality lending agents and cash collateral external managers to complement our internal cash collateral management program and that the structure continues to maximize our asset utilization and earning potential in a cost effective manner.

- **Innovative Strategies / New Opportunities**

This initiative will continue as part of the overall fixed income theme of searching out innovative opportunities that have the potential to add alpha and are complements to our current strategies.

We continue to be open to new and innovative ways in which to assume and reduce risk within the confines of our overall portfolio, short- and long-term strategies, and purpose within CalSTRS' portfolio structure. Staff is in the final stages of implementing a bank loan strategy which will add floating rate protection to the fixed income portfolio. Staff, with the assistance of PCA, has also put forward a floating rate taxable securities initiative for the municipal securities market. Staff is always open to these new opportunities and will continue to search among our peers and among other money managers for the best ideas for adding alpha while protecting assets.

Attachment B

Real Estate Unit Description

Assets	**$18,750,000,000**
Expected Annual Net Profit for the Unit	
• Market based net-profit goal	$1,359,375,000
• Extra value added net- profit	$281,250,000
Total Net Profit for the Unit	**$1,640,625,000**
Expected Cost to Produce Net Profit*	$23,126,452

* estimate does not include management fees or carried interest on opportunistic funds.

Risk Management

Current Level of Risk

The risk level in the Real Estate portfolio can be broadly grouped into three categories: market risk, operating risk, and financial risk. All three risk categories were in historical danger zones from the crash of Lehman in the fall of 2008 through the spring of 2010. The second half of 2010 through the present has been generally positive for the real estate asset class.

Market risk for real estate can be centered on the economic drivers of real estate returns. Job growth drives demand for office space, retail sales, and apartment occupancy, and growth has been positive but weak. Consumer confidence, which is a key driver of retail sales, is up from recent lows but not high enough to drive new store demand. Interest rates remain low and are driving demand for investment in the real estate asset class, but not significant leasing or development. Overall, the market risk for real estate had decreased, but sluggish economic growth is hampering the rebound.

Operating risk is predominantly the development and leasing status of the real estate asset. The continuum of risk (from high to low) is raw land to empty building to fully leased building with high credit tenancy. Our portfolio is over-weighted in opportunistic investments. Many of these assets are in transition (under development or lease-up) and, with hard work by our investment partners, will be stabilized and marketed for sale soon. Our core portfolio has above market vacancy in the office and industrial assets, which is being monitored closely by our staff. Other operating risk is the stability and solvency of our manager partners. Staff has worked with our partners transferring assets to other partners in better positions to manage our portfolio. We will continue to closely monitor both the assets and managers.

Financial risk is best defined by the level of structure of debt or leverage on the portfolio. The significant drop in real estate values correspondingly raised the leverage in the CalSTRS Portfolio.

Staff has also monitored the leverage in each risk class of our portfolio, and paid off debt as the opportunities arose.

Efforts in Fiscal Year 2011-12 to Protect Assets

Managing risk has been a common theme in real estate for three years. Generally, we are working to increase our holdings in core assets and decrease our holdings in opportunistic and value-add investments. In addition, we are actively lowering the leverage in the portfolio.

Market Risk

Managing the portfolio against the market risk is the most difficult to execute as the market has been very volatile over the last five years. Staff consistently monitors our holdings, looking for over- and under-weighting by product type and market. We have been over-weighted in office holdings and under-weighted in industrial and retail. We have, therefore, been actively pursuing core industrial and retail and been very selective in considering new office product. The most significant market shift in our industry has been a high demand for investment in core assets. This has been driving up asking prices for core product to a level where we are concerned some markets have a mini bubble in pricing. We continue to bid on these assets but are striving to stay disciplined and avoid overpaying in the near term to achieve our long-term objectives.

Operating Risk

Staff is actively managing operating risk through careful oversight of our portfolio and constant communication with our managing partners. Our investment partners strive to lease up vacant space and renew existing tenants. CalSTRS has some advantages as an owner in that we are not capital constrained and can improve the space to driving rental demand. We are in the process of an RFP to seek out core managers to better serve the system. We continue to monitor our partners; fortunately, most of the operating risk has diminished.

Financial Risk

Staff has proactively strived to lower the leverage in the portfolio over the last two years. Opportunities to pay down existing leverage at a discount as we had in previous years are essentially gone due to improved market conditions. However, as debt comes due, staff looks for opportunities to pay down debt on select assets that can be transferred into the core portfolio, thereby achieving two goals; lowering leverage and raising our investment in core assets.

Efforts in Fiscal Year 2011-12 to Achieve Return

The real estate asset class returns are based on a combination of quarterly cash flows, quarterly appraisals and sales executed in each quarter. Market values for real estate turned positive in the last fiscal year and are projected to be positive again this fiscal year as real estate markets recover. The demand for real estate continues to be bifurcated. There is significant demand and increased pricing for core assets and lower pricing with inconsistent demand for transitional assets. This creates a challenge for investors like CalSTRS whose long-term goal is to increase holdings of core assets.

Staff will strive to take advantage of individual over-heated markets and sell challenged or aggressively priced assets. These sales will typically be above existing carrying values and thereby increase returns to CalSTRS. In addition, sales will generate cash for potential purchases. Along with searching for quality core assets, our partners are seeking out opportunities to purchase high quality assets that are in need of capital infusions to cure short-term leasing challenges. Once leased to stabilization, these "value add" investments will be transferred into the core portfolio or sold, depending on the market conditions.

Key Initiatives in Fiscal Year 2011-12

Staff is in the midst of completing a Request for Proposal (RFP) for core managers. This RFP was issued in the spring of this year, and manager selection is likely to be completed this summer. Our goal is to hire a handful of top tier core managers to both purchase core assets through separate account relationships and oversee joint venture partner relationships for both core and value-add strategies. It is critical to achieving our goal of increasing our core holdings to select managers that have the depth to seek out core investment opportunities throughout the United States.

Once completed, we will also issue an RFP to replenish the pool of independent fiduciaries. CalSTRS policy requires two fiduciaries to opine on new investment opportunities and relationships. Our policy also restricts our consultant to working with the board on policy and strategy and not be conflicted by opining these investment opportunities. Therefore, we periodically seek out, through the RFP process, capable consultants and market experts to assist staff in our review of investments.

Managing the leverage in the portfolio has been a common theme over the last few years. Many of our venture partners utilize lines of credit (LOC) to manage capital flows in their investment strategies. This fiscal year, we will explore creating a master line of credit for use by CalSTRS joint venture partners. This master line of credit will be used to replace individual lines of credit formed with each joint venture. The benefits of the master line should increase CalSTRS control over the use of LOC, potentially lowering leverage for the portfolio and lowering the cost through better negotiated terms.

We will continue our ongoing efforts to create a sizable pipeline of assets to potentially transfer into the core portfolio. This strategy of “Build or Lease to Core” will allow CalSTRS to tactically shift away from purchasing core assets at peak pricing. Alternatively, we can seek out below market pricing of assets that are in need of capital for leasing.

This fiscal year, we will explore setting up a public securities portfolio. CalSTRS recently transferred a privately held hotel portfolio for $200M shares of REIT. These shares can not be traded until the fall, which will give staff an opportunity to strategize how to build a public security portfolio. The goal of the portfolio is to lower risk of the overall portfolio, increase liquidity and increase diversification.

Private Equity Unit Description

Assets	**$22,500,000,000**
Expected Annual Net Profit for the Unit	
• Market based net-profit goal	$2,812,500,000
• Extra value added net- profit	$630,000,000
Total Net Profit for the Unit	**$3,442,500,000**
Expected Cost to Produce Net Profit*	$25,657,814

* estimate does not include management fees or carried interest on partnership investments.

Risk Management

Current Level of Risk

Private equity risk can be divided into two categories: (1) risk associated with private companies already purchased and thereby already constituting an underlying component of the private equity portfolio (i.e., "existing portfolio company risk") and (2) risk associated with private companies currently being purchased and /or to be purchased in the near to medium term (i.e., "future portfolio company risk").

With respect to the first category, risk associated with the program's existing portfolio companies has significantly decreased over the past two years. Many of the portfolio companies within this category were purchased in the private equity bubble years (2006 -2008) at high prices and with high levels of debt. When the financial crisis struck with full force in the fall of 2008, these companies were left quite vulnerable: profits fell, valuations plummeted, and the availability of debt financing contracted dramatically. As a result of these conditions, an uncomfortably high proportion of these companies were at risk for medium-term bankruptcy. Many other companies, while not in any fore-seeable danger of bankruptcy were nonetheless significantly impaired in their investment performance outlook. However, during the last two years or so, investments made in the private equity bubble years have been de-risked by several factors, specifically: (1) overall economic activity has recovered to some degree; (2) general partners have restructured costs at their portfolio companies, thus helping to restore profits to pre-crash levels (or better) in many instances;

[1.] According to S&P LCD statistics, the average price to EBITDA multiples paid in leveraged buyouts peaked in late 2007 at approximately 9.7x. Range over the last decade has been between 6.0x and 9.7x.

[2.] According to S&P LCD statistics, average price to EBITDA multiples paid in leveraged buyouts in 2011 have ranged from 8.1 x to 8.3x.

(3) expansionist monetary policy has kept debt markets liquid and enabled portfolio companies to refinance and elongate their loans at reasonable interest rates; and (4) public equity markets have rallied, thus bolstering market valuations (for both public and private companies) and enabling many companies to raise additional equity capital to strengthen their balance sheets. Barring a significant "double-dip" recession, staff believes that the portfolio companies purchased in the bubble years will, on average, return capital plus deliver a modest investment return.

Regarding deals currently being done and/or likely to be done in the near- to medium-term, staff would describe the current risk level as being moderate. Private equity investing is inherently risky in that it involves general partners striving to generate very high returns by making concentrated illiquid investments in companies generally undergoing some sort of transformation. In addition to this inherent riskiness, further cyclical risk factors are presented in the form of fluctuating levels of competition (in terms of competing firms and competing pools of dry powder), availability of attractive target companies in which to invest, market price levels for new investments and levels of debt associated with new investments. In the current environment, competition remains high; there are large pools of capital commitments which are un-deployed and which will be expiring over the next one to three years (i.e., the remaining capital commitments raised during the bubble years). In parallel with the rise in public equity prices over the past two years, private equity entry prices are moderately high. Mitigating these elevated risk factors are the following: (1) private equity managers remain extra cautious in the wake of the still vividly memorable financial crisis of 2008; (2) bank lending standards remain relatively conservative in terms of permissible leverage levels and other underwriting criteria; and (3) despite moderately high entry prices overall, private equity firms are still finding special situation deals which are being priced significantly below apparent market price levels (e.g., deals involving distressed sellers, under-appreciated sub-sectors, etc.).

Efforts in Fiscal Year 2011-12 to Protect Assets

The investment philosophy of the CalSTRS Private Equity Program can be summarized as follows: (1) have a long-term perspective; (2) choose only high quality partners who have a proven track record in the endeavor being proposed; and (3) invest only in situations in which there is a strong alignment of interests. This investment philosophy is primarily "bottom-up" in that it stresses the quality of our investment partners above all else. This approach has served the program well throughout its history and staff believes it should remain at the core of our investment program beliefs going forward.

Last fiscal year's business plan focused heavily on improving Private Equity's bottom-up procedures and practices. This fiscal year, more effort will be devoted to Private Equity's top-down procedures and practices (see below). However, given the over-arching importance of choosing only high quality managers for the private equity program, this fiscal year's business plan once again envisions significant resources being devoted to improving bottom-up capabilities.

Another major focus will be on human resources. The Private Equity staff level is currently lean relative to both assets under management and partnerships under management. The ratio of partnerships under management to the number of investment staff professionals must be maintained at reasonable levels or the likelihood of poor decisions will increase. The hiring of additional experienced staff is being impeded by budgetary constraints. Staff is hopeful that budgetary constraints can be overcome so that Private Equity can hire two additional private equity professionals in the coming year (with one of those positions hopefully coming early in the fiscal year).

Related to human resources is the task of improving Private Equity's internal operations capabilities. As the private equity industry has matured and become more institutionalized over the past several years, reporting, accounting and compliance requirements have become increasingly complex and time consuming. Private Equity's resources devoted to operations activities have not kept pace. In order to partially cope with this problem, human resources have been shifted away from front line investment activities towards operations activities. Plans are in place to bring additional resources into the Private Equity unit to meet its increased operational needs on a more permanent basis and thereby also allow a much needed shift of certain investment professional's time back into front line investment activities.

Within the Private Equity asset class resides the CalSTRS Credit Enhancement Program. The Credit Enhancement program team will continue to closely monitor the public finance markets. The team hopes to maintain its current level of commitments. However, the team will only make new commitments if the proposed new commitments are of very high quality.

Efforts in Fiscal Year 2011-12 to Achieve Return

Private Equity's efforts to achieve high returns in fiscal year 2011-12 will focus on the development and deployment of more advanced "top-down" portfolio management tools. Specifically, staff is in the process of developing a two to four year investment plan which will map out tentative investment amounts in the portfolio's various strategies and geographies. Also included in the investment plan will be tentative targets for number of investments to be made in each investment category over the coming years. This planning process will instill additional discipline into our investment process by forcing the team to choose between various competing investment opportunities. Such discipline should result in better investment decisions and higher risk-adjusted returns. Also, more advanced top-down tools will enable staff to better analyze and implement the strategic over-weighting and under-weighting of specific strategies, sectors and industries (as permitted within policy limits).

Efforts in the coming fiscal year will also focus on improving the program's co-investment capabilities. In order to add depth to the team's co-investment capabilities, additional staff member(s) previously assigned solely to partnership investing will be cross-trained to also evaluate co-investment opportunities. Staff believes that co-investments enhance the program's overall ability to generate satisfactory private equity returns by: (1) providing no-fee/no-carry exposure to quality deals; (2) occasionally providing increased exposure to some appealing higher risk/higher potential reward deals; (3) providing an opportunity to achieve various strategic goals (i.e., exposure to clean-tech) through means other than longer-term partnership commitments; (4) providing an excellent opportunity to observe up close how certain private equity general partners conduct their business.

On a final note, staff, in conjunction with the Private Equity consultant, will in the coming fiscal year evaluate the potential for investing in certain private equity investment structures that could potentially facilitate improved governance and/or lower fees (e.g., separate accounts). Such investment structures are not currently permitted by policy - a policy change recommendation will be proposed if warranted.

Key Initiatives in Fiscal Year 2011-12

- **Complete an RFP process for Private Equity Consultant**

  PCA's contract expires on June 30, 2012.

- **Add Two Professional Staff to Team**

  As discussed above, staff believes that at least one additional position is warranted on the front line investment team and another position is needed in the internal operations group.

- **Pursue Opportunities to Improve Governance and Reduce Fees by Exploring Alternative Investment Structures**

  Specifically, explore and evaluate the possibility of investing in separate managed accounts with private equity mandates. This might result in a policy change proposal.

- **Improve Investment Decision Making Process by Developing and Implementing "top-down" Portfolio Planning Tools**

  The Private Equity program will remain at its core a bottom-up driven organization. However, a more formal and rigorous top down analytical framework will be overlaid on top of the program's bottom-up foundation.

- **Continue Increasing the Co-investment Program's Capabilities and Continue to Refine the Co-investment Program Strategy**

  This will entail cross training additional team member(s) so that they will be capable of analyzing partnership and co-investment opportunities.

- **Remain Highly Selective and Cautious in Underwriting New Credit Enhancement Program (CEP) Commitments**

  The CEP team will only make commitments to replace portfolio run-off if the proposed new commitments are of very high quality.

Corporate Governance Unit Description

Assets	**$3,500,000,000**
Expected Annual Net Profit for the Unit	
• Market based net-profit goal	$332,500,000
• Extra value added net- profit	$28,560,000
Total Net Profit for the Unit	**$361,060,000**
Expected Cost to Produce Net Profit	$45,009,488

Risk Management

Current Level of Risk

The activist manager portfolios are concentrated in nature and tend to be more exposed to volatile equity markets. With uncertainty in areas such as employment, inflation, housing, and commodity prices expected to continue into fiscal year 2011-12; the level of risk within the activist manager portfolio is medium – high.

Efforts in Fiscal Year 2011-12 to Protect Assets

- Pay close attention to the markets in which we invest.
- Monitor the performance attribution and contribution of our managers.
- Monitor staffing and resource levels at our external managers.
- Diversify pool of activist managers.

Efforts in Fiscal Year 2011-12 to Achieve Return

- Consider new managers in markets not currently covered such as Emerging Markets and Asia.
- Consider new managers in markets currently covered.
- Review existing manager performance for possible commitment reductions or partnership terminations.
- Seek more favorable fee and liquidity terms from both new and existing managers.
- Seek Co-investment opportunities as a low cost way to improve returns.

Key Initiatives in Fiscal Year 2011-12

The CalSTRS Corporate Governance Program will continue to focus on improving the CalSTRS Investment Portfolio's governance profile through continued advocacy on issues such as financial market reform, sustainability risk management and diversity on boards of directors. We will look to increase the number of companies and investors we engage with on these issues, as well as increase our meetings with government officials and regulatory representatives. We will also continue to file and support shareholder resolutions that align with these objectives.

In 2011-12, the Corporate Governance staff aims to work more closely/and coordinate better with our Global Equity managers on their governance activities on CalSTRS' behalf. Our external managers oversee $25 billion in assets on our behalf and by better understanding and hopefully coordinating our joint governance activities, we can enhance returns for the fund.

To help promote financial market reform, we will continue to engage on a variety of issues such as:

- Establishing majority voting standards for director elections.
- Aligning executive compensation with shareholder interests.
- Improving transparency and accountability within the credit ratings process.
- Seek company specific Governance reforms.

To improve diversity on corporate boards we will focus on:

- Promoting the Diverse Director Data/Source (3D Project).
- Encouraging nominating committees to consider diversity in their process.

To improve our sustainability risk management program we will:

- Consider new areas of engagement such as sustainable land use and supply chain risk.
- Expand engagement efforts to include small and mid-cap companies.
- Better utilize engagement platforms such as the PRI Clearinghouse.

Additionally, as part of our sustainability risk management efforts, we will assume responsibility for the CalSTRS Investment Branch's Green Initiative Task Force. We will work to improve communications to the Board and the public, as well as between asset classes, on what CalSTRS is doing to manage environmental risk and take advantage of environmental-related investment opportunities within the portfolio.

Absolute Return Unit Description

Assets	**$2,600,000,000**
• Global Inflation-linked: $2,200,000,000 Infrastructure Committed: $150,000,000 Home Loan Program: $400,000,000	
Expected Annual Net Profit for the Unit	
• Market based net-profit goal* * based on 6.5% expected rate	$170,000,000
• Extra value added net-profit ** ** based on 3 basis points of Alpha	45,000,000
Total Net Profit for the Unit	**$215,000,000**
Expected Cost to Produce Net Profit	$472,000

Risk Management

Current Level of Risk

The Global Inflation-Linked securities are limited to those countries who maintain an investment grade sovereign rating (Baa3/BBB-/BBB- or above) using the middle rating of Moody's, S&P and Fitch, respectively.

The Infrastructure program is in the early stage and we will focus on the core, sub-asset classes of more mature infrastructure. These types of investments are expected to yield a lower risk within the portfolio.

Efforts in Fiscal Year to Protect Assets

Protecting the assets will be a key goal of the asset class. In order to achieve this, clear and effective risk management processes and controls will be utilized. Building a robust risk analysis and reporting process (eg. risk modeling, stress testing, exposure analysis, risk budgeting) to reduce "surprises", identify unwanted risk, ensure key risks are managed, and promote better communication between front, middle and back-office functions are being built over time with the addition of investments to the program.

The Global Inflation-linked portfolio's duration and country weighting is managed closely to its benchmark. Consequently, the low tracking error versus the benchmark reflects a low risk of under-performance.

The Infrastructure program will also focus on a well diversified portfolio (geographical, sector, vintage year, etc.) since the spreading of risk into a diversified portfolio not only generates positive returns in both favorable and unfavorable market conditions, but also provides an understanding of the correlations within the diversified portfolio.

To invest and then protect those investments, it is important to have intense due diligence processes, continued education and rigorous manager monitoring processes, and these will be built into the program. Staff will perform extensive due diligence on investments and the due diligence processes will be clearly identified at the time each investment is recommended to the board.

Efforts in Fiscal Year to Achieve Return

Absolute Return asset class objectives are to increase Total Plan diversification, produce inflation-protected income/returns over extended periods and secure more steady real returns over time.

The goal of the global inflation-linked bond and infrastructure programs are to provide stable long-term returns and to protect assets from unfavorable market conditions (inflation, volatility, currency fluctuations, etc). Staff committed to the global inflation linked program will continue to increase the assets to the target weight of 2.5 percent of the Total Plan. The portfolio will be optimized to track the Barclays Inflation Linked index.

The staff committed to the Infrastructure program will look for opportunities that will provide a stable source of income with some capital appreciation opportunities so that the fund can generate a strong return while generating steady cash flows to the system.

Infrastructure assets that are mature, have low capital expenditures and have an early cash flow (short J curve), will be preferred as these assets tend to have lower risks while providing the stable returns and cash flows to the program and to the overall Fund.

As the programs focus on inflation protection, the underlying assets will have an inflation link to the income stream, thereby continuing to generate a stable income flow to the program during unfavorable market conditions.

Key Initiatives

Asset Class Level

Create a strategy for the migration of innovation portfolio assets, such as commodities, into the asset class. Consider other inflation-link products that meet the objectives for this asset class such as infrastructure debt, agriculture or timber. Rename Absolute Return Asset Class to Inflation Sensitive Asset Class to provide clear focus of inflation-linked strategies as the objective for this asset class. Evaluate the Home Loan Program fit into a new asset class containing Alpha and Stable return strategies.

Internal Processes

Finalize procedure manuals, develop standard periodic reporting, portfolio and manager monitoring and investment performance and risk measurement tools.

Global Inflation Bonds

- Continue with the dollar cost average funding strategy until the target weight of 2.5 percent is achieved.

Infrastructure

- Target an additional $300 - $600 Million of new investments for the fiscal year, thereby building a portfolio that is diversified by vintage.
- Consultants – a search will be conducted to hire independent fiduciary consultants from an established pool with niche infrastructure expertise.
- Staffing – at least one additional investment officer will be required for the Infrastructure team to be successful in reviewing deals and managing the portfolio.
- Infrastructure is a developing asset class; staff will also continue to learn the developments within the asset class via conferences, research material, meetings with peers, etc.

Attachment B

Innovation Portfolio and Fund-Wide Risk Management

Assets	**$750,000,000**
Expected Annual Net Profit for the Unit	
• Market based net-profit goal	$52,500,000
• Extra value added net- profit	$5,625,000
Total Net Profit for the Unit	**$58,125,000**
Expected Cost to Produce Net Profit	$1,414,479

Risk Management

Current Level of Risk

Researching and identifying new strategies that improve the risk and return characteristics of the Total Fund are critical for CalSTRS. Multiple Investment Committee presentations and the Request for Proposal (RFP) process extended the time to implement these strategies. This extended time commitment may severely limit CalSTRS' ability to take advantage of these opportunities.

Efforts in Fiscal Year to Protect Assets

Staff places emphasis on identifying strategies that perform well relative to global equities during turbulent market regimes. Commodities hedge against inflation and negative shocks. Global Macro Hedge Funds take advantage of volatility and flexibility to invest in various markets and regions of the world. Risk-Factor strategies provide diversification and downside protection during extreme events. Staff is also developing and utilizing risk systems to forecast a range of market conditions and the Total Fund's performance under these conditions. These will be used to guide staff in their asset allocation decisions and protect CalSTRS' assets.

Efforts in Fiscal Year to Achieve Return

Implement Allocation to Global Macro Hedge Funds

Global Macro Hedge Funds use a variety of financial instruments to gain from fluctuations in asset prices caused by economic changes in many regions of the world. These assets typically include derivatives on currencies, commodities, futures, fixed income and equity indices. Global Macro should perform during periods of high volatility and financial distress when macroeconomic data tends to drive asset prices. This offers diversification and downside protection to CalSTRS' portfolio.

Over the past year and a half, CalSTRS has been working through the RFP process and negotiating a contract with Lyxor Asset Management to act as CalSTRS' hedge fund consultant. The contract with Lyxor is expected to be signed in June 2011. CalSTRS plans to open dedicated managed accounts on Lyxor's managed account platform (MAP). These accounts would custody CalSTRS' assets with a firm that is independent of the hedge fund manager. This provides greater asset protection and transparency, which reduces the risk of fraud, provides CalSTRS with the flexibility to move its assets during periods of financial distress, and offers greater insight into potential risks at the hedge fund and in the industry. With input from Lyxor, CalSTRS will select managers with low correlation to other managers and CalSTRS' Total Portfolio to construct a diversified portfolio.

Implement Allocation to Commodities

Commodities historically exhibit low correlation to equities and bonds and can play a valuable role as a hedge against inflation or negative events such as geopolitical unrest. In effect, commodities may act as an insurance policy, realizing low single-digit returns over the long run but generating large payoffs in the event of a negative shock. However, commodity investment performance can be more volatile than equities. Staff has begun the Alternative Solicitation Process (ASP) to identify long-biased active commodity managers. Commodity investment can take various forms and staff will also examine investments in physical commodities and agriculture for the second phase of the commodity allocation.

Implement Allocation to Risk-Factor Based Strategy

Over the past fiscal year, staff has explored investments that are correlated to positive trending equity markets, yet emphasize risk management and tail risk hedging to limit drawdowns during extreme events. During the recent market crisis, many asset classes shared several risk exposures and demonstrated high positive correlations, failing to provide protection against a severe drawdown. Managers that allocate to risk factors rather than to traditional asset classes follow the premise that correlations between risk factors are typically low and a portfolio diversified across these risk factors would have added downside protection not exhibited in traditional portfolios. Three key challenges for these strategies are: (1) determining which risk factors are rewarded, (2) identifying a global, investable set of asset classes that provide the cleanest exposure to the factor, and (3) forecasting when to enter and exit exposures.

Increase Staffing

The first two years of the Innovation unit were spent establishing the framework to evaluate new strategies and presenting in-depth studies on hedge funds, commodities, risk factor-based investing, microfinance, liability driven investing, real estate benchmarks and insurance-linked products. This research was completed with the current staffing of a director, a portfolio manager and an investment officer. As the three new strategies discussed previously are implemented in the Innovation portfolio, regular monitoring of managers and the portfolio is critical. It will be challenging with current staffing levels to both manage portfolios and continue to research as many strategies as are available or that the Investment Committee requests. Therefore, another portfolio manager position approved for the fiscal year 2010-2011 will be filled. Furthermore, as the number of Innovation strategies increases, this may warrant the creation of a stand-alone "alternatives" allocation to CalSTRS' strategic allocation.

Continue Development of the Fund-Wide Risk Management Program

Early this year, with the assistance of industry experts, PCA and staff identified six risk factors that explain the majority of CalSTRS' portfolio investment performance. The six risk factors identified are: Global Economic Growth, Interest Rates, Inflation, Liquidity, Leverage/Financing and Investment Governance Risk. The model is expected to help CalSTRS staff better identify and monitor risk and changes in risk to provide input on the direction of the investment portfolio.

Issue Request for Proposal (RFP) for a Risk System

In June 2008, after careful review and evaluation, CalSTRS selected the BarraOne risk management system to aide staff in managing risk across the entire CalSTRS portfolio. While the six factors discussed previously help CalSTRS monitor the macroeconomic risks across the Total Portfolio, BarraOne provides additional insight into other macroeconomic factors within asset classes. This enhances CalSTRS' ability to appropriately monitor and analyze the risk characteristics in the Total Portfolio and is a critical component to understand which factors drive the return of the various asset classes. The BarraOne contract expires at the end of the fiscal year 2011-2012. Staff will issue a RFP to identify a comprehensive risk tool to forecast factors influencing expected returns of various asset classes across the Total Fund.

Regular Convening of Risk Oversight Committee

In 2011, staff established an internal Risk Oversight Committee (ROC). The committee will meet on a monthly basis and is chaired by the lead investment officer of Risk. The primary duties and responsibilities include evaluating fund-wide risk exposures and tolerances, and assessing the steps management has taken to monitor, control and report such risk exposures.

Fulfill Compliance, Business Continuity and Other Responsibilities

Assuming staffing resources under the Deputy CIO are added during the fiscal year 2011-12, these responsibilities will be transitioned to his unit for oversight and execution. This transfer of responsibilities will free up staffing resources to focus on the measurement and analysis of investment risk.

Operations Unit Description

Operations Assets	**$150,000,000,000**
Expected Cost to Produce Net Profit	Incorporated within all other asset classes.

Our CalSTRS mission is securing the financial future and sustaining the trust of California's educators. We accomplish this by our investment philosophy of buying long-term stable cash flows at a reasonable price. Our mission is to beat our benchmark and add alpha to the Total Fund. Investment Operations plays a major role in achieving our mission by working in conjunction with the global master custodian to protect investment assets, which enables Investment Management to concentrate on generating alpha.

Investment Operations provides middle-office support and services for internal and external portfolio management activities. Our focus is on all aspects of asset management operations, from new program launches to coordination of the Investment section of the CAFR. We manage a segment of the cash allocation which is used to fund benefit payments, ensure end-of-day cash is invested and that funds are made available to cover purchases in other asset classes or investment programs. In addition, Investment Operations manages the processing of daily cash movements, transactions and settlements, cash forecasting, performance reporting and portfolio controls over cash, accruals and positions.

Further to the ongoing mission and core business processes, Investment Operation's is cognizant of the ever changing financial, regulatory and pension environment. Because of its plan design, CalSTRS is considered a 'hybrid' plan consisting of the Defined Benefit Program, the Defined Benefit Supplement Program, and Pension2. Opportunities may exist with Pension2 for CalSTRS to manage a pool of those assets in-house and as such, a unitized fund structure would be necessary. A unitized fund structure allows pooled assets while retaining individual net asset values which are calculated daily. Unitization will likely result in an increase in staff, service provider costs and supporting technologies.

In order for the Investments branch to manage the complexity of a $150 billion fund, we must invest in technology that rapidly connects us to the marketplace, providing us with valuable investment information to manage market and operational risk. To do so, we leverage and manage strategic partnerships with various vendors and service providers such as State Street Bank, State Controller's Office, State Treasurer's Office, and Blackrock.

Efforts in Fiscal Year to Protect the Assets – Operational Risk Management

We seek to minimize operational risks and establish effective controls by using portfolio management tools to perform independent quality verifications of the custodian and front office systems. Operational risk refers to potential causes of loss arising from deficiencies in internal controls, human errors, physical systems failures and other business execution risks, as well as external events.

Risks associated with enterprise wide and accounting projects must also be identified and managed. Investment Operations works with Accounting on projects such as the Investment Accounting Project (IAP) and the Corporate Accounting Resource Management (CARM) project. The purpose of the IAP is to enhance the current accounting procedures and processes as they relate to accounting for CalSTRS' investment portfolio and CARM is to improve fiscal management efficiency and effectiveness while mitigating operational risks. Essentially, with the purchase of SAP software, CalSTRS will build a platform to support business management tools to provide enhanced information to management for decision-making purposes. The Investments branch will be both a user and customer of the SAP system. As such, implementation of this system will take us from 'business as usual' to a 'business changing environment', which introduces other levels of risk such as overlap of resources, interfaces, and organizational risk that must be controlled. As we strive to implement newly created administrative policies and procedures here at CalSTRS, this directly impacts our ability to effectively support investment initiatives while we do our best to meet the deadlines of our daily critical functions. This requires robust prioritization by investment management since new investment strategies and other business projects compete for existing Investment Operation's resources.

Reputation and financial risks are minimized with the operational support and expertise of staff. For instance, we mitigate the risk that we will not have sufficient cash balances available to pay benefits by communicating our cash needs to the Investments branch. A cash management discussion and plan to fund the cash account is reviewed at our monthly Tactical Asset Allocation meetings. Since our cash asset allocation target is one percent and with our non-investment negative cash flows, constant vigilance is required to ensure sufficient cash balances are available to pay benefits.

Other efforts that Investment Operations is focusing on to protect the assets and reduce operational risk are:

- Continued development of effective controls by enhancing portfolio management tools to perform independent quality verifications between the custodian and front office systems.
- Automating trade processing.
- Continued development of written procedures to mitigate operational risks associated with new investment strategies. Procedures require frequent review to ensure they are updated and reflect the current operating environment.

With dedicated CalSTRS staff and the assistance of major service providers (i.e. State Street Bank), we have been successful in establishing internal controls and procedures which are used on a daily basis to mitigate operational risks. As CalSTRS' investment programs and enterprise-wide projects evolve, the corresponding operational risks must be managed and mitigated. New complex strategies, projects and internal management increases workloads and introduces risks that must be controlled.

Efforts in Fiscal Year to Support Cost Reduction

Investment Operations is a support unit which is responsible for the day-to-day business management for the Investments branch. We leverage technology to a large degree, which allows us to keep overall personnel costs down. Investment Operations is always looking for cost savings, efficiencies and opportunities to reduce fees. In fact, we achieved cost savings by negotiating a custody fee reduction for our Home Loan Program and most recently, we negotiated a significant fee reduction with our real estate cash management vendor.

Additionally, as we look for and implement new technologies to support internally managed strategies, this will provide cost savings and increase efficiency, which will enable Investment Operations to retire a reconciliation tool used solely for internal controls over equity transaction activity. As presented at the June 2011 Investment Committee meeting, the cost savings for the internally managed non-U.S. dollar contributions and distributions for Private Equity, Real Estate and Corporate Governance assets are estimated to be approximately $2 million annually.

Key Initiatives in Fiscal Year 2011-12

The Investment Operations team in conjunction with the asset classes will focus on implementing the initiatives approved at the conclusion of the Internal/External Management Study presented at the June 2011 Investment Committee meeting.

Initiatives include:

- Implement an enterprise investment management system - work with the Global Equities unit to implement end-to-end internal equity trade order management system (OMS) focusing on investment strategies that we can manage internally:
    - Russell 3000 passive strategy.
    - U.S. tactical passive strategies.
- Implement an internally managed fixed income high yield strategy;

- Implement an internally managed non-U.S. dollar contributions and distributions (currency management);
- The Investment Operations team will implement a procedural change to the Defined Benefit Supplemental asset allocation to include private assets (real estate and private equity) as presented at the June 2011 Investment Committee meeting.
- The Investment Operations team will continue to work with Accounting on the following:
  - Ongoing support of the Investment Accounting Project Phase II, which is scheduled to end December 2011; continuous support and participation in the CalSTRS Complex Securities Group (CCSG).
  - Participate on Accounting's Corporate Tax Project team to ensure compliance with federal and state tax requirements for investment manager fees.
  - Ongoing support of the implementation of the Corporate Accounting Resource Management (CARM) as a user and customer of the SAP system.
  - Real Estate and Accounting to continue efforts on evaluating the existing Real Estate Cash Management process with the goal of developing an effective implementation plan.

CALSTRS

HOW WILL YOU SPEND YOUR FUTURE?

California State Teachers'
Retirement System
Investments
100 Waterfront Place
West Sacramento, CA 95605-2807
(916) 414-7400 Fax (916) 414-7580
cailman@calstrs.com

November 19, 2010

Wolfhart Hauser, Chief Executive Officer
Intertek Group
25 Savile Row
London W1S 2ES
United Kingdom

Dear Mr. Hauser,

This letter is sent to you on behalf of the California State Teachers' Retirement System (CalSTRS). As you may be aware, CalSTRS is a public pension fund established for the benefit of California's public school teachers over 90 years ago. CalSTRS serves the investment and retirement interests of over 847,000 plan participants. As of October 31, 2010, the CalSTRS portfolio was valued at over **$141 billion**; approximately **$76 billion** of the fund's assets are invested in the public equity markets, on both a domestic and an international basis. A significant percentage of CalSTRS' public equity portfolio is invested in the indexed or passive style of investment management; these stocks do not trade on company news or events; we hold these stocks for the long-term. We do use our corporate governance rights to address issues with corporations that are held in our portfolio; in our view, this strategy is more efficient for the investing considerations of diversification, minimizing risks and costs, and maximizing returns than simply selling a security each time we have shareholder concerns.

Our independent research providers have identified Intertek as doing business in, or with Sudan. Currently, CalSTRS owns 227,419 shares of your company. We are concerned that any possible connection between your company and the terrorist activities or the violation of humanitarian rights taking place in Sudan may negatively affect your business and our investment in your company. We believe that any association with the atrocities taking place in Sudan by your company poses a serious risk to your ability to create sustainable and responsible long-term value creation.

In several states, legislation has been enacted or is being publicly discussed to address investments in companies doing business in or with Sudan. In California, AB2941 requires the California Public Employees' Retirement System and the California State Teachers' Retirement System to encourage companies in which they invest in to act responsibly and not take actions that promote or otherwise enable human rights violations in the Sudan. Additionally, the legislation requires that we periodically follow up with identified companies to ensure they are acting responsibly with regards to Sudan.

In addition, Sudan is not only designated as a terrorist sponsoring country by the United States government, but is also embroiled in domestic conflicts in which the Sudanese government has been charged with arming militia that have engaged in genocide which has been documented by the United Nations Commission of Inquiry on Darfur. As shareowners, we are concerned that companies that do business in Sudan may be perceived as furthering or condoning the egregious human rights violations currently occurring there.

Therefore, we are requesting an updated disclosure of your direct or indirect business activities in Sudan so that we, as fiduciaries, can accurately assess the risk associated with your activities there and make informed investment decisions.

We request that you answer the following questions:

(1) Does your company, any subsidiary of your company, or joint venture thereof (“Affiliated Business Entity”) engage in any direct or indirect business activity in Sudan? If yes, identify the name and nature of such business and how long has such business been taking place?

(2) What portion of you company’s or any Affiliated Business Entity’s current revenue stream is from any direct or indirect business activity in Sudan, and what portion of the company’s or Affiliated Business Entity’s total assets were used to earn said revenue?

(3) Has your company or any Affiliated Business Entity made a capital investment in Sudan?

(4) Has your company or any Affiliated Business Entity entered into any licensing agreement with the Sudan government in order to engage in current or future business activities?

(5) Is your company or an Affiliated Business Entity doing any business with a corporation that is owned by the Sudan government?

(6) How many employees of your company or Affiliated Business Entity are in Sudan?

(7) What fees and/or taxes do your company and/or any Affiliated Business Entity pay to the Sudan government and what are the fees and/or taxes for?

(8) What is your company's perspective on the situation in Sudan's Darfur region and humanitarian issues surrounding the North-South conflict? Has your company taken any action or implemented any policies that are pertinent to relieving that situation?

(9) Has your company or any Affiliated Business Entity done anything to promote and/or protect human rights from the atrocities taking place in Sudan?

If you have any questions, please feel free to contact Philip Larrieu of the Corporate Governance staff at:

Philip Larrieu
Investments – Corporate Governance
100 Waterfront Place, MS-4
West Sacramento, CA 95605-2807
(916)414-7417

I trust this letter conveys the urgency of this matter and we hope to meet with you soon.

Sincerely,

Christopher Ailman
Chief Investment Officer

HOW WILL YOU SPEND YOUR FUTURE?

California State Teachers'
Retirement System
Investments
100 Waterfront Place, MS-04
West Sacramento, CA 95605-2807
(916) 414-7410 Fax (916) 414-7442
asheehan@calstrs.com

September 27, 2011

Fabrizio Di Amato
Chief Executive Officer
Maire Tecnimont S.p.A.
Viale Monte Grappa, 3
20124 Milan, MI, Italy

Dear Mr. Fabrizio Di Amato,

This letter is sent to you on behalf of the California State Teachers' Retirement System (CalSTRS). As you may be aware, CalSTRS is a public pension fund established for the benefit of California's public school teachers over 95 years ago. CalSTRS serves the investment and retirement interests of over 852,000 plan participants. As of August 31, 2011, the CalSTRS portfolio was valued at over **$140 billion**; approximately **$70 billion** of the fund's assets are invested in the public equity markets, on both a domestic and an international basis. A significant percentage of CalSTRS' public equity portfolio is invested in the indexed or passive style of investment management; these stocks do not trade on company news or events; we hold these stocks for the long-term. We do use our corporate governance rights to address issues with corporations that are held in our portfolio; in our view, this strategy is more efficient for the investing considerations of diversification, minimizing risks and costs, and maximizing returns than simply selling a security each time we have shareholder concerns. Currently CalSTRS holds **53,229** worth of Maire Tecnimont S.p.A. stock.

On October 14, 2007, California Governor Arnold Schwarzenegger signed into law AB221 the California Public Divest Iran Act. This law requires CalSTRS and other California pension funds to divest from companies with ties to Iran if certain conditions are met. Currently Maire Tecnimont S.p.A. has been identified as a company that may have problematic ties to Iran.

As a long-term investor, we are concerned with risks posed by companies in our portfolio operating in sensitive areas such as Iran. To address these risks from an investor prospective the CalSTRS Board has adopted a 21-point Geopolitical Risk policy, which is available in the board policy manual at our website www.calstrs.com.

CalSTRS would like to engage in an open dialogue with you regarding your company's ties to Iran. We are requesting full disclosure of your direct or indirect business activities in Iran including purchases from and sales to Iran as well as any risk controls Maire Tecnimont S.p.A. has undertaken to prevent US sanctions. Our goal is to have a complete and accurate understanding of your involvement with Iran so that we, as fiduciaries, can accurately assess the risk associated with your activities there and make informed investment decisions.

To better understand your exposure to Iran and your company's actions around the issue we would also like to meet with you or representatives of your company in person. We believe a meeting in person will help us better understand and be more comfortable with your involvement with Iran. If you are planning to have the appropriate people in the United Sates in the near future, we would appreciate the opportunity to meet with them. We can easily arrange to meet in anywhere in the United States, however, Sacramento, San Francisco, Los Angeles, New York, Chicago, or Washington D.C. are the most convenient for us.

If there are no plans for the appropriate people to be in the United States we often have staff travel abroad and London or Tokyo are the most convenient for us. Lastly, if necessary, we can arrange to have staff meet at your headquarters in Milan.

If you have any questions, please feel free to contact Philip Larrieu of the Corporate Governance staff at:

Philip Larrieu
Investments – Corporate Governance
100 Waterfront Place, MS-4
West Sacramento, CA 95605-2807
(916)414-7417

I trust this letter conveys the urgency of this matter and we hope to meet with you soon.

Sincerely,

Christopher Ailman
Chief Investment Officer

CALSTRS
HOW WILL YOU SPEND YOUR FUTURE?

California State Teachers'
Retirement System
Investments
100 Waterfront Place, MS-04
West Sacramento, CA 95605-2807
(916) 414-7410 Fax (916) 414-7442
asheehan@calstrs.com

September 27, 2011

Nisio Shinji
Chairman
JX Holdings
6-3 Otemachi 2-Chome
Chiyoda-ku
Tokyo 100-8161
Japan

Dear Mr. Nisio Shinji,

This letter is sent to you on behalf of the California State Teachers' Retirement System (CalSTRS). As you may be aware, CalSTRS is a public pension fund established for the benefit of California's public school teachers over 95 years ago. CalSTRS serves the investment and retirement interests of over 852,000 plan participants. As of August 31, 2011, the CalSTRS portfolio was valued at over **$140 billion**; approximately **$70 billion** of the fund's assets are invested in the public equity markets, on both a domestic and an international basis. A significant percentage of CalSTRS' public equity portfolio is invested in the indexed or passive style of investment management; these stocks do not trade on company news or events; we hold these stocks for the long-term. We do use our corporate governance rights to address issues with corporations that are held in our portfolio; in our view, this strategy is more efficient for the investing considerations of diversification, minimizing risks and costs, and maximizing returns than simply selling a security each time we have shareholder concerns.

In California, AB2941 requires the California Public Employees' Retirement System and the California State Teachers' Retirement System to encourage companies in which they invest in to act responsibly and not take actions that promote or otherwise enable human rights violations in the Sudan. Additionally, the legislation requires that we periodically follow up with identified companies to ensure they are acting responsibly with regards to Sudan.

Our independent research providers have identified JX Holdings as doing business in, or with Sudan. Currently, CalSTRS owns 2,660,116 shares of your company. Our previous analysis placed JX Holdings in a "Monitor" status and not subject to divestment. We are requesting an updated disclosure of your direct or indirect business activities in Sudan so that we, as fiduciaries, can accurately assess the risk associated with your activities there and make informed investment decisions.

We request that you answer the following questions:

(1) Does your company, any subsidiary of your company, or joint venture thereof ("Affiliated Business Entity") engage in any direct or indirect business activity in Sudan? If yes, identify the name and nature of such business and how long has such business been taking place?

(2) What portion of you company's or any Affiliated Business Entity's current revenue stream is from any direct or indirect business activity in Sudan, and what portion of the company's or Affiliated Business Entity's total assets were used to earn said revenue?

(3) Has your company or any Affiliated Business Entity made a capital investment in Sudan?

(4) Has your company or any Affiliated Business Entity entered into any licensing agreement with the Sudan government in order to engage in current or future business activities?

(5) Is your company or an Affiliated Business Entity doing any business with a corporation that is owned by the Sudan government?

(6) How many employees of your company or Affiliated Business Entity are in Sudan?

(7) What fees and/or taxes do your company and/or any Affiliated Business Entity pay to the Sudan government and what are the fees and/or taxes for?

(8) What is your company's perspective on the situation in Sudan's Darfur region and humanitarian issues surrounding the North-South conflict? Has your company taken any action or implemented any policies that are pertinent to relieving that situation?

(9) Has your company or any Affiliated Business Entity done anything to promote and/or protect human rights from the atrocities taking place in Sudan?

If you have any questions, please feel free to contact Philip Larrieu of the Corporate Governance staff at:

Philip Larrieu
Investments – Corporate Governance
100 Waterfront Place, MS-4
West Sacramento, CA 95605-2807
(916)414-7417

Sincerely,

Christopher Ailman
Chief Investment Officer

HOW WILL YOU SPEND YOUR FUTURE?

California State Teachers'
Retirement System
Investments
100 Waterfront Place, MS-04
West Sacramento, CA 95605-2807
(916) 414-7410 Fax (916) 414-7442
asheehan@calstrs.com

September 27, 2011

Andrey Baranov
Investor Relations
Gazprom
16, Nametkina Str.,
Moscow, GSP-7, 117997
Russia

Dear Mr. Andrey Baranov,

This letter is sent to you on behalf of the California State Teachers' Retirement System (CalSTRS). As you may be aware, CalSTRS is a public pension fund established for the benefit of California's public school teachers over 95 years ago. CalSTRS serves the investment and retirement interests of nearly 852,000 plan participants. As of August 31, 2011, the CalSTRS portfolio was valued at over **$140 billion**; approximately **$70 billion** of the fund's assets are invested in the public equity markets, on both a domestic and an international basis. A significant percentage of CalSTRS' public equity portfolio is invested in the indexed or passive style of investment management; these stocks do not trade on company news or events; we hold these stocks for the long-term. We do use our corporate governance rights to address issues with corporations that are held in our portfolio; in our view, this strategy is more efficient for the investing considerations of diversification, minimizing risks and costs, and maximizing returns than simply selling a security each time we have shareholder concerns.

In California, AB221 requires the California Public Employees' Retirement System and the California State Teachers' Retirement System to encourage companies in which they invest in to act responsibly and not take actions that promote terrorism or otherwise enable the Iranian pursuit of nuclear weapons. Additionally, the legislation requires that we periodically follow up with identified companies to ensure they are acting responsibly with regards to Iran.

Our independent research providers have identified Gazprom as doing business in, or with the country of Iran. Currently, CalSTRS owns 6148097 shares of your company. Our previous analysis placed Gazprom in a "Monitor" status and not subject to divestment. We are requesting an updated disclosure of your direct or indirect business activities in Iran so that we, as fiduciaries, can accurately assess the risk associated with your activities there and make informed investment decisions.

We request that you answer the following questions:

(1) Does your company, any subsidiary of your company, or joint venture thereof ("Affiliated Business Entity") engage in any direct or indirect business activity in Iran? If yes, identify the name and nature of such business and how long has such business been taking place?

(2) What portion of you company's or any Affiliated Business Entity's current revenue stream is from any direct or indirect business activity in Iran, and what portion of the company's or Affiliated Business Entity's total assets were used to earn said revenue?

(3) Has your company or any Affiliated Business Entity made a capital investment in Iran?

(4) Has your company or any Affiliated Business Entity entered into any licensing agreement with the Iran government in order to engage in current or future business activities?

(5) Has your company or any Affiliated Business Entity made sales of gasoline to Iran?

(6) Has your company or any Affiliated Business Entity purchased oil or Natural gas from Iran?

(7) Is your company or an Affiliated Business Entity doing any business with a corporation that is owned by the Iranian government?

(8) How many employees of your company or Affiliated Business Entity are in Iran?

(9) What fees and/or taxes does your company and/or any Affiliated Business Entity pay to the Iran government and what are the fees and/or taxes for?

If you have any questions, please feel free to contact Philip Larrieu of the Corporate Governance staff at:

Philip Larrieu
Investments – Corporate Governance
100 Waterfront Place, MS-4
West Sacramento, CA 95605-2807
(916)414-7417

Sincerely,

Christopher Ailman
Chief Investment Officer

Attachment G: CalSTRS Portfolio Companies Subject to the California Public Divest from Sudan Act

9 Companies Divested and Restricted					
	Company Name (Domicile)	*Summary of Ties to Sudan*	*Summary of Changes From 2010*	*Shares Held by CalSTRS 11/30/11*	*Market Value ($) of Shares Held by CalSTRS 11/30/11*
1	Bharat Heavy Electricals (India)	Bharat Heavy Electricals has contracts to build power plants in Sudan.	In 2009, Bharat Heavy Electricals was designated as "Restricted." CalSTRS has maintained the "Restricted" designation in 2011.	0	$0
2	Kunlun Energy Co. (formerly CNPC Hong Kong) and Sinopec a linked company (China)	While Kunlun energy has no activity in Sudan, its parent, CNPC, is the largest partner of several oil consortiums that have active oil exploration and production operations in Sudan.	In 2009, Sinopec and its related companies including CNPC Hong Kong were designated as "Restricted." In February 2010, CNPC Hong Kong changed its name to Kunlun Energy Co. Sinopec and all of its subsidiaries, including Kunlun Energy Co., remain "Restricted."	0	$0
3	Dongfeng Motor Group and Dongfeng Automobile Company Ltd. a linked company (China)	Dongfeng Motor Group and Dongfeng Automobile Co. have reportedly supplied military vehicles to the Sudanese government. The companies did not reply to CalSTRS requests for information.	In 2009, DongFeng Motor Group and Dogfeng Automobile Company were designated as "Restricted." CalSTRS has maintained the "Restricted" designation in 2011.	0	$0
4	MISC Bhd (Malaysia)	MISC is a Malaysian shipping company that is linked to Iran through its parent company, Petronas (which is also "Restricted"). Additionally, MISC has a joint venture, which provides shipping services to Sudan.	In 2009, MISC was designated as "Restricted." CalSTRS has maintained the "Restricted" designation in 2011.	0	$0
5	Oil and Natural Gas Company of India (India)	Oil and Natural Gas Company of India (ONGC) has interests in multiple Sudanese oil blocks.	In 2009, ONGC was designated as "Restricted." CalSTRS has maintained the "Restricted" designation in 2011.	0	$0
6	PECD Berhad (Malaysia)	PECD has an ongoing contract to build an oil export terminal in port Sudan.	In 2009, PECD was designated as "Restricted." CalSTRS has maintained the "Restricted" designation in 2011.	0	$0
7	PetroChina and CNPC - as connected corporations to the Chinese National Oil Company (China)	PetroChina has no operations in Sudan but is linked through their parent, CNPC, which has multiple interests in the country.	In 2009, CalSTRS designated PetroChina as "Restricted." CalSTRS has maintained the "Restricted" designation in 2011.	0	$0

	Company Name (Domicile)	*Summary of Ties to Sudan*	*Summary of Changes From 2010*	*Shares Held by CalSTRS 11/30/11*	*Market Value ($) of Shares Held by CalSTRS 11/30/11*
8	Petronas (Malaysia)	Petronas has interest in several oil fields in Sudan.	In 2009, CalSTRS designated Petronas as "Restricted." CalSTRS has maintained the "Restricted" designation in 2011.	0	$0
9	Sudan Telecom Company (Sudan)	Sudatel provides telecommunication services in Sudan and reportedly cut services to villages in Darfur when attacks were imminent.	In 2009, CalSTRS designated Sudan Telecom as "Restricted." CalSTRS has maintained the "Restricted" designation in 2011.	0	$0

0 Companies Under Review

4 Companies Being Monitored

	Company Name (Domicile)	*Summary of Ties to Sudan*	*Summary of Changes From 2010*	*Shares Held by CalSTRS 11/30/11*	*Market Value ($) of Shares Held by CalSTRS 11/30/11*
1	Alstom (France)	Alstom provides parts and installation services for the Merowe Dam project. The company's main involvement in the country is expected to end at the end of 2010 with a two-year warranty period.	In 2009, CalSTRS designated Alstom as "Monitor." CalSTRS has maintained the "Monitor" designation.	210,867	$7,292,330
2	Atlas Copco (Sweden)	Atlas Copco has a sales agreement with a distributor selling mainly mining equipment in Sudan.	In 2009, CalSTRS designated Atlas Copco as "Monitor." CalSTRS has maintained the "Monitor" designation.	A Shares 697,740 B Shares 373,762	A Shares $14,950,315 B Shares $7,116,214
3	JX Holdings (Japan)	JX Holdings was formed through a merger between Nippon Oil and Nippon Mining. Nippon Oil reported in its 2009 Corporate Social Responsibility Report (CSR) that they purchase Sudanese oil in the spot market.	JX Holdings was designated as "Review" in 2010, and the engagement process was started. In 2011, CalSTRS moved JX Holdings to a "Monitor" designation.	2,871,816	$17,793,939

	Company Name (Domicile)	*Summary of Ties to Sudan*	*Summary of Changes From 2010*	*Shares Held by CalSTRS 11/30/11*	*Market Value ($) of Shares Held by CalSTRS 11/30/11*
4	Total SA (France)	Total has a 32.5% interest in Block B in Sudan. The block has been inactive since 1985 due to security concerns. Total is considering resuming operations in Block B but has confirmed to CalSTRS that it will not return until they are satisfied with the security and humanitarian conditions in Sudan.	In 2009, CalSTRS designated Total as "Monitor." CalSTRS has maintained the "Monitor" designation.	Common 2,473,753 Strip 10,000	Common $127,657,229 Strip $13

5 Companies Removed					
	Company Name (Domicile)	*Summary of Ties to Sudan*	*Summary of Changes From 2010*	*Shares Held by CalSTRS 11/30/11*	*Market Value ($) of Shares Held by CalSTRS 11/30/11*
1	Intertek Group plc (United Kingdom)	Intertek's Caleb Brett division provides oil testing services, through an agency agreement with a Sudanese company, to international oil companies operating in Sudan.	Intertek was designated as "Review" in 2010, and the engagement process was started. CalSTRS removed the company from the "Review" list in 2011 for taking substantial action. Although the company has been removed from the CalSTRS list, it is still monitored by our service providers.	166,941	$5,051,745
2	Petrofac Limited (United Kingdom)	Petrofac provides limited technical and management support and materials to operations in Sudan. The Conflict Risk Network (formerly the Sudan Divestment Task Force) has confirmed that they believe the company's humanitarian projects in Sudan meet the criteria of "substantial action."	In 2009, CalSTRS designated Petrofac as "Monitor." CalSTRS removed the company from the "Monitor" list in 2011 for taking substantial action. Although the company has been removed from the CalSTRS list, it is still monitored by our service providers.	501,747	$11,434,745
3	Schlumberger (France)	Schlumberger provides oil field services to several clients in Sudan. The Conflict Risk Network (formerly Sudan Divestment Task Force) has determined Schlumberger's humanitarian activities in Sudan constitute "substantial action."	In 2009, CalSTRS designated Schlumberger as "Monitor." CalSTRS removed the company from the "Monitor" list in 2011 for taking substantial action. Although the company has been removed from the CalSTRS list, it is still monitored by our service providers.	4,101,702	$309,981,212

	Company Name (Domicile)	*Summary of Ties to Sudan*	*Summary of Changes From 2010*	*Shares Held by CalSTRS 11/30/11*	*Market Value ($) of Shares Held by CalSTRS 11/30/11*
4	Seadrill (Norway)	In December 2009, Seadrill reported it was starting its first operation in Sudan in early 2010 and was scheduled to be completed in the third quarter 2010.	Seadrill was designated as "Monitor" in 2010. CalSTRS removed the company from the "Monitor" list in 2011 for taking substantial action. Although the company has been removed from the CalSTRS list, it is still monitored by our service providers.	323,236	$11,240,360
5	Wartsila (Finland)	Wartsila has declared it will fulfill existing contracts in Sudan but has committed to not accept new business in the country. Additionally, Wartsila has committed to support certain humanitarian activities that the Conflict Risk Network (formerly Sudan Divestment Task Force) has determined to be "substantial action."	In 2009, CalSTRS designated Wartsila as "Monitor." CalSTRS removed the company from the "Monitor" list in 2011 for taking substantial action. Although the company has been removed from the CalSTRS list, it is still monitored by our service providers.	250,271	$8,203,574

Attachment H: CalSTRS Portfolio Companies Subject to the California Public Divest from Iran Act

6 Companies Divested and Restricted					
	Company Name (Domicile)	*Summary of Ties to Iran*	*Summary of Changes From 2010*	*Shares Held by CalSTRS 11/30/2011*	*Market Value ($) of Shares Held by CalSTRS 11/30/2011*
1	Daelim Industrial Co. (South Korea)	In June 2009, Daelim Industrial Co. Ltd won a contract to build pipelines for an LNG storage facility in Iran.	In 2009, Daelim Industrial was designated as "Restricted From Additional Purchase." In early 2010, CalSTRS divested holdings of the company and designated the company as "Restricted." CalSTRS has maintained the "Restricted" designation in 2011.	0	$0
2	Kunlun Energy Co. (formerly CNPC Hong Kong) and Sinopec a linked company (China)	Kunlun Energy Company's parent, Sinopec, is linked to Iran through oil exploration contracts and interests, refining, and commercialization of gas processing products.	In 2009, Sinopec and its related companies, including CNPC Hong Kong, were designated as "Restricted." In February 2010, CNPC Hong Kong changed its name to Kunlun Energy Co. Sinopec and all of its subsidiaries, including Kunlun Energy Co., remain "Restricted."	0	$0
3	MISC Bhd (Malaysia)	MISC is a Malaysian shipping company that is linked to Iran through its parent company, Petronas (which is also "Restricted"). Additionally, MISC has several ports of call in Iran.	In 2009, CalSTRS designated MISC as "Restricted." CalSTRS has maintained the "Restricted" designation in 2011.	0	$0
4	Oil and Natural Gas Company of India (India)	Oil and Natural Gas Company of India (ONGC) holds stakes in at least one Iranian gas field and is reportedly considering others.	ONGC was not on the 2009 Iran list but has already been restricted for ties to Sudan. In early 2010, CalSTRS also designated the company as "Restricted" for ties to Iran, as well.	0	$0
5	PetroChina and CNPC - as connected corporations to the Chinese National Oil Company (China)	PetroChina is linked to Iran through its parent, China National Petroleum Corp. (CNPC), which has interests in several Iranian oil and gas projects.	In 2009, CalSTRS designated PetroChina as "Restricted." CalSTRS has maintained the "Restricted" designation in 2011.	0	$0
6	Petronas (Malaysia)	Petronas has interest in multiple gas fields in Iran that are in the production phase. Additionally, in 2010, the company reportedly ceased supplying refined products to Iran. However, the company stated it is due to Iran's lack of demand and has not pledged to cease activities in the country.	In 2009, CalSTRS designated Petronas as "Restricted." CalSTRS has maintained the "Restricted" designation in 2011.	0	$0

10 Companies Under Review					
	Company Name (Domicile)	*Summary of Ties to Iran*	*Summary of Changes From 2010*	*Shares Held by CalSTRS 11/30/2011*	*Market Value ($) of Shares Held by CalSTRS 11/30/2011*
1	L'Air Liquide (France)	As of August 2011, L'Air Liquide, a France-based gas company, had operations in Iran through subsidiary, Lurgi, which was involved in oil and petrochemical engineering projects in the country.	In 2011, CalSTRS identified L'Air Liquide as potentially having ties to Iran and began the review process.	255,491	$32,315,600
2	Aker Solutions ASA (Norway)	In 2009 Aker Solutions acquired Wirth Gmbh. Wirth is reported to be doing work for an entity that the U.S. government believes is a subsidiary of the Iran Revolutionary Guard.	In 2011, CalSTRS identified Aker Solutions as potentially having ties to Iran and began the review process.	501,190	$5,847,188
3	Doosan Heavy Industries and Construction (South Korea)	Doosan is reportedly constructing storage tanks and terminals in Iran.	In 2011, CalSTRS identified Doosan Heavy Industries and Construction as potentially having ties to Iran and began the review process.	1,676	$95,482
4	Hyundai Heavy Industries (South Korea)	Hyundai Heavy Industries is reported to have ties to Iran through the supply of equipment for facilities and the delivery of ships and tankers to Iran state-owned companies.	In 2011, CalSTRS identified Hyundai Heavy Industries as potentially having ties to Iran and began the review process.	738	$173,731
5	Maire Tecnimont S.p.A. (Italy)	Maire Tecnimont is reported to have an agreement with PetroPars, the Iranian stat owned oil company, for development of a gas treatment plant.	In 2011, CalSTRS identified Maire Tecnimont as potentially having ties to Iran and began the review process.	43,296	$65,335
6	Mitsui Engineering & Shipbuilding (Japan)	Mitsui Engineering & Shipbuilding has two projects in advanced stages of construction. The company has reported its plans to complete its current obligations but plans no further activities in Iran.	In 2010, CalSTRS designated Mitsui Engineering and Shipbuilding as "Monitor." CalSTRS received contradictory information on the company in 2011 and moved the company back into the review process.	721,299	$1,077,814
7	Polskie Gornitwo Naftowe i Gazownictwo (Poland)	PGNiG is reported to have an agreement for increasing production of an oilfield in Iran.	In 2011, CalSTRS identified Polskie Gornitwo Naftowe i Gazownictwo as potentially having ties to Iran and began the review process.	391,334	$482,875
8	SGS SA (Switzerland)	SGS is reportedly engaged in verification and testing of oil and gas in Iran.	In 2011, CalSTRS identified SGS as potentially having ties to Iran and began the review process.	31,612	$53,453,681

	Company Name (Domicile)	*Summary of Ties to Iran*	*Summary of Changes From 2010*	*Shares Held by CalSTRS 11/30/2011*	*Market Value ($) of Shares Held by CalSTRS 11/30/2011*
9	SNC-Lavalin Group Inc. (Canada)	SNC-Lavalin Group reportedly provides engineering, construction, and management services for the oil and gas sector in Iran.	In 2011, CalSTRS identified SNC-Lavalin Group as potentially having ties to Iran and began the review process.	161,172	$7,925,842
10	Toyo Engineering Corporation (Japan)	Toyo Engineering reportedly works on a gas processing plant contract for PetroPars.	In 2011, CalSTRS identified Toyo Engineering Corporation as potentially having ties to Iran and began the review process.	136,000	$491,769

3 Companies Being Monitored

	Company Name (Domicile)	*Summary of Ties to Iran*	*Summary of Changes From 2010*	*Shares Held by CalSTRS 11/30/2011*	*Market Value ($) of Shares Held by CalSTRS 11/30/2011*
1	CNOOC (China)	According to CNOOC's most recent 20-F Filing, the company does not have any ties to Iran, but its state owned parent may. In 2011, CalSTRS staff met with executives of the company in their offices in Beijing. The company confirmed its parent may have ties to Iran, but they do not and will not seek business in Iran as they have and are looking to purchase more assets in the United States.	In 2009, CalSTRS designated CNOOC as "Further Review." CNOOC was being considered for divestment because of the lack of clarity between it and its parent when it was announced CNOOC was buying 33% of Chesapeake Energy's stake in the Eagle Ford Shale project in south Texas. CalSTRS viewed this purchase as significant because it gives CNOOC U.S.-based assets that could be subject to sanctions. In 2011, CalSTRS designated the company as "Being Monitored." Currently, the GAO designates the company as "Active." CalSTRS hopes to discuss the company with the GAO to determine if they are only referring to the CNOOC parent and evaluate what types of approvals the company has received to purchase assets in the United States. Currently, CalSTRS has no holdings in CNOOC but are aware managers would be interested in the company if its status less ambiguous.	0	$0

	Company Name (Domicile)	*Summary of Ties to Iran*	*Summary of Changes From 2010*	*Shares Held by CalSTRS 11/30/2011*	*Market Value ($) of Shares Held by CalSTRS 11/30/2011*
2	Gazprom (Russia)	In July 2008, Gazprom signed an MOU with the NIOC, which expired in July 2010. Additionally, Gazprom Neft, a subsidiary of Gazprom, signed an MOU with the NIOC providing for joint exploration of oil fields in Iran.	In 2009, CalSTRS designated Gazprom as "Further Review." In 2010, CalSTRS designated Gazprom as "Monitor" after confirming the company has no current investments in the country. In 2011, CalSTRS maintained Gazprom as "Monitor" as the GAO stated they have insufficient information on the company's activities. CalSTRS hopes to work with the company and GAO to clarify the company's position.	ADR (USA) 3,180,826 ADR (UK) 2,874,343 144A 53,140	ADR (USA) $36,579,499 ADR (UK) $33,054,945 144A $3,034,663
3	PTT (PTT E&P – Subsidiary) (Thailand)	PTT, through its subsidiary PTT Exploration and Production, has an interest in an oil block in Iran and contracts to supply fuel to the country. In 2011, it was confirmed that PTT abandoned its interest in the Iran oilfield and confirmed it would stop doing business after fulfilling its current contracts.	The company was designated as "Review" in early 2010. After the company confirmed its ties and intent to continue its relationship in Iran, PTT and its subsidiaries were designated as "Restricted." In 2011, CalSTRS has removed the company from the "Restricted" list and placed them to "Monitor" status pending completion of their current contracts.	PTT PCL 242,300 PTT E&P 332,900	PTT PCL $2,378,691 PTT E&P $1,660,762

23 Companies Removed					
	Company Name (Domicile)	*Summary of Ties to Iran*	*Summary of Changes From 2010*	*Shares Held by CalSTRS 11/30/2011*	*Market Value ($) of Shares Held by CalSTRS 11/30/2011*
1	Alstom (France)	Alstom maintains an office in Iran but has not taken on new business in the country for several years.	In 2009, CalSTRS designated Alstom as "Monitor." In 2011 CalSTRS removed Alstom from the "Monitor" list. The company continues to be monitored by our research providers.	210,867	$7,292,330
2	AP Moeller Maersk (Denmark)	In July 2010, the Maersk was fined by the Office of Foreign Assets Control (OFAC) for providing shipping services to and from Iran without a license. In 2011, CalSTRS met with the CEO of the company who confirmed the business with Iran was the result of an IT deficiency that has been resolved.	In 2011, Maersk was added to the "Review" list and subsequently removed after meeting with management. The company continues to be monitored by our research providers.	A Shares 490 B Shares 1,210	A Shares $3,185,982 B Shares $8,279,195

	Company Name (Domicile)	*Summary of Ties to Iran*	*Summary of Changes From 2010*	*Shares Held by CalSTRS 11/30/2011*	*Market Value ($) of Shares Held by CalSTRS 11/30/2011*
3	ENI S.P.A. (Snam Rete Gas S.P.A - Subsidiary) (Italy)	ENI has interests in three Iranian oilfields which are in the recovery phase. In February 2010, ENI committed to withdraw from Iran and not take on any further Iranian business.	In 2009, CalSTRS designated ENI and Snam Rete Gas as "Monitor." In 2011, CalSTRS removed ENI and Snam Rete Gas from the "Monitor" list. The company continues to be monitored by our research providers.	ENI 4,320,544 Snam Rete 2,360,061	ENI $90,879,355 Snam Rete $10,928,871
4	Essar Energy PLC (United Kingdom)	Iran is reportedly the largest supplier of crude oil to Essar Energy. In 2011, CalSTRS met with executives of the company who confirmed they did buy oil from Iran but have been actively reducing the amounts purchased. The company has no commitments to purchase Iranian crude but only does so if it is the most economical when there is capacity. Additionally, the company confirmed they are not exporting any refined products to Iran.	In 2011, Essar Energy was added to the "Review" list and subsequently removed after meeting with management. The company continues to be monitored by our research providers.	265,100	$970,241
5	Finmeccanica (Italy)	Finmeccanica has been involved in the preparation of construction of power plants, and providing aluminum smelters and turbines to state-owned Iranian Mines and Mining Industries Development and Renovation Organization and Iran Power Plant Projects Management Company.	In 2011, Finmeccanica was added to the "Review" list and subsequently removed after the company confirmed it had ceased accepting business from Iran and would only fulfill existing commitments. The company continues to be monitored by our research providers.	344,573	$1,488,949
6	GS Holding Corp and GS Engineering & Construction – Subsidiary (South Korea)	In 2009, the company disclosed it had been awarded a contract to participate in a gas treatment project in Iran. In July 2010, the company announced it was cancelling the contract.	In 2009, CalSTRS designated GS Holdings as "Restricted From Additional Purchase" and was divested in early 2010. After the company confirmed to CalSTRS in November 2010 that it had cancelled its gas sweetening contract and was not seeking new business in Iran, it was removed from the "Restricted" list and designated as "Monitor." In 2011, CalSTRS removed GS Holding Corp and GS Engineering and Construction from the "Monitor" list. The company continues to be monitored by our research providers.	131,663	$10,508,152

	Company Name (Domicile)	*Summary of Ties to Iran*	*Summary of Changes From 2010*	*Shares Held by CalSTRS 11/30/2011*	*Market Value ($) of Shares Held by CalSTRS 11/30/2011*
7	Hyundai Engineering and Construction Co. (South Korea)	Hyundai Engineering and Construction does not appear to have any current projects in Iran but does have an office in Tehran and expressed interest in taking on projects in the past.	Hyundai Engineering and Construction was designated "Non-Holdings that Possibly Meet the Divestment Criteria." In late 2010, one of CalSTRS managers purchased shares of Hyundai Engineering and Construction, and CalSTRS moved the company to "Review" and began the engagement process. In 2011, CalSTRS removed Hyundai Engineering and Construction from the "Review" list as they have not taken on new investment in Iran. The company continues to be monitored by our research providers.	1,296	$73,153
8	INPEX (Japan)	INPEX held a 10% stake in an Iranian oilfield, which it withdrew from in 2010, and committed to stop doing business in Iran.	In 2009, CalSTRS designated INPEX as "Monitor." In 2011, CalSTRS removed INPEX from the "Monitor" list. The company continues to be monitored by our research providers.	2,425	$15,743,913
9	Itochu (Japan)	Itochu is part of a joint venture high density polyethylene plant with the Mehr Petrochemical Company.	CalSTRS designated the company as "Monitor" in 2009. In 2011, CalSTRS removed Itochu from the "Monitor" list as not being in a restricted industry, and the company has not taken on new Iranian business. The company continues to be monitored by our research providers.	2,532,078	$25,778,257
10	Linde AG (Germany)	The Linde Group has not had involvement in the Iranian petroleum industry since 2007. However, Linde does have business units in Iran that market specialty gasses for industrial, food processing, and medical applications.	In 2009, CalSTRS designated Linde as "Monitor." In 2011, CalSTRS removed Linde from the "Monitor" list. The company continues to be monitored by our research providers.	1,389,266	$24,313,358
11	Lukoil (Russia)	Lukoil has withdrawn from Iran due to international pressure and its exposure to United States markets, where it has 2,000 retail gas stations. In March 2010, the company announced it was suspending work on the Anaran field where it had a service contract to explore the field but required no investment on its part. Additionally, in April 2010, the company committed to stop supplying oil to Iran through its trading arm.	In 2009, CalSTRS designated Lukoil as "Monitor." In 2011, CalSTRS removed Lukoil from the "Monitor" list. The company continues to be monitored by our research providers.	ADR (USA) 413,968 ADR (UK) 232,400	ADR (USA) $23,269,141 ADR (UK) $13,037,640

	Company Name (Domicile)	*Summary of Ties to Iran*	*Summary of Changes From 2010*	*Shares Held by CalSTRS 11/30/2011*	*Market Value ($) of Shares Held by CalSTRS 11/30/2011*
12	OMV (Austria)	OMV had a 34% stake in the Mehr Block of Iran until the end of 2009, but the assets were written off as the field was found to be economically unviable. The consortium withdrew in early 2009, and OMV wrote off the assets. Additionally, OMV had an MOU to develop parts of the South Pars project but withdrew.	In 2009, CalSTRS designated OMV as “Monitor.” In 2011, CalSTRS removed OMV from the “Monitor” list. The company continues to be monitored by our research providers.	163,657	$5,419,551
13	Petrofac Limited (United Kingdom)	Petrofac Limited has one office in Tehran, but it was not clear if they have any business in Iran since completing a project in 2007.	Petrofac was designated as “Review” in 2010 and the engagement process was started. In 2011, CalSTRS removed Petrofac from the “Monitor” list as they have not taken on any new business with Iran. The company continues to be monitored by our research providers.	501,747	$11,434,745
14	Petroleo Brasileiro “Petrobras” (Brazil)	Petrobras had a contract to explore an oil block in Iran that expired in July 2009. The company has stated they have no further activities or plans in Iran.	In 2009, CalSTRS designated Petrobras as “Monitor.” In 2011, CalSTRS removed Petrobras from the “Monitor” list. The company continues to be monitored by our research providers.	ADR (Level 2) 2,063,400 ADR (Level 3) 973,550 Bonds 34,050,000	ADR (Level 2) $55,691,166 ADR (Level 3) $24,406,899 Bonds $37,224,195
15	Repsol (Spain)	Repsol withdrew from the South Pars development in June 2010. Additionally, Repsol terminated contractual relationships regarding three other exploration blocks in 2009.	In 2009, CalSTRS designated Repsol as “Monitor.” In 2011, CalSTRS removed Repsol from the “Monitor” list. The company continues to be monitored by our research providers.	1,172,193	$35,338,149

	Company Name (Domicile)	*Summary of Ties to Iran*	*Summary of Changes From 2010*	*Shares Held by CalSTRS 11/30/2011*	*Market Value ($) of Shares Held by CalSTRS 11/30/2011*
16	Royal Dutch Shell (United Kingdom)	Royal Dutch Shell is linked to Iran through two buy-back contracts that are in the recovery phase. Additionally, Shell was part of a consortium with a tentative agreement to develop fields in the South Pars gas field. Shell and its partners never reached a final agreement and withdrew from the project in January of 2010.	In 2009, CalSTRS designated Royal Dutch Shell as “Monitor.” In 2011, CalSTRS removed Royal Dutch Shell from the “Monitor” list. The company continues to be monitored by our research providers.	A Shares (UK) 2,739,229 A Shares (Netherlands) 2,023,937 ADR 45,700 B Shares 2,808,877 Bonds $53,370,000	A Shares (UK) $95,815,651 A Shares (Netherlands) $70,510,675 ADR $3,199,000 B Shares $100,990,908 Bonds $58,172,781
17	Sasol Ltd. (South Africa)	Sasol has a joint venture polyethylene plant in Iran with the state owned National Petrochemical Company.	CalSTRS designated the company as “Monitor” in 2010. In 2011, CalSTRS removed Sasol from the “Monitor” list. The company continues to be monitored by our research providers.	426,327	$20,484,226
18	Siemens AG (Germany)	Siemens AG announced in January 2010 and confirmed to CalSTRS staff that it would end its business with Iran by mid-2010. CalSTRS did not find the activities of Siemens’ business with Iran prior to 2010 met the criteria for divestment.	In 2009, CalSTRS designated Siemens as “Monitor.” In 2011, CalSTRS removed Seimens from the “Monitor” list. The company continues to be monitored by our research providers.	1,031,740	$104,151,908
19	Statoil (Statoil Fuel and Retail – Subsidiary) (Norway)	Statoil is tied to Iran through a contract on the South Pars gas field that has been turned over to the NIOC but will continue to assist the NIOC for a limited time during the transition. Additionally, Statoil has two exploration contracts that are on hold. Statoil announced in 2008 that it will withdraw from Iran after the fulfillment of its current contracts.	In 2009, CalSTRS designated StatoilHydro (the company’s previous name) as “Monitor.” In 2011, CalSTRS removed Statoil from the “Monitor” list. The company continues to be monitored by our research providers.	Statoil Common 1,541,904 Statoil Bonds 1,840,000 Statoil F & R Common 104,779	Statoil Common $39,853,324 Statoil Bonds 2,124,925 Statoil F & R Common $817,366

	Company Name (Domicile)	*Summary of Ties to Iran*	*Summary of Changes From 2010*	*Shares Held by CalSTRS 11/30/2011*	*Market Value ($) of Shares Held by CalSTRS 11/30/2011*
20	Technip (France)	Technip is completing contracts relating to an ethylene plant in Iran. The company was involved in Iran's oil and gas sector through completion of contracts for onshore engineering of the Persian (Iran) Liquefied Natural Gas Project. However this project was suspended in August 2010.	In 2009, CalSTRS designated Technip as "Monitor." In 2011, CalSTRS removed Technip from the "Monitor" list. The company continues to be monitored by our research providers.	231,195	$21,987,923
21	Total SA (France)	Total SA no longer has operations in Iran but is tied to the country through two buy-back contracts, which are in the cost-recovery phase. The company has pledged to withdraw and not seek further business in the country.	In 2009, CalSTRS designated Total as "Monitor." In 2011, CalSTRS removed Total SA from the "Monitor" list. The company continues to be monitored by our research providers.	Common 2,473,753 Strip 10,000	Common $127,657,229 Strip $13
22	Trevi-Finanziaria Industriale S.P.A. (Italy)	Trevi-Finanziaria Industriale had a contract to work on the foundations at a port in Iran that was completed in September 2009. The company confirmed it completed its project in 2009.	In 2010, CalSTRS designated Trevi-Finanziaria as "Monitor." In 2011, CalSTRS removed Trevi-Finanziaria from the "Monitor" list. The company continues to be monitored by our research providers.	33,508	$267,032
23	The Weir Group PLC (United Kingdom)	The Weir Group reportedly provides services for South Pars 15 & 16. In 2011, CalSTRS met with executives of the company who confirmed Weir had 3 contracts relating to water infrastructure and mining, all in the warranty phase that they have to honor. The company stopped accepting new business in Iran in the middle of 2010.	In 2011, Weir was added to the "Review" list and subsequently removed after meeting with management. The company continues to be monitored by our research providers.	389,440	$12,617,726

CALSTRS
HOW WILL YOU SPEND YOUR FUTURE?

California State Teachers'
Retirement System
Investments
100 Waterfront Place, MS-04
West Sacramento, CA 95605-2807
(916) 414-7400 Fax (916) 414-7533
cailman@calstrs.com

October 24, 2010

Salvador Alemany Más
Chairman & Chief Executive Officer
Abertis Infraestructuras SA
Avinguda del Parc Logístic, 12-20
Barcelona, Calalonia
Spain

Dear Salvador Alemany Más,

This letter is sent to you on behalf of the California State Teachers' Retirement System (CalSTRS). As you may be aware, CalSTRS is a public pension fund established for the benefit of California's public school teachers over 95 years ago. CalSTRS serves the investment and retirement interests of over 852,000 plan participants. As of September 30, 2011, the CalSTRS portfolio was valued at over **$136 billion**; approximately **$66 billion** of the fund's assets are invested in the public equity markets, on both a domestic and an international basis. A significant percentage of CalSTRS' public equity portfolio is invested in the indexed or passive style of investment management. We use our corporate governance rights to address issues with corporations that are held in our portfolio; in our view, this strategy is more efficient for the investing considerations of diversification, minimizing risks and costs, and maximizing returns than simply selling a security each time we have shareholder concerns. CalSTRS currently holds $5,771,258 worth of Abertis Infraestructuras SA securities in our portfolio.

Under a 1999 California Law, CalSTRS is required to monitor our portfolio for companies that have operations in Northern Ireland. In addition to the law, CalSTRS investments are governed by a 21-point Geopolitical Risk Policy that can be accessed in our Board Policy Manual found on our website www.calstrs.com. CalSTRS has contracted with ISS, a subsidiary of MSCI Inc., to provide us with information on companies that have operations in Northern Ireland. Furthermore, ISS reports on the companies' identified efforts towards inclusiveness in Northern Ireland. Abertis Infraestructuras SA has been identified as having operations in Northern Ireland and not having taken substantial action towards inclusiveness. As long-term investors, we encourage Abertis Infraestructuras SA to take substantial action such as adopting the MacBride principles to address this issue.

If you have any questions, please feel free to contact the CalSTRS corporate governance staff at:

CalSTRS - Corporate Governance Unit
Investments
100 Waterfront Place, MS-4
West Sacramento, CA 95605

Sincerely,

Christopher Ailman
Chief Investment Officer

CALSTRS
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California State Teachers'
Retirement System
Investments
100 Waterfront Place, MS-04
West Sacramento, CA 95605-2807
(916) 414-7400 Fax (916) 414-7533
cailman@calstrs.com

October 24, 2011

Sabao Umeda
Chairman
Kajima Corporation
Minato-Ku 1-3-1 Motoakasaka
Tokyo, Japan

Dear Sabao Umeda

This letter is sent to you on behalf of the California State Teachers' Retirement System (CalSTRS). As you may be aware, CalSTRS is a public pension fund established for the benefit of California's public school teachers over 95 years ago. CalSTRS serves the investment and retirement interests of over 852,000 plan participants. As of September 30, 2011, the CalSTRS portfolio was valued at over **$136 billion**; approximately **$66 billion** of the fund's assets are invested in the public equity markets, on both a domestic and an international basis. A significant percentage of CalSTRS' public equity portfolio is invested in the indexed or passive style of investment management. We use our corporate governance rights to address issues with corporations that are held in our portfolio; in our view, this strategy is more efficient for the investing considerations of diversification, minimizing risks and costs, and maximizing returns than simply selling a security each time we have shareholder concerns. CalSTRS currently holds $5,212,633 worth of Kajima Corporation securities in our portfolio.

Under a 1999 California Law, CalSTRS is required to monitor our portfolio for companies that have ties to World War II forced labor. In addition to the law, CalSTRS investments are governed by a 21-point Geopolitical Risk Policy that can be accessed in our Board Policy Manual found on our website www.calstrs.com. CalSTRS has contracted with ISS, a subsidiary of MSCI Inc., to provide us with information on companies that have exposure to forced labor during World War II and Kajima Corporation has been identified as having outstanding legal issues relating to World War II Forced Labor. As long-term investors, we encourage Kajima Corporation to resolve any outstanding issues relating to forced labor as soon as possible to mitigate the risks this issue poses to investors.

If you have any questions, please feel free to contact the CalSTRS corporate governance staff at:

CalSTRS - Corporate Governance Unit
Investments
100 Waterfront Place, MS-4
West Sacramento, CA 95605

Sincerely,

Christopher Ailman
Chief Investment Officer