California State Teachers' Retirement System
Investment Reports

December 31, 2012

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 441, Statutes of 2011 (AB 1151-Feuer) - Iran.
- Chapter 341, Statutes of 1999 (SB 105-Burton) - Northern Ireland.

Background on CalSTRS

With over 99 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 1,700 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 $154 billion as of November 30, 2012. Historically, investment returns have contributed roughly 60 percent 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 board reviewed 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

In July 2012, the board 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, to provide data on companies with operations in Northern Ireland. CalSTRS has contracted with two external service providers, ISS and IW Financial, to be our providers 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, Amnesty International, Human Rights Watch, the American Israel Public Affairs Committee (AIPAC), United Against Nuclear Iran (UANI), the Government Accounting Office (GAO), California Department of General Services (DGS), and other public pension plans. The information from these sources is compiled, vetted and compared to the CalSTRS portfolio. After reviewing the information, staff determines which companies potentially meet the criteria of the statutes.

The companies identified are then presented to the 21 Risk Factor Review Committee (formerly the ESG Risk Committee and Geopolitical Risk Committee). In 2011, the Geopolitical Investments Review Committee was expanded to review all environmental, social and geopolitical risks to the fund. Additionally, the committee was expanded from fixed income and equity to include representatives of all asset classes and operations. In 2012, the committee was renamed the 21 Risk Factor Review Committee. The 21 Risk Factor Review Committee consists of 12 senior staff members: the Chief Investment Officer, the Deputy Chief Investment Officer, two senior staff members from Global Equities, two senior staff members from Fixed Income, two senior staff members from Corporate Governance, one senior staff member from Private

Equity, one senior staff member from Real Estate, one senior staff member from Operations, and one senior staff member from the Innovation and Risk Group. The committee reviews the companies identified to determine if they meet the requirements of the laws. Companies that are determined to meet the requirements of the law that require divestment 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 identified as potentially meeting the requirements of an applicable law, they receive a letter requesting information on their ties to the respective restricted area (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 21 Risk Factor Review 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 review their portfolios to monitor for possible related securities.

Additionally, CalSTRS continues 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

CalSTRS identified a list of 24 companies with some level of business operations in Sudan prior to the enactment of Chapter 442. 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 an 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 three companies in the second tier or “Being Reviewed” category (determining if criteria for divestment is met). Lastly, CalSTRS has identified three companies in its portfolio that have ties to Sudan but do not meet the requirements for divestment. CalSTRS maintains these companies on its list in the “Being Monitored” category (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 three 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 has 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. This list provided the basis for the CalSTRS Iran Divestment list. The list was based on the information provided by independent research providers, NGOs and engagement work.

The initial list has been continuously updated, and currently, companies that are determined to meet the requirements of the law are placed on the Iran Restricted list. It should be noted that on November 21, 2011, President Obama signed Executive Order 13590 and on August 10, 2012, signed H.R. 1905, the Iran Threat Reduction and Syrian Human Rights Act of 2012, which strengthened and expanded sanctions against Iran beyond those specified in the California statute. In applying the CalSTRS Geopolitical Risk Policy, CalSTRS has expanded our research to comply with federal sanctions, which has increased the number of companies being reviewed and, in some cases, the reevaluation of previously reviewed companies. Currently, the initial list is maintained in three sections: Restricted Companies (Iran Restricted list), 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 identified 30 companies with ties or possible ties to Iran. Currently, seven 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 of 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 October 2012, the 21

Risk Factor Review Committee added CNOOC (Chinese National Offshore Oil Company) to the list of restricted securities.

In addition to the seven "Restricted" companies, there are 16 companies in the "Being Reviewed" category or second tier (determining if criteria for divestment are met). Staff has 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" or "Being Monitored" or removed from the list.

Lastly, CalSTRS is monitoring seven companies in its portfolio that have ties to Iran or concerns regarding Iran under our Geopolitical Risk Policy but do not meet the requirements of the law. 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 12 companies that were in either the "Being Reviewed" or "Being Monitored" categories for ties to Iran. CalSTRS has not removed any names that were previously restricted. 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 has met with identified companies in London, Geneva and Zurich. In December 2012, the United States Securities and Exchange Commission (SEC) issued seven Compliance and Disclosure Interpretations (CDIs) to help companies comply with the Syria Human Rights Act of 2012 mandate to disclose ties to sanctionable activity involving Iran. CalSTRS believes this increased disclosure requirement will better enable our identifying and monitoring of companies with ties to Iran.

CalSTRS Report on Northern Ireland Related Securities

Process

CalSTRS contracted with 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 $2,138,150,860 worth of equity with exposure to Northern Ireland, which represents 2.70 percent of CalSTRS' equity holdings. Additionally, CalSTRS holds $501,481,515 worth of bonds with exposure to Northern Ireland, which represents 1.77 percent of its fixed income portfolio. In total, CalSTRS holds $2,639,632,375 worth of securities with exposure to Northern Ireland, which represents 1.71 percent of the total fund.

CalSTRS has identified 57 holdings representing 50 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 11/30/12
Abertis Infraestructuras SA	Stock	325,618	$4,758,008
AGF Management Limited	Stock	69,114	$614,362
AstraZeneca PLC	Bonds	18,708,000	$22,058,501
AstraZeneca PLC	Stock	1,250,481	$59,451,091
Ayala Corporation	Stock	72,124	$848,767
Bank of Ireland	Stock	17,854,040	$2,600,748
Barclays PLC	Bonds	76,175,000	$77,819,097
Barclays PLC	Stock	13,709,024	$54,048,049
Bouygues SA	Stock	316,558	$7,816,415
Britvic PLC	Stock	190,366	$1,208,156
Carpetright PLC	Stock	27,312	$306,401
Celesio AG	Stock	102,341	$1,738,347
Compagnie De Saint Gobain SA	Stock	531,468	$21,206,850
Debenhams PLC	Stock	891,753	$1,684,988
Deutsche Beteiligung	Stock	4,436	$104,658
DFDS A/S	Stock	1,469	$66,589
DSV A/S	Stock	2,140,689	$50,533,368
Electrolux AB	Stock	304,853	$7,970,761

Essilor International SA	Stock	527,928	$50,981,763
Fred Olsen Energy ASA	Stock	25,416	$1,122,829
GlaxoSmithKline PLC	Bonds	38,580,000	$40,745,556
GlaxoSmithKline PLC	Stock	5,228,705	$111,828,139
Halfords Group PLC	Stock	171,852	$939,728
Harvey Norman Holdings Limited	Stock	432,506	$814,437
HCL Technologies Limited	Stock	82,320	$222,936
Heineken NV	Bonds	6,180,000	$6,183,034
Heineken NV	Stock	325,474	$21,466,123
Hibu PLC	Stock	965,960	$4,180
Independent News & Media PLC	Stock	38,865	$2,275
Interserve PLC	Stock	148,428	$865,638
J D Wetherspoon PLC	Stock	106,092	$924,954
John Menzies PLC	Stock	37,922	$364,958
Kerry Group PLC	Stock	111,631	$5,843,303
Kone Oyj	Stock	158,864	$11,901,225
Lafarge SA	Bonds	5,600,000	$6,259,791
Lafarge SA	Stock	185,526	$10,778,651
Lagardere SCA	Stock	96,939	$2,918,095
Lloyds Banking Group PLC	Bonds	2,270,000	$3,354,943
Lloyds Banking Group PLC	Stock	40,873,937	$30,457,279
Mears Group PLC	Stock	92,624	$482,442
Metro AG	Stock	196,286	$5,496,384
Metso Oyj	Stock	132,687	$4,989,076
PostNL N.V.	Stock	304,260	$1,034,018
Randstad Holding NV	Stock	123,107	$4,003,624
Rentokil Initial PLC	Stock	1,337,599	$1,929,331
Sandvik AB	Stock	1,954,626	$29,193,019
Smurfit Kappa Group PLC	Bonds	400,000	$407,225
Smurfit Kappa Group PLC	Stock	134,011	$1,574,680
Teleperformance SA	Stock	42,458	$1,477,710
Terumo Corporation	Stock	184,842	$7,822,221

ThyssenKrupp AG	Stock	791,282	$16,023,729
TNT Express N.V.	Stock	292,531	$2,853,493
United Drug PLC	Stock	199,455	$827,910
Willis Group Holdings Limited	Stock	490,467	$17,205,582
Wolseley PLC	Stock	322,637	$14,979,629
Workspace Group PLC	Stock	112,174	$528,360
WS Atkins PLC	Stock	79,908	$983,535
		Stock	$577,798,812
		Bonds	$156,828,147
		Total	$734,626,959

CalSTRS has identified 102 holdings representing 82 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 11/30/12
3i Group PLC	Stock	792,438	$2,687,320
Adecco SA	Stock	129,424	$6,397,156
Aer Lingus Group PLC	Stock	204,514	$290,728
Akzo Nobel NV	Stock	196,412	$11,224,623
Allianz SE	Stock	490,954	$63,821,542
Anglo American PLC	ADR	68,400	$948,708
Anglo American PLC	Bonds	13,770,000	$14,742,313
Anglo American PLC	Stock	1,390,490	$38,609,651
Aon PLC	Stock	791,368	$44,949,702
Associated British Foods PLC	Stock	277,213	$6,566,386
Aviva PLC	Stock	2,613,880	$14,682,907
Axa SA	Bonds	5,595,000	$6,620,662
Axa SA	Stock	2,505,340	$28,789,987
Banco Santander, SA	Bonds	7,500,000	$7,594,818
Banco Santander, SA	Stock	14,727,163	$79,856,381
Berendsen PLC	Stock	142,000	$1,319,942
Bombardier Inc.	Bonds	2,432,000	$2,596,512
Bombardier Inc.	Stock	1,332,348	$4,707,849
BT Group PLC	Bonds	18,000,000	$27,838,354
BT Group PLC	Stock	6,855,626	$25,655,021
Bunzl PLC	Stock	286,411	$4,723,277

Capita PLC	Stock	529,158	$6,466,415
Carillion PLC	Stock	320,702	$1,496,175
Compass Group PLC	Stock	2,108,645	$24,365,600
CRH PLC	Bonds	15,000,000	$16,441,554
CRH PLC	Stock	554,365	$10,133,516
Danske Bank A/S	Stock	661,223	$11,337,788
DCC PLC	Stock	67,024	$2,023,589
Deutsche Lufthansa AG	Stock	230,133	$3,819,208
Deutsche Post AG	Stock	1,014,014	$21,048,470
Diageo PLC	ADR	69,672	$8,330,681
Diageo PLC	Bonds	8,080,000	$9,049,255
Diageo PLC	Stock	2,500,914	$74,430,175
Dixons Retail PLC	Stock	2,667,886	$1,175,386
Ferrovial SA	Stock	334,554	$4,958,202
Fujitsu Limited	Stock	1,942,673	$7,349,509
G4S PLC	Stock	1,100,511	$4,359,947
Getinge AB	Stock	1,541,940	$49,671,277
Glanbia PLC	Stock	159,440	$1,632,316
Grafton Group PLC	Stock	174,550	$845,681
Hays PLC	Stock	1,110,714	$1,384,906
Home Retail Group PLC	Stock	811,893	$1,453,417
HSBC Holdings PLC	Bonds	143,983,000	$150,034,510
HSBC Holdings PLC	Stock	4,401,410	$44,976,355
Huhtamaki Oyj	Stock	66,944	$1,088,342
Hutchison Whampoa Limited	Bonds	4,130,000	$4,452,666
Hutchison Whampoa Limited	Stock	2,029,577	$20,871,773
J Sainsbury PLC	Stock	1,038,046	$5,679,610
Kingfisher PLC	Stock	2,164,764	$9,644,811
Kingspan Group PLC	Stock	2,066,140	$21,951,713
Koninklijke Philips Electronics NV	Stock	892,367	$23,049,762
Kuehne & Nagel International AG	Stock	41,454	$4,993,811
Kyocera Corporation	Stock	161,751	$14,886,505
Ladbrokes PLC	Stock	657,571	$2,052,910
Linde AG	Stock	167,784	$29,012,328
Marks and Spencer Group PLC	Stock	1,535,971	$9,615,096
Michelin SCA	Stock	230,671	$21,453,763

Mitchells & Butlers PLC	Stock	178,075	$882,431
Mitie Group PLC	Stock	261,257	$1,123,799
Mothercare PLC	Stock	78,432	$388,096
Next PLC	Stock	169,415	$9,940,082
Nortel Networks Corporation	Bonds	1,635,000	$1,756,475
Nutreco N.V.	Stock	25,010	$2,039,180
Onex Corporation	Bonds	17,740,000	$20,124,834
Onex Corporation	Stock	80,804	$3,310,739
Pace PLC	Stock	224,764	$659,919
Premier Foods PLC	Stock	192,912	$296,030
Provident Financial PLC	Stock	104,266	$2,150,600
Rexel SA	Bonds	200,000	$215,235
Rexel SA	Stock	949,135	$14,782,900
Rolls-Royce Group PLC	Stock	1,827,424	$26,080,243
RPS Group PLC	Stock	177,354	$603,433
Ryobi Linited	Stock	95,000	$216,564
Schlumberger N.V.	Stock	4,025,702	$288,320,777
Seagate Technology PLC	Bonds	300,000	$322,192
Serco Group PLC	Stock	616,362	$5,403,331
Signet Jewelers Limited	Stock	309,977	$16,661,264
Sodexo SA	Stock	79,319	$6,405,346
SuperGroup PLC	Stock	28,624	$279,833
Tata Steel Limited	Stock	4,675	$33,192
Telefonica SA	Bonds	23,145,000	$23,886,711
Telefonica SA	Stock	4,096,212	$53,754,805
Tesco PLC	Stock	8,891,272	$46,325,407
Thales SA	Stock	66,569	$2,394,360
The Royal Bank of Scotland Group PLC	Bonds	23,558,661	$22,565,000
The Royal Bank of Scotland Group PLC	Stock	1,758,349	$8,318,783
Thomas Cook Group PLC	Stock	657,517	$273,980
Travis Perkins PLC	Stock	178,474	$3,186,387
Trigano SA	Stock	4,015	$48,308
TUI AG	Stock	119,304	$1,186,250
Tyco International Ltd.	Stock	1,564,489	$44,384,553
Vodafone Group PLC	ADR	90,450	$2,333,610
Vodafone Group PLC	Bonds	21,814,519	$24,861,111

Vodafone Group PLC	Stock	66,259,210	$148,410,752
Warner Chilcott Limited	Bonds	2,458,645	$2,747,850
Warner Chilcott Limited	Stock	1,197,651	$13,964,611
WH Smith PLC	Stock	122,476	$1,275,859
William Hill PLC	Stock	526,665	$2,846,167
WPP PLC	ADR	92,892	$6,381,680
WPP PLC	Bonds	8,050,000	$8,803,316
WPP PLC	Stock	1,688,287	$23,161,059
Zurich Insurance Group AG	Stock	163,491	$41,737,502
		Stocks	$1,542,357,368
		ADRs	$17,994,679
		Bonds	$344,653,368
		Total	$1,905,005,416

Shareholder Proposals Relating to Northern Ireland

In 2012, 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.

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.

Attachment B

•GROWING MEMBERS' FINANCIAL FUTURES•

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

CalSTRS INVESTMENTS BRANCH BUSINESS PLANS

Fiscal Year 2012-13

CALSTRS
HOW WILL YOU SPEND YOUR FUTURE?

Attachment B

TABLE OF CONTENTS

INVESTMENTS CORE VALUES

The CalSTRS Investments Branch core values are a set of attitudes, beliefs and behaviors that define CalSTRS and its employees.

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.

INVESTMENTS

This year's theme is tied to our Teacher focus, **"4.0 - Straight A's".** We have four core initiatives for the Investments Branch.

» **Achieve an Absolute Return of 7.5% and/or Outperform Our Benchmark**

» **Advance our People and Abilities for Internal Management and Innovation**

» **Aspire to be Cost Efficient with Tight Operational Internal Controls**

» **Assess and Mitigate the Risks and Threats to Meeting our Goals**

Each of the asset class business plans will follow this format and address how they plan to achieve straight A's in each objective. They are also ranked in priority: first manage our assets, both dollars and people; second manage our risks, both internally and externally. With the challenge of the global financial markets and the conversion to a full new SAP accounting system, the Investments Branch will once again have a very full agenda that will tax our time and skills in fiscal year 12-13. Looking back fiscal year 2011-12 was one of our most daunting and challenging years. While the bear market crashes of 2001 and 2008 loom as some of our most difficult days, this past fiscal year and future fiscal year present a unique level of investment risk and contrasting investment opportunity that is just as taxing. Navigating this global debt deleveraging and uncertain financial markets is proving to be one the most difficult of our careers. Will the Euro break up? Will the U.S. grow or not? Risk on or risk off? Add to that the reoccurring challenge of operating within a State government environment and daily stress.

INITIATIVE 1

Achieve an Absolute Return of 7.5% and/or Outperform Our Benchmark

This straightforward objective has remained quite elusive as the U.S. economy grows slowly at 1.9 percent to 2.2 percent GDP and the world struggles with the risk of a full recession in Europe and a slowdown in China. We cannot control the absolute return of the capital markets; the core/bulk of our portfolio is linked to global GDP growth with a clear emphasis on the USA. While we can add value around the edges, we need the U.S. and global economies to grow and corporate earnings to grow in order to generate 7.5 percent.

At the staff level, we can control the objective of beating our benchmarks. We know how they are constructed and we can find ways to attempt to add value with marginal increases in risk. Keep in mind all of our benchmarks are perfectly optimized and operate at zero cost, far from the real world, so the staff has their work cut out for them. In the public market asset classes, (global equity and fixed income) we can invest in almost everything the benchmark tracks. However in the private markets, (Private Equity, Infrastructure, and Real Estate) the benchmarks are approximate and more difficult to beat. We openly acknowledged in 2009 when we shifted to a new real estate benchmark that not only would it be more difficult to beat in normal markets, we also expected we would underperform for several years as we adjusted the portfolio post 2008.

The challenge is tough, but we are up for the task and each asset class is focused on adding their share of value to help the Total fund beat its Policy benchmark and add an additional 60 basis points of extra return. At our current size that's an additional $ 880 million per year.

INITIATIVE 2

Advance our People and Abilities for Internal Management and Innovation

Every year I state it and every year we need to repeat, the most important assets are not just the $150 billion, they are also the people that walk in and out of the turnstiles every day. Just as we invest in the portfolio we need to invest in our people. The investment of growing an Investment Officer 1 into a Portfolio Manager over a ten year period pays CalSTRS back tenfold over the period. The cost of turnover and indoctrination has been documented. A key for the Investment Branch will be transferring the knowledge base from the Baby Boomers to the Gen X and Gen Y staff. In Fiscal 11-12 we saw the start of the Baby Boomer retirements. Four retirements with an average of over 15 years of CalSTRS investment experience, demonstrated the experience drain we will see for the next several years. Each Asset Class needs to get the younger staff involved earlier in their career and exposed to portfolio construction and leadership earlier than each Asset Class Director experienced in their career. This dilemma is not unique to the Investment Branch or CalSTRS; it's the destiny of demographics.

The other staff development opportunity is to increase internal management. In FY 10-11 we have documented that internal management could save us five to ten times the cost of external management. In September 2011, the Investment Committee adopted an Internal Management plan. To date, we are well on our way to transitioning level one and part of level two of the plan. If the schedule holds, we will present level three of the plan for your consideration in the early Summer of 2013.

INITIATIVE 3

Aspire to be Cost Efficient with Tight Operational Internal Controls

Every year we have focused on costs, for good reason. While much in the world of investments remains uncertain, one thing doesn't change, cost is a pure drag on anyone's investment results. But it's not a matter of just cost, because what matters is return, but the key is NET return. We have documented that we've reduced our core investment management costs eight percent over the past two years. We have squeezed and pushed our managers at every turn, but we won't give up. We will apply the same sharp focus on our internal expenses and service providers. We have found that as we explore new strategies they are often very expensive. Therefore the goal of diversification, risk reduction and return enhancement, must come at a net costs, net of the higher fees. The offset will be the increased internal management cost savings.

The other key focus will remain on Internal Controls and a tight control environment. The Investment Branch has always had a strong culture and system of internal controls. Our business processes across the entire Branch have been reviewed by Internal Audits and External Audits. Early in 2012, at the requirement of the CIO, all the Investment units re-wrote their Internal Control documents to refresh them and follow a common format. Every investment transaction process was documented. The external

Auditor is expected to respond with comments in early July. The Investment Branch now has an investment accounting consulting firm under contract, so commencing with this year and forward, we will periodically review key business processes to ensure we are at the cutting edge of our peers and as efficient and risk controlled as possible.

INITIATIVE 4

Assess and Mitigate the Risks and Threats to Meeting our Goals

You can't embark to achieve a goal without prudently assessing the risks and threats. Therefore I've asked each asset class to step back and consider what challenges there will be to achieving the previous objectives. For all of us some are obvious. As of June 2012, the US economy is anemic and muddling through. The global financial markets are held hostage to the events in Europe and the increasing slow moving global deleveraging. Individually and collectively these external threats can derail our abilities to achieve the stated goals as they did in FY 11-12. To combat this threat we are continuing to work on our risk tools and risk overlay strategies. We are also changing the internal structure of our Tactical Asset Allocation committee and our Equity Return / Opportunistic committee to be a bit more nimble and flexible to the market environment. I predict that for the next three years, the ability to clearly and swiftly identify risks and then react in a meaningful way will be the key to success for large institutional portfolios.

INVESTMENT COMMITTEE WORK PLAN

As we consider our objectives and look at the Investment Committee's work plan they all intersect at the tri-annual Asset / Liability Study, scheduled to start in September. As discussed at the June Investment Committee meeting we will take as long and as many meetings as needed to give each and every Board member the opportunity to ask questions and formalize their appetite for the proper level of risk and return for the Defined Benefit portfolio. Following the successful format of the past two studies we will engage PCA and their actuary to run a full stochastic study that focuses in on four key factors and the weighting of those factors. Given the historically low interest rates we will also need to spend time on the capital market assumptions as critical inputs to the model. With the tremendous focus on public pension plans and the expected rate of return this study is as important as any we have embarked on.

10 YEAR FINANCIAL PLAN

For the past ten years, the Investment Branch has been developing and managing to a 10 year financial plan. Despite coming though one of the most volatile and difficult decades in financial history, the plan worked as an invaluable tool during both bear and bull market extremes. Possibly the best measure of its value is that it has become the model of other peers, today at least five other State pensions plans use the CalSTRS planning tool.

To build a plan for an investment organization, there are two key drivers; first, assets under management (AUM); second, the complexity of the portfolio structure and number of asset types. While more difficult to measure, we can use our peer group to provide data points for both key attributes. On Page 9 is the road map of potential portfolio size AUM. On the next page, Page 10 is the comprehensive resource plan. External investment management fees are by far the largest driver of costs at nearly $115 million per year currently, which comprises over 70 percent of our total costs. The next largest categories are internal management costs at $20 million, then Consultants and Advisors fees at $8 million, followed by legal and custodian fees at $5 million annually.

In the plan, I have assumed a steady increase in internal management to about 58% of the portfolio, as described in the Internal implementation plan and in line with the average of our global peers. I have also assumed an increasing complexity from the Innovation portfolio. Overall it's important to keep in mind this is a very conservative financial plan. The best piece of evidence to prove that point is that it assumes that we can operate at 2/3rds the staff and 3/4ths of the costs at the same size assets as two of our present day 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. Keep in mind; this is not a formal budget request, just a road map for the future. Since the Investment Branch does not have a formal Budget Change Proposal (BCP) for FY 12-13 and 13-14 by direction of the Board, any requests for additional staff will come directly to the Board with full justification on costs and revenue created.

In each of the past business plans, I have also noted a critical driver of our costs and a serious impediment to producing strong returns is our antiquated business model. It remains such an important problem that it bears repeating again this year. We operate in a business structure designed in the late 1970's to early 80's. As a global money manager, our government business model hampers our efforts and results now more than ever. The difference between our operating model and the best of class was never more evident than the presentation by the Chairman of the Ontario Municipal Board OMERS at the February March Board off-site.

OMERS and the vast majority of the Canadian pension plans have all moved to a very different business model and now act and manage assets like a money management company. In each of the past six Investment Branch business plans, I have cited a 2004 Ennis Knupp study[1] that concluded the Government business model costs a typical fund on average 40 basis points per year. Since our current business model is over 30 years old and has not improved and in fact gotten less effective, it is worthy of noting yet again in the annual business plan. While other matters are more pressing for the Board's time and attention, at the same time it is definitely worth a discussion to evaluate other business and operating models.

[1] Knupp Research, *Can Public Funds Compete?*, June 2004

CALSTRS INVESTMENTS BRANCH 10 YEAR COMPREHENSIVE FINANCIAL PLAN

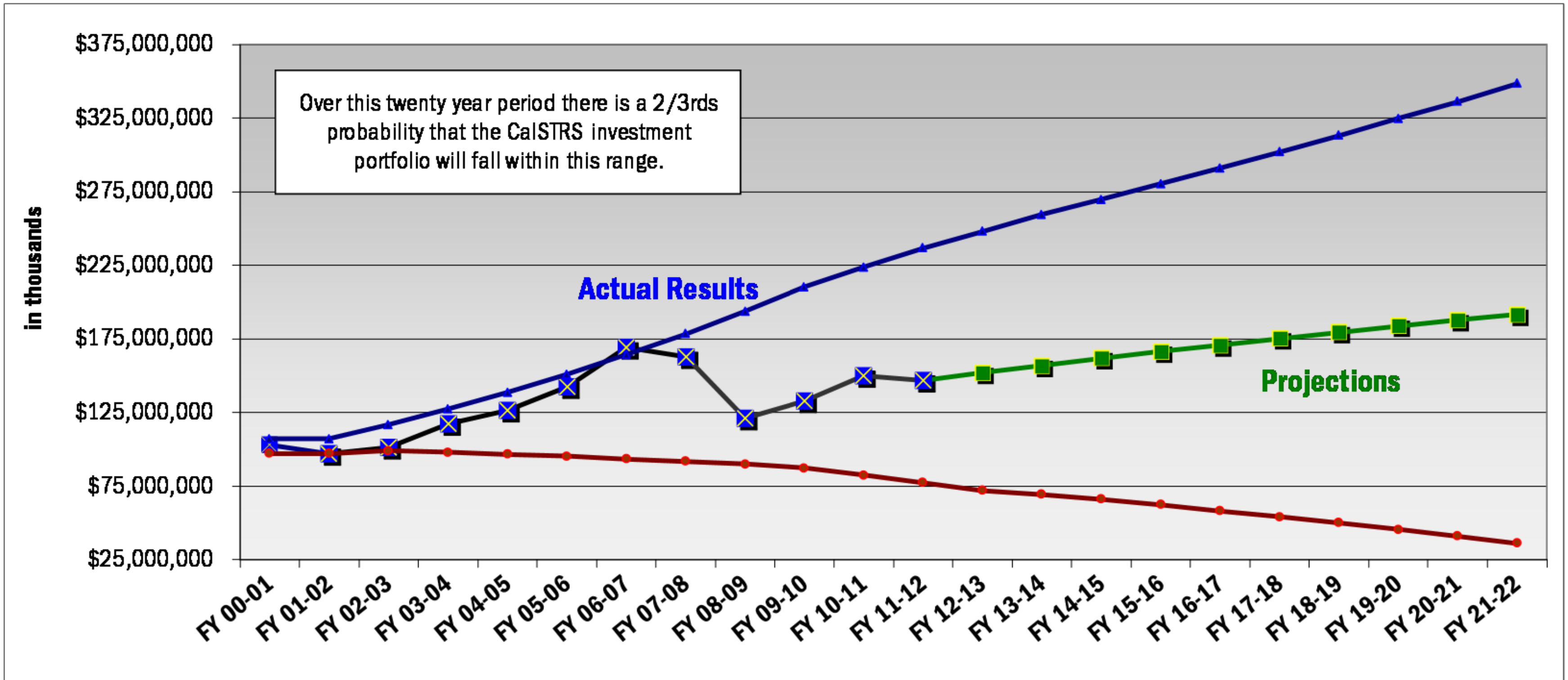
Investments Branch

(In thousands)	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	FY 21-22
Defined Benefit Plan	$ 138,754,000	$ 143,810,550	$ 148,829,341	$ 153,889,542	$ 158,986,257	$ 164,035,227	$ 168,999,869	$ 173,857,859	$ 178,554,198	$ 183,059,763	$ 187,311,246
D.B.S. & Cash Bal.	$ 8,278,000	$ 8,212,440	$ 8,048,191	$ 7,887,227	$ 7,329,483	$ 6,782,893	$ 6,247,235	$ 5,722,291	$ 5,207,845	$ 4,703,688	$ 4,209,614
Pension2s*	$ 349,885	$ 398,874	$ 452,761	$ 512,037	$ 577,241	$ 648,965	$ 727,861	$ 814,647	$ 910,112	$ 1,015,123	$ 1,130,636
Total (less Pension 2)	$ 147,032,000	$ 152,022,990	$ 156,877,532	$ 161,776,769	$ 166,315,740	$ 170,818,120	$ 175,247,104	$ 179,580,150	$ 183,762,043	$ 187,763,451	$ 191,520,860

**PENSION 2 assets: 403(b), 457, Roth IRA & IRA assets managed outside the Investment Branch and not included in growth estimate.*

	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	FY 21-22
Low Return Environment**	$ 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	$ 36,399,426
High Return Environment**	$ 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	$ 348,287,169

***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.*



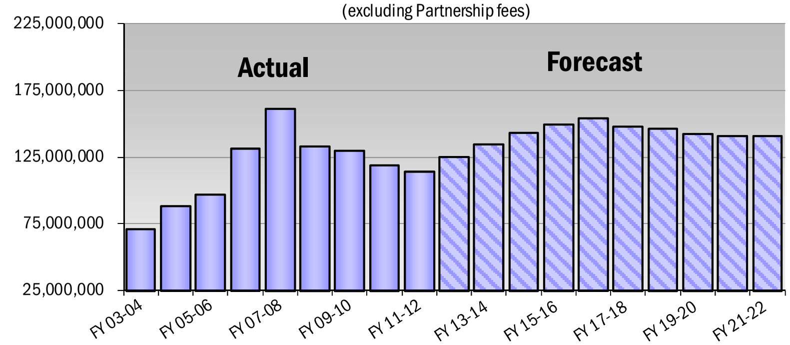
This forecast is based upon the current CalSTRS capital market assumptions over the next ten years. Actual results will vary widely. Since this chart is based upon a ten year average, individual years return can and will vary significantly. The purpose of the chart is to help explain the potential growth 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.

Attachment B

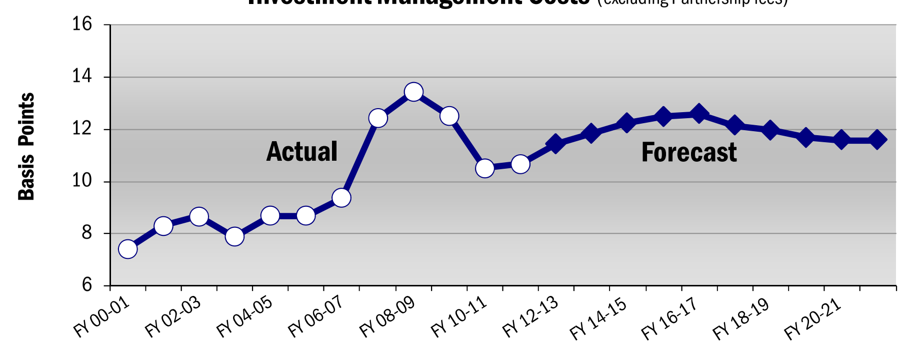
PORTFOLIO GROWTH FORECAST

	Fiscal Year	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	FY 21-22
	Total Assets (in billions)	$ 147.0	$ 152.0	$ 156.9	$ 161.8	$ 166.3	$ 170.8	$ 175.2	$ 179.6	$ 183.8	$ 187.8	$ 191.5
	Investment Branch Support Budget											
1	**Total Staff - PY's** (Personnel years)	**114**	**119**	**122**	**126**	**130**	**134**	**138**	**142**	**146**	**150**	**155**
2	Salaries (w/ Benefits & Est. Incentives)	$ 19,533,044	$ 21,835,415	$ 23,895,727	$ 25,661,071	$ 27,364,792	$ 29,335,456	$ 31,250,224	$ 33,455,111	$ 35,611,828	$ 37,900,541	$ 40,331,008
3	General Expense & IT exp.	143,933	151,130	158,686	166,620	174,951	183,699	192,884	202,528	212,655	223,287	234,452
4	Travel (In State, U.S. & Non-U.S.)	650,886	745,462	797,861	853,997	914,140	978,578	1,047,623	1,121,606	1,200,886	1,285,846	1,376,897
5	CP&S & Misc. (Print, Comm., Training)	622,975	649,103	676,444	705,060	735,019	766,391	799,250	833,676	869,752	907,568	947,216
6	**TOTAL SUPPORT BUDGET**	$ 20,950,838	$ 23,381,110	$ 25,528,718	$ 27,386,749	$ 29,188,902	$ 31,264,125	$ 33,289,981	$ 35,612,922	$ 37,895,121	$ 40,317,242	$ 42,889,573
	Continuous Appropriation											
7	Investment Managers	113,898,194	125,283,321	134,192,534	143,332,979	149,846,022	153,793,136	148,104,981	146,025,427	142,174,919	140,779,331	140,712,558
8	Consultants Fees	8,673,521	9,107,197	9,562,557	10,040,685	10,542,719	11,069,855	11,623,347	12,204,515	12,814,741	13,455,478	14,128,251
9	Custodian & Legal Fees	5,029,144	5,280,601	5,544,631	5,821,862	6,112,955	6,418,603	6,739,533	7,076,510	7,430,336	7,801,852	8,191,945
10	Risk systems (Bloomberg, Blackrock)	3,843,930	4,997,688	5,197,595	5,405,499	5,621,719	5,846,588	6,080,451	6,323,669	6,576,616	6,839,681	7,113,268
11	Corp. Gov. (Expenses & Inv Mngrs)	1,570,334	1,554,814	1,672,391	1,798,966	1,935,234	2,081,945	2,239,906	2,409,988	2,593,131	2,790,345	3,002,722
12	Research & Market Data	1,828,986	1,902,146	1,978,232	2,057,361	2,139,655	2,225,241	2,314,251	2,406,821	2,503,094	2,603,218	2,707,347
13	Trading Systems	1,061,124	2,324,399	2,072,712	2,155,620	2,241,845	2,331,519	2,424,780	2,521,771	2,622,642	2,727,547	2,836,649
14	Misc.	12,350	12,844	13,358	13,892	14,448	15,026	15,627	16,252	16,902	17,578	18,281
15	**TOTAL CONTINUOUS**	$ 135,917,583	$ 150,463,009	$ 160,234,009	$ 170,626,864	$ 178,454,598	$ 183,781,913	$ 179,542,877	$ 178,984,953	$ 176,732,380	$ 177,015,030	$ 178,711,021
17	**TOTAL EXPENSES**	**$ 156,868,421**	**$ 173,844,119**	**$ 185,762,727**	**$ 198,013,613**	**$ 207,643,500**	**$ 215,046,038**	**$ 212,832,858**	**$ 214,597,875**	**$ 214,627,501**	**$ 217,332,272**	**$ 221,600,594**
18	**% of ASSETS (BPs)**	**10.67**	**11.44**	**11.84**	**12.24**	**12.48**	**12.59**	**12.14**	**11.95**	**11.68**	**11.57**	**11.57**

External Investment Manager Costs
(excluding Partnership fees)



Investment Management Costs (excluding Partnership fees)



INVESTMENTS

GOAL
4 Straight A's

A – GLOBAL EQUITY
$74 billion AUM

Global Equity consists of two core programs—External and Internal Asset Management. Ancillary programs include oversight and management of the Developing Manager program, Sustainable Investments program, Cash Equitization program, Stock Distribution program, Directed Brokerage program, and evaluation of investment options for inclusion in Pension2 which consists of 403(b), 457, and Roth 403(b) plans for CalSTRS' members. The primary objective of this asset class is to generate alpha to meet CalSTRS' obligation to pay benefits to its membership.

INITIATIVE 1 – Global Equity

Achieve an Absolute Return of 7.5% and/or Outperform Our Benchmark

Achieving a 7.5 percent return over the short-term is impossible to predict in the equity markets. Since the lows of March 2009, the equity market generated cumulative returns in excess of 100 percent. Over the next fiscal year, protecting this return will remain the top priority. As trends develop in the market, staff will tactically allocate assets to the market segments that exhibit the most rewarding risk/return profile. Over the next fiscal year, staff will continue to participate in most of the equity upside while continuously seeking downside protection.

While challenging and far from certain, generating positive alpha is possible in every market environment. Staff plans on meeting the portfolio's return objectives by carefully evaluating and, where necessary, rebalancing assets between managers, or replacing investment managers, if appropriate.

Our objective is to partner with investment managers who have the highest probability of generating positive alpha. In addition to evaluating investment performance, staff also evaluates a variety of subjective factors including the management team and investment process and philosophy to understand why a manager is able to produce excess returns and to ascertain whether the returns are sustainable. 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 a critical step in achieving alpha.

INITIATIVE 2 – Global Equity

Advance our People and Abilities for Internal Management and Innovation

One of the major accomplishments over the past few years was the integration of the Internal and External Global Equity units into one cohesive unit known as Global Equity. This single unit structure allows maximum flexibility within Global Equity and enables staff to seamlessly transition assets within active managers or between active and passive styles in an extremely cost effective manner.

Global Equity Internal Management				Future
1998	2003	2009	2012	Goal
$1 B	$14.3 B	$15 B	$26.3 B	$40 B

Over the next fiscal year, staff will evaluate a variety of investment strategies that may be appropriate for internal management. Some of the strategies under consideration include an S&P or Russell equal weight passive strategy, U.S. tactical passive portfolios (e.g., Russell 200 [Mega Cap], Russell 1000 Growth, Russell 1000 Value, Russell 2000 Growth, Russell 2000 Value, Russell Mid-Cap, S&P 500), and a Non-U.S. EAFE passively-managed portfolio.

In anticipation of increased responsibility and complexity of managing the portfolio it is imperative that CalSTRS be able to attract and retain qualified and competent staff. CalSTRS has been a long-term supporter of employees pursuing the CFA Charter designation, and readily makes a variety of training classes available to staff. Additionally, Global Equity has started cross-training employees to provide experience in both the internally and externally managed segments of the portfolio. And finally, the Global Equity team works in a collaborative manner to debate and decide a variety issues including asset allocation, risk management, manager selection, and manager termination.

INITIATIVE 3 – Global Equity

Aspire to be Cost Efficient with Tight Operational Internal Controls

Controlling costs continues to be a high priority. Over the past two years, most of CalSTRS' external managers have agreed to lower fee schedules and a better alignment of interests. One component of better alignment is negotiating performance based fee schedules that penalize under-performance while providing reasonable incentives for risk-controlled out-performance. The renegotiated fee schedules resulted in a cost savings of $11.5 million (roughly 15 percent) in 2011; however, management fees may increase in the future if these external managers significantly outperform their benchmarks. Staff also continues to evaluate all external costs, including research and services, and will negotiate reduced costs whenever possible. As additional assets are managed internally, cost savings will naturally occur as internal management is much more cost efficient than external management. In addition to lowering costs, internal management will allow for greater control over assets.

Last year, Global Equity was involved with an external audit to determine whether adequate internal controls are in place. After a comprehensive review of Global Equity's policies, procedures and guidelines, the auditor verified the strong internal control environment and identified only one noteworthy finding, which was to fully automate the trade management function. As a result of this audit, staff initiated a project to implement a state-of-the-art trade and risk management system. This system will fully automate trade order management, compliance, accounting, and risk management oversight.

INITIATIVE 4 – Global Equity

Assess and Mitigate the Risks and Threats to Meeting our Goals

Global interconnectedness remains the primary risk in the global equity markets. This means everything from sovereign debts (e.g., Portugal, Italy, Ireland, Greece, and Spain) to political instability makes the worldwide risks very similar. As uncertainty remains, the markets will react and over-react to the news story of the day. One of the major positives over the last year was the continued strength in earnings, especially in the US market. Earnings remain a positive anchor for the stormy worldwide outlook. Many other speed bumps to continued global growth remain such as the state of the housing market, continued high levels of joblessness, and whether additional quantitative easing is necessary or even possible.

Although this interconnectedness and uncertainty creates risk, it also creates opportunity. Understanding these risks and actively positioning the portfolio to take advantage of opportunities presented by the market will offer the potential to achieve our return objectives.

INVESTMENTS

GOAL

4 Straight A's

B – FIXED INCOME

$28.8 billion AUM

The primary, or core, function of the Fixed Income asset class is to manage the System's allocation to fixed income assets in such a way as to provide diversification to the Total Fund, while maximizing the risk-adjusted return. In addition to the investment management function, other "non-core" investment programs (i.e., Currency Management and Securities Lending) that have been designed to add incremental income to the Fund are also managed within the Fixed Income Unit.

INITIATIVE 1 – Fixed Income

Achieve an Absolute Return of 7.5% and/or Outperform Our Benchmark

Given the extremely low interest rate environment, it is highly unlikely, in our opinion, that rates will trend much lower, such that the Fixed Income Portfolio (Portfolio) will meet the absolute return objective of 7.5% this upcoming year. This is evidenced by the extremely high fixed income risk in the PCA charts. In addition to the absolute return objective, the strategic performance objective for the Fixed Income Portfolio is to outperform the Policy Benchmark [(95%) Barclays Capital Aggregate + (5%) Barclays Capital U.S. High Yield Cash Pay 2% Issuer Constrained Index (ex-tobacco)] over a full market cycle, which is usually considered to be three-to-five years. We expect that we will continue to exceed this benchmark over a market cycle.

Our outlook for the upcoming year is for continued modest economic growth. As a result, we continue to believe that an overweight to spread (non-U.S. Treasury) product will generate better relative returns over the benchmark. However, we are emphasizing higher quality spread sectors as a defensive measure, given our expectations for periodic bouts of market volatility to persist.

Our investment process depends upon a variety of sources to generate outperformance. First, additional value is partially generated by means of a “top down” approach through asset allocation. This method allows staff to form and refine its fixed income allocation (i.e., Treasuries, Mortgages, Credit, etc.), as economic and fundamental data become available and are assessed. Secondly, from this larger overview of data that affects the course of interest rates, we expect to generate value through a combination of sector rotations within portfolios, and individual security selection strategies implemented by each Portfolio Manager and his or her team. Using this potent mix of economic market fundamentals, technical data, and experience, we expect to meet the strategic performance objectives established for the fixed income assets. Various derivative strategies such as futures, swaptions, and credit default swaps have become important tools in this volatile environment, to the extent that they allow us to move quickly and efficiently to protect the Portfolio.

INITIATIVE 2 – Fixed Income

Advance our People and Abilities for Internal Management and Innovation

Looking back over prior CalSTRS Investment Branch Business Plans, a recurring theme has been the growing need to be tactical in developing and implementing investment strategies. This is especially true since the financial crisis. Fixed Income has a long history of managing a significant portion of the portfolios and programs internally. This was highlighted in a multi-period study to the Investment Committee in the Spring of 2011, as being critical to facilitating the ability to be tactical.

This year, staff has completed the Category 1 strategies that were implemented with existing staff and a marginal increase in data needs:

» $500 million of the externally managed High Yield mandate was brought in-house, resulting in an estimated cost savings of $1.35 million, and

» Currency translation of the contributions and distributions for Private Equity, Real Estate and Corporate Governance was brought in-house, resulting in an estimated cost savings of $2.2 million.

Staff will be preparing a more detailed reporting of cost savings for these Category 1 strategies. Staff will also come forward with recommendations for Category 2 strategies that will be presented for the Investment Committee's consideration in the coming year. Category 2 strategies will require an increase in staff and/or equipment.

The CalSTRS Fixed Income team of 21 manages approximately $28 billion in fixed income assets, $21 billion in currency exposure for the Total Fund, and $25 billion in assets on loan and its associated collateral, using a variety of internal and external strategies designed to benefit from both diversification and competition. As a result, continuing education and mentoring are tools that have been and will continue to be critical to the ongoing success of meeting our performance and risk management objectives.

In addition to the more traditional forms of continuing education such as the Chartered Financial Analyst (CFA) program and finance related forums that CalSTRS supports, our organization is in a unique position with our business partners. We view our partners as an extension of our internal team and leverage that relationship to expand our knowledge and expertise.

INITIATIVE 3 – Fixed Income

Aspire to be Cost Efficient with Tight Operational Internal Controls

Another recurring theme over the years has been the need to review, evaluate, and revise the structure of the investment portfolios and programs to be as cost efficient and competitive as possible. As we have learned, the one constant drag on returns over time is investment management fees.

Our cost management philosophy over the years has evolved to a structure in which a majority of the assets within the Fixed Income portfolios and programs are managed internally, with the externally managed portion limited to a small number of partners (i.e., 3-4) with larger mandates. Using this as a general rule of thumb, we believe this approach provides an appropriate level of diversification.

Our methodology gives the manager enough assets to provide what we consider to be significant fee breaks and (as mentioned above) access to educational resources to CalSTRS staff. We envision these external strategies to be an extension of our internal portfolios and programs. Our experience with this approach thus far has been positive.

However, structuring cost efficient portfolios and programs is a constant work in progress that continues to evolve over time and requires a strong set of risk management tools and internal controls to be successful. Policy, guidelines, processes, risk management/trading platforms (i.e., BlackRock Solutions), internal control documentation, and periodic internal audits each contribute and fill an important role, not only in controlling risk, but also in allowing the Fixed Income Unit to seek out additional sources of return and integrate that return into a diversified and risk-controlled portfolio structure. As such, we recently reviewed and updated our processes and internal control documents and we consistently strive to challenge ourselves to identify and demonstrate best practices in these areas.

INITIATIVE 4 – Fixed Income

Assess and Mitigate the Risks and Threats to Meeting our Goals

1. Calling the turn in interest rates – As stated earlier, given the extremely low interest rate environment, it is very unlikely that rates will trend much lower from here. Therefore, the obvious risk that concerns us most is the negative impact on the Fund from increasing interest rates.

   » Staff has a number of tools and strategies designed to manage the portfolio and programs in such an environment, since we have managed in those scenarios before.

     Some of those strategies can include: managing the weighting of spread product and overall portfolio duration, the use of futures and options, and the purchase of floating rate securities. However, it is the turning points that are always difficult to call. As we have witnessed over the past year or two, being early can be costly and cause us to fall short of our performance goals. Therefore, we will be taking some interest rate risk out of the Fixed Income Portfolio, as we feel it makes sense for us to do so.

   » Staff will also be integrating these strategies across the currency and securities lending programs to ensure consistency.

     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.

     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 were to rise quickly, these assets would be significantly impacted. As a result, staff will look to increase the weighting of adjustable rate securities and reduce the overall weighted average maturity of the portfolio.

2 Ability to focus on our core, return-producing priorities – This, too, has been a risk from previous years, as the difficult economic and budgetary environment continues to take its toll in the form of employee uncertainty regarding future pay cuts and/or furloughs. During the previous round of furloughs, open communication and cross-training across the Branch and trading desk facilitated the modified schedule. This is anticipated to be used as a model, should it be necessary in the upcoming year. The Investments Branch has weathered these adversities in the past and will do so again, as needed.

INVESTMENTS

GOAL

4 Straight A's

C – REAL ESTATE

$21.2 billion AUM

The primary, or core, function of the Real Estate asset class is to provide stable cash flows and some capital appreciation, improve diversification, and provide a potential hedge to inflation for the overall portfolio.

INITIATIVE 1 – Real Estate

Achieve an Absolute Return of 7.5% and/or Outperform Our Benchmark

The Real Estate asset class returns are based on a combination of quarterly cash flows, quarterly appraisals and sales executed in each quarter. Our overall projected return goal is 9.25 percent. With the recovering market, we achieved that goal in the last two fiscal years but have underperformed our benchmark. Going forward, we believe valuations gains will be muted compared to last year, but we will be able to approach or exceed our return goal. The demand for real estate remains bifurcated. There is significant demand and aggressive pricing for core assets but 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.

A key initiative that is different this is year is that staff began a directed sales program in late 2011 to raise cash and lower the real estate allocation. This program, which is focused on selling assets that are aggressively priced, should also help CalSTRS achieve its return goals if assets sell above our internal values. We will continue to seek out quality core assets; however, given the pricing differences, our partners will also seek out opportunities to purchase good quality transitional 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.

INITIATIVE 2 – Real Estate

Advance our People and Abilities for Internal Management and Innovation

The Real Estate team is structured in a manner to maximize performance, flexibility and liquidity while minimizing risk from market or product concentrations and leverage. We have four portfolio managers that specialize in specific asset types that we call the four major food groups: Residential – apartments and housing; Industrial – predominantly warehouses; Office and Retail. Each oversees multiple managers that often specialize in that product type nationally or in specific regions. These managers seek out off-market transactions that position CalSTRS to achieve above-market returns. Further, the portfolio managers are responsible for portions of the international investment, as well as domestic funds including specialized products and programs. Our investment officers oversee the day-to-day activities of these relationships. This allows our junior staff to hone their skills across multiple product types and risk levels. It also creates opportunities to apply lessons learned across our internal relationships.

The financial crisis of 2008 continues to reverberate even today as we focus on risk, cash flows, and portfolio management; creating both challenges and learning opportunities for the Real Estate Unit. We have created internal teams and sought out external expertise and technology to attack and address these areas. The net result has been better internal systems for risk management, cash flow analysis and portfolio information. We will continue to improve these areas, which will deepen the education and proficiency of our staff.

As we invest in our portfolio, we should also invest in our people. We do this by communicating through quarterly all-staff meetings, employee surveys and annual employee evaluations including feedback. Through the quarterly staff meetings which have an open agenda various topics are discussed. During these meetings the direction and challenges of the unit are discussed with input from everyone. Additionally, we offer staff opportunities to grow through numerous CalSTRS sponsored classes and outside certifications such as the Chartered Financial Analyst (CFA), Commercial Certified Investment Manager (CCIM) and other distinguishing designations.

INITIATIVE 3 – Real Estate

Aspire to be Cost Efficient with Tight Operational Internal Controls

Real Estate is an externally-managed asset class. However, there are many vehicles in which we can invest that range from separate accounts, joint ventures, REITs and commingled funds. As we seek out the best investment opportunities and managers, we are also mindful of the goals to reduce fees and increase CalSTRS rights and controls. We completed an RFP for core managers and will soon negotiate contracts commensurate with our goals. In our joint ventures and commingled funds, we are negotiating better terms and conditions that we believe will save CalSTRS fees and better align the interests between us and our operating partners. Overall, we continue to favor separate accounts and joint ventures over funds. This alone will help achieve our goals of lowering fees and giving CalSTRS better terms and conditions.

Additional operational requirements from accounting for financial statements and CARM, as well as ongoing audits, require staff to allocate resources to achieve time-sensitive goals. We have dedicated staff responsible for the maintenance and implementation of our internal controls. In an effort to provide accurate and timely information, these controls improve our day-to-day duties but also help streamline the work required to assist accounting in the preparation of the financial statements, as well as the annual audit process. Our last internal audit was performed by KPMG, LLC on 6/30/2010 for the 2009/2010 fiscal year. To date, all findings from this audit have been addressed and implemented.

INITIATIVE 4 – Real Estate

Assess and Mitigate the Risks and Threats to Meeting our Goals

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. Growth has been positive but weak. Consumer confidence, which is a key driver of retail sales and consequently warehouse demand, is up from 2009 lows but not high enough to drive significant new store demand. Interest rates are at historic lows and are driving demand for investment in the real estate asset class. Overall, the market risk for real estate had decreased, but sluggish economic growth is hampering the rebound. Market risk is difficult to mitigate; however, we are addressing this risk by increasing our diversification through the acquisition and disposition of assets as well as pacing our investments to not over or underweight vintage years.

Operating risk is predominantly the development and leasing status of the real estate asset. The continuum of risk (from high to low) is depicted below for a basic real estate asset. Staff monitors the status of our portfolio and works with our managers to complete developments in lease buildings in order to reduce and mitigate these risks.

We have a stated goal to increase our core holdings and decrease our opportunistic holdings. The challenge in today's market is that pricing for core assets is peaking while pricing for value add and opportunistic assets appear more attractive; however with higher risk. Numerous general partners of funds are experiencing instability and insolvency. With this in mind, our staff has actively worked with the general partners to transfer assets to other management firms that are more capable of managing the assets and maximizing value. In many cases, the transfer of these assets was accomplished through enlisting the assistance and participation of other limited partners. We will continue to closely monitor both the assets and managers. Staff is actively managing operating risk through careful oversight of our portfolio and constant communication with our managing partners.

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.

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. Additionally, long term debt (within the leverage policies) has been placed on core assets at historically low rates.

INVESTMENTS

GOAL

4 Straight A's

D – PRIVATE EQUITY

$21.9 billion AUM

The primary objective of the Private Equity asset class is to achieve investment returns that are higher than those achieved in the public equity markets. Private equity investments are intensively managed and illiquid; although more expensive to manage, private equity investments have, relative to public equity investments, historically yielded higher net returns in the long run.

Note that the Credit Enhancement program, which earns fee income by providing credit and liquidity support to variable rate municipal bond issues, is administered by the Private Equity program. This fee income is posted to the new overlay asset class.

INITIATIVE 1 – Private Equity

Achieve an Absolute Return of 7.5% and/or Outperform Our Benchmark

Entering the 2012-13 fiscal year, the Private Equity portfolio continues to outperform its long term benchmarks across almost all time periods (i.e., the 1, 3, 5, 10 year, and since inception time periods). However, the portfolio remains encumbered by large commitments that the program made in the 2005, 2006, 2007, and 2008 vintage years (in aggregate, $25.1 billion over these four years). These commitments were made in anticipation that the overall plan assets would continue to compound in value and be at a much higher level than at present. Unfortunately the global financial crisis of 2008 contracted the plan's overall asset base and this resulted in the Private Equity portfolio becoming over-allocated relative to overall plan assets - a situation that continues presently. This over-allocation has limited and will continue to limit the amount of new private equity commitments initiated in any given fiscal year until the over-allocation situation is alleviated (the situation will be alleviated when the underlying portfolio company investments for the subject vintage years are realized (i.e., sold) by our investment partnerships).

Compounding the over-allocation issue is the ongoing global macro-economic malaise and uncertainty. Staff will only cautiously deploy capital in the buyout sector where the portfolio remains heavily exposed from the 2005 to 2008 vintage years. Certain sectors seem well-positioned to perform even if the economy does not enter a sustained recovery, energy being a notable example. Certain smaller niche private equity managers have displayed an ability to generate high returns even through troubled market conditions. Given the program's reduced commitment pace, some of these smaller managers may find a place in the portfolio whereas previously this would have been impractical. Distressed debt and special situation funds will continue to play an important role with respect to new commitments.

INITIATIVE 2 – Private Equity

Advance our People and Abilities for Internal Management and Innovation

Both opportunities and hazards coexist in the private equity marketplace in the wake of the 2008 global financial crisis. Managers are repositioning and opportunities are being created for new firms, new strategies, and new business models. During this period of change, it is particularly important that our investment team spend a high proportion of their time researching, establishing new relationships, and sharing information amongst the team about the new landscape - determining which of our existing managers remain competitive and also finding new managers with which to partner going forward. Also, as the mix of investments in the portfolio shifts more towards specialty products, co-investments, and separate managed accounts, it is important that staff training keep apace of new developments. Most of the knowledge required to do such investing is highly specialized. Younger staff will mostly learn the requisite skills and knowledge through mentorship from the more experienced staff. As always, participation in formal training programs (in particular the CFA program) continues to be strongly encouraged by CalSTRS and a high proportion of the staff professionals take advantage of this opportunity.

The previous two fiscal year business plans for Private Equity focused on improving the internal procedures and basic infrastructure for the program.

(The 2009-10 business plan took a bottoms-up approach focusing on the decision making process for individual partnerships and the associated internal private equity investment committee review process, and the 2010-11 business plan took a top-down approach focusing on formalizing the program's strategic, tactical, and pacing plan processes). Now that the internal processes for the program have been analyzed and updated, staff intends to focus, in the coming fiscal year, on looking outwards and benchmarking the program against others. Staff will continue to survey the private equity landscape and seek to learn about best practices that have evolved elsewhere.

INITIATIVE 3 – Private Equity

Aspire to be Cost Efficient with Tight Operational Internal Controls

Attention to external fees and manager incentive compensation (i.e., carried interest) is always critical in private equity, as it consumes a significant portion of a partnership's gross return. In periods of slow economic growth, there is a danger that elongated portfolio company holding periods can exacerbate the fee load problem to an even greater degree than normal. To counteract the issue of excessive fee loads in the private equity asset class, staff will continue to take a jaundiced view toward all managers whose fee schedules (in staff's opinion) do not reflect new market realities. Conversely, staff remains accommodating to managers with innovative fee models, sliding scales, separate managed accounts, co-investment arrangements, and other mechanisms to control fee loads.

In the previous year, private equity and credit enhancement further improved its internal control processes. One full time staff person was added to operations to address increased operational accounting and audit compliance requirements. In addition, staff has been evaluating various integrated private equity software solutions to provide more robust and powerful analytics and reporting on a real-time basis. In the coming fiscal year, staff hopes that such dynamic tools will be able to provide deeper insight into the private equity portfolio, drive more informed investment decisions and optimize portfolio investments. Also, in the previous fiscal year, significant time and resources have been expended on the CARM project; in the coming fiscal year, as CARM is implemented, it is hoped that these resources can be redeployed to catch up on various deferred administrative matters.

INITIATIVE 4 – Private Equity

Assess and Mitigate the Risks and Threats to Meeting our Goals

As the private equity landscape changes and the CalSTRS Private Equity team adapts by realigning with some new relationships, discipline must be maintained. The number of new relationships must be kept to a reasonable level and potential new managers must be fully vetted and approached with caution. Also, many well established, successful managers continue to face generational transitional issues; this phenomenon warrants close scrutiny as outcomes are likely to vary significantly. Further scrutiny is also warranted when investing with private equity managers who are publicly held; alignment of interest issues become more complex and must be considered accordingly.

Risk in the public finance markets remains elevated. The Credit Enhancement team will continue its strategy of the last several years of roughly maintaining the program's overall size while only underwriting low risk, high quality new commitments focusing on essential services.

INVESTMENTS

GOAL
4 Straight A's

E – CORPORATE GOVERNANCE
$3.473 billion AUM

The primary roles of the Corporate Governance (CG) asset class are to help our portfolio companies improve their governance profiles and to gain alpha by working in partnership with our external governance managers.

INITIATIVE 1 – Corporate Governance

Achieve an Absolute Return of 7.5% and/or Outperform Our Benchmark

Due to the specialized nature of the CG investment strategy, the target for the CG managers is to outperform the benchmark by 150 basis points through the implementation of governance reforms at our portfolio companies. Achieving this implied 9.0% absolute return over the next year will be a challenge as we navigate what are expected to be turbulent financial markets. By design, the CG managers hold concentrated portfolios and invest in underperforming companies, and this type of portfolio structure has traditionally been susceptible to underperformance in down or uncertain markets as investors migrate to higher performing companies. Despite these headwinds, we believe we can achieve our performance goal by continuing to partner with managers who have demonstrated an ability to create value in volatile markets and by seeking new managers who we believe can outperform in uncertain conditions.

Our external managers will continue to advocate for traditional governance reforms, such as executive compensation programs that align with long term value creation and board representation that promotes the best interests of shareholders, as well as work for better capital allocation discipline, all of which we believe unlocks greater value in the companies in which we invest. For the next year, CG staff will also be focusing on engaging companies to adopt and enforce better capital allocation decisions and governance reforms to improve performance which we believe will translate to improved market performance.

INITIATIVE 2 – Corporate Governance

Advance our People and Abilities for Internal Management & Innovation

The CG team is structured to take advantage of the skill sets of its personnel and to improve their skill sets with the goal of enhancing portfolio performance. Each of the Investment Officer IIIs has responsibility for managing relationships with a specific manager or managers while the Director and senior Portfolio Manager provide guidance and expertise when needed. In addition, each of the Investment Officer IIIs has developed an expertise in a certain area, such as sustainability, executive compensation and diversity, and takes the lead in the unit for these topics. The Investment Officer I's implement our annual proxy voting as well as oversee the important operational aspects of the unit, such as monitoring contract compliance and tracking capital calls.

In order to grow the skill set of staff, ongoing training and development will be a key priority for the unit. The corporate governance field continues to evolve and it is important for staff to keep up on these developments. Training opportunities, both internal and external, will be pursued to achieve this goal. The Portfolio Manager and senior Investment Officers will continue to speak frequently on panels and at other forums, providing opportunities for them to represent the CalSTRS governance program and discuss governance developments with other investment professionals. Participation in Chartered Financial Analyst (CFA), The Council of Institutional Investors (CII), and National Association of Corporate Directors (NACD) functions will be encouraged, as will attendance at training sessions such as the International Corporate Governance Network's (ICGN) ESG workshop.

INITIATIVE 3 – Corporate Governance

Aspire to be Cost Efficient with Tight Operational Internal Controls

The CG unit has a shorter track record with managers than the other asset classes. Many of our managers are fairly new to the portfolio, three years or less. And while they are traditionally more expensive than other external managers, due to their in-depth engagements with companies which require extensive research and knowledge of their portfolio companies, staff has nonetheless worked to renegotiate fees or negotiate lower fees with new managers. Our internal controls processes provide for careful staff review and approval of all manager capital calls to ensure proper payment. In addition to external management fees, the CG unit contracts with a variety of research providers, proxy advisor firms and an external firm to establish our proxy voting platform, all of which helps us carry out our mission. Staff is constantly reviewing these contracts to assess where we can consolidate or cut costs. This past year, the CG unit reduced the number of proxy research advisors, saving 15% of this line item. Corporate governance activities are expensive and while staff acknowledges this, we nonetheless have and will continue to search for ways to reduce expenses.

INITIATIVE 4 – Corporate Governance

Assess and Mitigate the Risks and Threats to Meeting our Goals

A significant risk to the CG managers achieving success is an inability to design, implement and adhere to investment theses. Staff will monitor managers on the companies they consider, the agendas they choose to pursue, their progress at implementing their agendas, and their adherence to sell disciplines. Another significant risk to portfolio success is a failure to recognize macro level influences on the aggregate portfolio. Staff will monitor the whole portfolio for excessive concentration in any one manager and over concentration in areas such as market capitalization and geographic region, as well as at the industry and company level.

The significant risk to success with the CG engagement efforts would be broad misperception that our initiatives are motivated by outcomes other than investment portfolio value creation. We constantly need to demonstrate that we are tough but fair profit-minded investors and we will pursue this branding of our efforts by diligently choosing the issues we engage on, carefully framing how we present them, and prudently choosing the partners we collaborate with.

INVESTMENTS

GOAL

4 Straight A's

F – INFLATION SENSITIVE

$500 million AUM

The primary design of the Inflation Sensitive asset class is to, as the name implies, seek investments that have a link to inflation and will help the overall portfolio during periods of inflation. Unlike the other asset classes, the Inflation Sensitive asset class will hold investments that cover a wide variety of securities; here the common link will be a characteristic. At present the Asset Class holds just two distinct type of investments, inflation linked bonds and infrastructure. In the future, the holding may include commodities and other securities.

INITIATIVE 1 – Inflation Sensitive

Achieve an Absolute Return of 7.5% and/or Outperform Our Benchmark

The return potential varies significantly between the two current holdings. The inflation linked bonds have been priced at a zero yield and as a result we have been selling the securities to lock in a gain. In the future as the yields rise, staff will reevaluate the size of the portfolio. While we have been able to outperform the benchmark there is very little likelihood these securities would earn an absolute return of 7.5 percent. Their future value will be the net return adjusted for inflation, if inflation rears its ugly head.

The infrastructure portfolio may well generate a 7.5 percent return based on the current cash flows. While the portfolio is still quite young, staff has focused on core mature strategies that invest in operating assets to provide a stable predictable return. As the portfolio grows, staff will seek to diversify the program by structure, vintage year, geography, sector, revenue types, etc. Currently, there is no standardized industry benchmark to measure infrastructure. Therefore, a critical focus for staff is trying to achieve a stable cash flow while achieving a more complex benchmark of CPI+5% that is inflation-linked, rather than a measure on actual asset performance.

INITIATIVE 2 – Inflation Sensitive

Advance our People and Abilities for Internal Management & Innovation

The inflation linked bonds portfolio is managed by the highly capable and very experienced Fixed Income staff, which is the same team that manages the overall sovereign debt portfolio. Their growth will be linked to the fixed income assets class. On the other end of the spectrum is a very small Infrastructure team. The total team consists of just one portfolio manager and an investment officer. As the program grows, at least one additional investment officer could be brought in to perform operational and reporting functions. To continue to develop and advance our team, staff will be provided opportunities to attend relevant educational programs and, whenever possible, provided the ability to tap into the resources and talents of the other asset classes.

The innovation portion of this portfolio is a small allocation to commodities, which is being managed by the Innovation & Risk team. It is believed that a commodities portfolio will provide a direct link to inflation. Over the next few years, we will be able to test that view and see the real results net of all costs. If the theory proves in actual practice, staff will come back to the Investment Committee for a more significant allocation.

INITIATIVE 3 – Inflation Sensitive

Aspire to be Cost Efficient with Tight Operational Internal Controls

The goal is to try and limit external manager fees by careful term negotiations or investing in lower fee structures such as separately managed accounts, co-investment and/or directs. Staff will continuously manage and monitor internal controls through well-developed procedures and processes within each of their programs.

INITIATIVE 4 – Inflation Sensitive

Assess and Mitigate the Risks and Threats to Meeting our Goals

Monitoring regulatory, political and global economic changes are important to the program. Manager selection is equally important.

INVESTMENTS

GOAL
4 Straight A's

G – INNOVATION & RISK
$150 million AUM

The Innovation and Risk unit was established to research and test investment strategies that are new to CalSTRS. Approved strategies are expected to improve the overall risk and return characteristics of the total plan. They are incubated with a small amount of capital and within a period of three years, staff will determine whether these strategies should receive a larger allocation. The total allocation to the Innovation portfolio is not to exceed the lesser of 1.5 percent of the total plan assets or $2 billion. Total plan risk management is also part of the unit's effort.

INITIATIVE 1 – Innovation & Risk

Achieve an Absolute Return of 7.5% and/or Outperform Our Benchmark

The total plan risk management effort is focused on identifying the macroeconomic/market factors driving returns and forecasting which factors to be exposed to. Insights will also assist the team in implementing hedging strategies for potential negative events.

The Innovation team has identified and begun investing in two strategies that are expected to diversify the total plan's risk and generate absolute returns. CalSTRS' fund currently has high equity beta; its performance is heavily dependent on the performance of equity markets. Global Macro hedge funds and Risk-Based Asset Allocation strategies have historically generally outperformed equities during times of financial distress or high volatility but using different approaches. Over a market cycle, staff expects these strategies to exceed a 7.5% absolute return.

The Global Macro benchmark is the HFRX Macro Index and the Risk-based Asset Allocation benchmark is a 60 percent equity/40 percent bond portfolio. During the manager due diligence and investment monitoring process, staff analyzes managers' ability to generate alpha, manage risk and preserve capital. Staff is confident that its manager selection process will result in outperformance of its benchmarks and it will continue to identify managers and strategies to achieve **these objectives.**

INITIATIVE 2 – Innovation & Risk

Advance our People and Abilities for Internal Management and Innovation

Under the director of Innovation and Risk are four investment professionals and one support staff. Two portfolio managers focus on the Innovation portfolio and two investment officers are dedicated to risk management.

To reduce "key person risk," each portfolio manager serves as a back-up to the other. This fosters sharing of ideas and projects and further development of knowledge and skills. Similarly, each investment officer for risk is trained to fulfill the others' role if necessary. To promote cross-asset education, the Innovation Advisory Committee reviews each investment and consists of the CIO, the Innovation team and two portfolio managers from other asset classes.

The unit also encourages formal and informal industry education. Support staff plan to attend Microsoft Office application training. One portfolio manager has completed the Chartered Alternative Investment Analyst (CAIA) program, a two-stage exam on materials related to alternative investments such as commodities, hedge funds, real estate and private equity. Recently, an investment officer sat for the second level of the Chartered Financial Analyst (CFA) exam. Staff also has access to finance industry thought leaders on topics such as risk management techniques and the macroeconomic environment at educational forums.

Pursuing research ideas for the Innovation portfolio also keeps staff engaged and accountable for identifying and growing new investment strategies. These include volatility strategies and farmland.

INITIATIVE 3 – Innovation & Risk

Aspire to be Cost Efficient with Tight Operational Internal Controls

The Innovation unit is pursuing absolute return strategies that generate alpha using complex investment structures or rely on unique information. Many of these investments are in the form of managed accounts. Some of these strategies command higher fee structures than do traditional assets. However, in every case, staff attempts to negotiate fees. In anticipation of increased allocations in some cases, staff has successfully negotiated lower fees as assets under management grow.

Commodities will be added to the Innovation portfolio in the Fall 2012 as a potential hedge against inflation, which often hurts equity returns.

From an operational standpoint, staff verifies holdings and performance with each manager and State Street on a monthly basis. Written procedures for both the Innovation portfolio and risk management are in place. The Innovation team meets formally on a weekly basis and informally to discuss the status of investments and ensure that proper procedures are followed.

INITIATIVE 4 – Innovation & Risk

Assess and Mitigate the Risks and Threats to Meeting our Goals

As the group's director must currently wear "two hats," overseeing the Innovation portfolio and risk management effort, hiring a dedicated senior investment officer for risk is a necessity for the future. The independence of the risk officer from the investment process is considered a best practice. Staff is also putting in place a new risk system.

With an improved risk system, risk factor analysis and macroeconomic reports, staff will be better informed to propose overlay or hedging strategies. These may include the use of derivatives, such as options, to reposition the portfolio depending on which risk factors are expected to perform and to mitigate the effect of negative events.

The small amount of capital available to incubate each strategy allows staff to select only a few managers. This causes the Innovation portfolio's performance to be highly dependent on a few concentrated investments. To reduce this risk, staff has focused on selecting managers that provide as much diversification as possible based on their time horizons, markets traded and investment approaches.

INVESTMENTS

GOAL

4 Straight A's

H – OPERATIONS

$146.8 billion AUM

Investment Operations' primary functions are to provide front and middle-office support and services for internal and external portfolio management activities, mitigate operational risk and to provide an effective internal control environment. Our goal is to align operational services to investment programs for the successful implementation of the CalSTRS Investment Policy Management Plan. Our focus is on all aspects of asset management operations from new investment strategies to coordination of the Investment section of the Comprehensive Annual Financial Report (CAFR).

INITIATIVE 1 – Operations

Achieve an Absolute Return of 7.5% and/or Outperform Our Benchmark

Investment Operations plays a major role in achieving an absolute return of 7.5% and outperforming our benchmark by working in conjunction with our custodian which enables Investment Management to concentrate on the core mission. Investment Operations contracts with external investment partners to employ tools to perform independent quality controls over processes on a post trade and pre-settlement basis. Additionally, we provide Total Fund reporting to the Investment Management team.

Investment Operations' provides reporting such as the Daily Investment Summary (DIS) and Cash Flow Analysis to assist investment professionals with managing the Total Fund. The DIS is utilized to make important investment decisions regarding our asset class and cash target allocations. The Cash Flow Analysis report is used to assist staff in managing our cash allocation. Since our current cash allocation target is one percent, continuous analysis is required to ensure sufficient cash balances are available to meet our obligations. These reports facilitate discussions regarding asset class ranges, targets and cash allocations and are an integral part of our Tactical Asset Allocation meetings which allow us to stay committed to the investment philosophy to achieve our mission.

INITIATIVE 2 – Operations

Advance our People and Abilities for Internal Management and Innovation

Investment Operations' will continue to cross-train and encourage staff to enroll in internal training courses offered by CalSTRS' and external training opportunities to promote personal development. Our commitment to continued education is demonstrated by staff's enrollment in risk, compliance, and derivative training opportunities. Additionally, we support continuing education such as the Chartered Financial Analyst (CFA) Program. There are also opportunities to enhance staff skills through internal investment groups and by participating in cross-functional teams.

As more assets are managed internally, we will assess the current organizational structure to potentially expand the capabilities of the team to ensure we are providing best practices to support the internal management asset plan. Investment Operations will continue to partner with Global Equity and Fixed Income to implement the internal/external management initiatives approved and updated by the Investment Committee in June 2011 and April 2012 respectively. Critical to the success of this initiative is to work in conjunction with the Global Equities team to implement an end-to-end internal equity trade order management system (OMS) to support both the front and middle office business requirements to automate manual processes and to enhance our existing internal control environment.

In order to facilitate best practices, Investment Operations will continue to network with our strategic business partners; at the same time network with peer public pension funds through educational opportunities, organizational functions, and one-on-one interactions. Our participation in finance and investment meetings such as the National Association of State Investment Professionals (NASIP) and the Public Pension Financial Forum (P2F2) has triggered researching the costs and resources associated with managing a defined contribution plan in-house. This could potentially require additional staff resources to support the requirement of calculating a daily net asset value. Given the continued discussions about pension reform, it is an area to explore and understand should there be a proposed new defined contribution or other hybrid plan options.

INITIATIVE 3 – Operations

Aspire to be Cost Efficient with Tight Operational Internal Controls

Investment Operations is consistently looking for innovative ways to reduce costs and increase efficiency. To do so, we leverage technology to a large degree. As we look for and implement new technologies to support internally managed strategies; this will provide increased efficiency which will enable Investment Operations to retire a reconciliation tool used solely for internal controls over equity transaction activity.

One of Investment Operation's fiscal year 2012-13 ongoing initiatives will be to continue to promote an internal control environment that protects our assets at all levels of the Investment Branch. We facilitated a workshop which included a review of management's roles and responsibilities to establish and maintain effective internal controls as well as the importance of documenting, in writing, the current internal control operating structure. Investment Operations led our Branch in documenting and creating eleven internal control templates from a review of our existing policies and procedures. These internal control templates were subsequently submitted to our external auditors for their review and corroboration. Investment Operations, in conjunction with Investment Management, will ensure these templates are updated regularly by reviewing policies, procedures and guidelines no less than annually. We will encourage staff to maintain them as the third leg of their policy and procedure hierarchy structure; to ensure internal controls are updated, reflect the current operating environment, and mitigate risk associated with investment activity.

INITIATIVE 4 – Operations

Assess and Mitigate the Risks and Threats to Meeting our Goals

In order for the Investment Branch to manage the complexity of a $146.8 billion fund, we must invest in technology that rapidly connects us to the marketplace, providing us with valuable market and investment information. Timely access to this information is critical to our ability to manage the investment portfolio to secure the financial future of our educators. The inability to access this information is mitigated by the CalSTRS Investment Business Continuity Plan (IBCP). Our IBCP is designed to recover critical business processes within stipulated time parameters after a disaster and/or when we are unable to access CalSTRS' headquarters. We invest in technology and network with key business partners to ensure best market practices are followed and costs are effectively managed. Investment Operations mitigates operational risks by using portfolio management tools to perform independent quality verifications of the custodian and front office systems. We are able to leverage key relationships with firms such as State Street Bank for accounting, performance and custodial services; BlackRock Solutions for trade and risk management services; and Thomson for portfolio controls.

Enterprise wide projects such as the Corporate Accounting Resource Management (CARM) project, which includes an automated general ledger system, will streamline our travel, budget and other administrative processes. Once CARM is fully operational, it will alleviate cumbersome manual processes and centralize administrative functions which will improve fiscal management efficiency and effectiveness. With the deployment of BusinessDirect (SAP software) CalSTRS will build a platform to support business management tools to provide information to management to make informed business decisions. For instance, CARM will provide a repository for Investment staff to efficiently retrieve data for the completion of the annual Investment Cost Effective Measurement (CEM) survey. Since the Investment Branch will be both a user and customer of BusinessDirect, we have dedicated several resources and subject matter experts to capture and incorporate investment business requirements into the CARM business model. The implementation of a new fiscal management system is challenging for the entire organization and can cause resource constraints some of which have resulted in the Investment Branch's re-prioritization of investment initiatives. Prioritization and dedication of our project management and subject matter expert CARM liaison team has and will contribute to the successful implementation of the CARM project.

CALSTRS
HOW WILL YOU SPEND YOUR FUTURE?

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

July 3, 2012

Douglas R. Oberhelman
Chief Executive Officer
Caterpillar Inc.
100 NE Adams St.
Peoria, IL 61629

Dear Mr. Oberhelman,

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 July 31, 2012, the CalSTRS portfolio was valued at over **$148 billion**; approximately **$75 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 owns 1,980,789 shares of Caterpillar Inc.

Our independent research providers have identified Caterpillar Inc. as doing business in, or with Sudan. 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 doing business in Sudan may be perceived as furthering or condoning the egregious human rights violations occurring there. 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.

Therefore, we are requesting 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) Has your company taken any action or implemented any humanitarian policies aimed toward relieving the humanitarian situation in Sudan?

(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?

We are requesting a written response to our request by September 29, 2012. 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
California State Teachers' Retirement System

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Retirement System
Investments
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West Sacramento, CA 95605
(916) 414-7400 Fax (916) 414-7533
cailman@calstrs.com

July 9, 2012

B C Tripathi
Chairman
GAIL India Ltd
16 Bhikaiji Cama Place
R K Puram
New Delhi, 110 066
India

Dear Mr. Tripathe,

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 June 30, 2012, the CalSTRS portfolio was valued at over **$148 billion**; approximately **$75 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 several states, legislation has been enacted or is being publicly discussed to address investments in companies doing business in or with Iran. 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.

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 with Iran including purchases from and sales to Iran as well as any risk controls GAIL India 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 New Delhi.

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
California State Teachers' Retirement System

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cailman@calstrs.com

July 3, 2012

Mitsunori Takahagi
Representative Director, President
JX Holdings, Inc.
6-3, Otemachi 2-chome, Chiyoda-ku
Tokyo 100-8161
Japan

Dear Mr. Takahagi,

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 July 31, 2012, the CalSTRS portfolio was valued at over **$148 billion**; approximately **$75 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 owns 2,821,416 shares of JX Holdings, Inc.

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. 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) Has your company taken any action or implemented any humanitarian policies aimed toward relieving the humanitarian situation in Sudan?

(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
California State Teachers' Retirement System

Attachment F

CALSTRS
HOW WILL YOU SPEND YOUR FUTURE?

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

July 9, 2012

Yasuhiko Katoh
President
Mitsui Engineering & Shipbuilding Co Ltd
1-3-16 Nihonbashi
Chuo-ku
Tokyo, 103-0027
Japan

Dear Mr. Katoh,

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 June 30, 2012, the CalSTRS portfolio was valued at over **$148 billion**; approximately **$75 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 several states, legislation has been enacted or is being publicly discussed to address investments in companies doing business in or with Iran. 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.

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 continue our dialogue regarding your company's ties to Iran. We are requesting an updated disclosure of your direct or indirect business activities with Iran including purchases from and sales to Iran as well as any risk controls Mitsubishi Engineering 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 Tokyo.

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
California State Teachers' Retirement System

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 2011*	*Shares Held by CalSTRS 11/30/12*	*Market Value ($) of Shares Held by CalSTRS 11/30/12*
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 2012.	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 2012.	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 2012.	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 2012.	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 2012.	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 2012.	0	$0

	Company Name (Domicile)	*Summary of Ties to Sudan*	*Summary of Changes From 2011*	*Shares Held by CalSTRS 11/30/12*	*Market Value ($) of Shares Held by CalSTRS 11/30/12*
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 2012.	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 2012.	0	$0

3 Companies Under Review					
	Company Name (Domicile)	*Summary of Ties to Sudan*	*Summary of Changes From 2011*	*Shares Held by CalSTRS 11/30/12*	*Market Value ($) of Shares Held by CalSTRS 11/30/12*
1	PTT PCL (Thailand)	PTT has been identified as a possibly purchasing crude oil from Sudan.	In 2012, PTT was identified as "Review" for potentially having ties to Sudan.	PTT PCL 831,700 PTT E&P 3,747,800 PTT E&P Rights 628,756	PTT PCL $8,672,010 PTT E&P $19,538,873 PTT E&P Rights 348,285
2	Reliance Industries (India)	Reliance Industries lists Sudan as one of their export countries.	In 2012, Reliance Industries was identified as "Review" for potentially having ties to Sudan.	218,647	$3,190,369
3	Volvo AB (Sweden)	Volvo has been identified as selling trucks and construction equipment to Sudan.	In 2012, Volvo AB was identified as "Review" for potentially having ties to Sudan.	1,165,189	$16,492,568

3 Companies Being Monitored					
	Company Name (Domicile)	*Summary of Ties to Sudan*	*Summary of Changes From 2011*	*Shares Held by CalSTRS 11/30/12*	*Market Value ($) of Shares Held by CalSTRS 11/30/12*
1	Glencore (Switzerland)	Glencore confirmed in a meeting with CalSTRS that they are interested in purchasing oil from South Sudan if it can be done in compliance with U.S. and international sanctions.	In 2012, Glencore was designated as "Review" and was subsequently moved to "Monitor" after meeting with the company.	3,123,018	$17,292,625
3	JX Holdings (Japan)	JX Holdings was formed through a merger between Nippon Oil and Nippon Mining. JX confirms that they purchase some Sudanese oil through international traders but do not have any direct contact with the country.	JX Holdings was designated as "Review" in 2010, and the engagement process was started. In 2011, CalSTRS moved JX Holdings to a "Monitor" designation.	2,317,616	$12,365,115
4	Total SA (France)	Total has had an interest in an oil block in South Sudan that 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 2009, CalSTRS designated Total as "Monitor." CalSTRS has maintained the "Monitor" designation.	Common 2,004,561 Strip 10,000	Common $100,309,393 Strip $13.01

3 Companies Removed					
	Company Name (Domicile)	*Summary of Ties to Sudan*	*Summary of Changes From 2011*	*Shares Held by CalSTRS 11/30/12*	*Market Value ($) of Shares Held by CalSTRS 11/30/12*
1	Alstom (France)	Alstom's only tie to Sudan consists of warranties for parts supplied to the Merowe Dam project that ends in 2013. Additionally, Alstom has humanitarian activities focused on poverty reduction for women in Sudan.	In 2009, CalSTRS designated Alstom as "Monitor." CalSTRS removed the company from the "Monitor" list in 2012 for taking substantial action. Although the company has been removed from the CalSTRS list, it is still monitored by our service providers.	200,429	$7,295,072

	Company Name (Domicile)	*Summary of Ties to Sudan*	*Summary of Changes From 2011*	*Shares Held by CalSTRS 11/30/12*	*Market Value ($) of Shares Held by CalSTRS 11/30/12*
2	Atlas Copco (Sweden)	Atlas Copco has a sales agreement with a distributor selling equipment in Sudan primarily for mining, agriculture and construction. Additionally, Atlas Copco has humanitarian activities in Sudan through Water for All, a non-profit that drills wells in areas were clean drinking water is not available.	In 2009, CalSTRS designated Atlas Copco as "Monitor." CalSTRS removed the company from the "Monitor" list in 2012 for taking substantial action. Although the company has been removed from the CalSTRS list, it is still monitored by our service providers.	A Shares 563,596 B Shares 328,055	A Shares $14,507,389 B Shares $7,562,504
3	Caterpillar (United States)	Caterpillar was identified as possibly selling generators for drilling platforms to Sudan. After meeting with the company, staff confirmed the sales to Sudan are agricultural and not oil related.	In 2012, CalSTRS identified Caterpillar for "Review." Later that year, the company was removed from the list after confirming they do not sell equipment to prohibited entities or industries in the country.	Common 1,943,478 Bonds 221,937,000	Common $165,662,065 Bonds $227,438,218

Attachment H: CalSTRS Portfolio Companies Identified as Possibly Having Ties to Iran

7 Companies Divested and Restricted					
	Company Name (Domicile)	*Summary of Ties to Iran*	*Summary of Changes From 2011*	*Shares Held by CalSTRS 11/30/2012*	*Market Value ($) of Shares Held by CalSTRS 11/30/2012*
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." While CNOOC does not appear to have direct ties to Iran, CalSTRS is uncomfortable with its parent company's relations to the country and determined to place the company on the "Restricted" list in 2012.	0	$0
2	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 2012.	0	$0
3	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
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 several ports of call in Iran.	In 2009, CalSTRS designated MISC as "Restricted." CalSTRS has maintained the "Restricted" designation in 2012.	0	$0

	Company Name (Domicile)	*Summary of Ties to Iran*	*Summary of Changes From 2011*	*Shares Held by CalSTRS 11/30/2012*	*Market Value ($) of Shares Held by CalSTRS 11/30/2012*
5	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 he company as "Restricted" for ties to Iran.	0	$0
6	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 2012.	0	$0
7	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 pledge to cease activities in the country.	In 2009, CalSTRS designated Petronas as "Restricted." CalSTRS has maintained the "Restricted" designation in 2012.	0	$0

16 Companies Under Review					
	Company Name (Domicile)	*Summary of Ties to Iran*	*Summary of Changes From 2011*	*Shares Held by CalSTRS 11/30/2012*	*Market Value ($) of Shares Held by CalSTRS 11/30/2012*
1	AXA SA (France)	AXA was identified as possibly having insurance relationships with state-owned Iranian banks.	In 2012, CalSTRS identified AXA SA as potentially having ties to Iran and began the review process.	Stock 1,705,340 Bonds 5,595,000	Stock $28,023,987 Bonds $6,620,662
2	BP PLC (United Kingdom)	The National Iranian Oil Company is a non-operating minority stake in two BP oil fields outside of Iran.	In 2012, CalSTRS identified BP PLC as potentially having ties to Iran and began the review process.	Stock 19,220,687 Bonds 95,500,000	Stock $132,950,116 Bonds $99,550,216

	Company Name (Domicile)	*Summary of Ties to Iran*	*Summary of Changes From 2011*	*Shares Held by CalSTRS 11/30/2012*	*Market Value ($) of Shares Held by CalSTRS 11/30/2012*
3	Danske Bank (Denmark)	Danske Bank was identified as possibly having banking relationships with state-owned Iranian banks.	In 2012, CalSTRS identified Danske Bank as potentially having ties to Iran and began the review process.	661,223	$11,337,788
4	Deutsche Bank (Germany)	Deutsche Bank was identified as possibly having banking relationships with state-owned Iranian banks.	In 2012, CalSTRS identified Deutsche Bank as potentially having ties to Iran and began the review process.	Stock 1,018,038 Bonds 690,705,306	Stock $44,938,598 Bonds $694,824,190
5	Gail Ltd (India)	Gail Ltd was identified as possibly having ownership interests and agreements with Iran's state-owned petrochemical industry.	In 2012, CalSTRS identified Gail Ltd as potentially having ties to Iran and began the review process.	Stock 17,804 Bonds 1,040,000	Stock $115,655 Bonds 1,048,992
6	Idemitsu Kosan (Japan)	Idemitsu Kosan was identified as possibly supporting the Iranian petrochemical and refining industries.	In 2012, CalSTRS identified Idemitsu Kosan as potentially having ties to Iran and began the review process.	25,167	$2,062,919
7	Intesa SanPaolo (Italy)	Intesa SanPaolo was identified as possibly having banking relationships with state-owned Iranian banks.	In 2012, CalSTRS identified Intesa SanPaolo as potentially having ties to Iran and began the review process.	Stock 11,707,036 ADRs 687,541 Bonds 950,000	Stock $19,702,663 ADRs $938,927 Bonds $955,933
8	JX Holdings (Japan)	JX Holdings was identified as possibly purchasing crude oil from Iran.	In 2012, CalSTRS identified JX Holdings as potentially having ties to Iran and began the review process.	2,317,616	$12,365,115
9	Mitsubishi UFJ Financial Group (Japan)	Mitsubishi UFJ was identified as possibly having banking relationships with state-owned Iranian banks.	In 2012, CalSTRS identified Mitsubishi UFJ Financial as potentially having ties to Iran and began the review process.	Stock 18,896,646 Bonds 7,140,000	Stock $86,383,358 Bonds $7,595,951
10	Mizuho Financial Group (Japan)	Mizuho Financial was identified as possibly having banking relationships with state-owned Iranian banks.	In 2012, CalSTRS identified Mizuho Financial Group as potentially having ties to Iran and began the review process.	Stock 25,868,665 Bonds 5,800,000	Stock $41,404,920 Bonds $5,952,945

	Company Name (Domicile)	*Summary of Ties to Iran*	*Summary of Changes From 2011*	*Shares Held by CalSTRS 11/30/2012*	*Market Value ($) of Shares Held by CalSTRS 11/30/2012*
11	Samsung C & T (South Korea)	Samsung C & T was identified as possibly having operation is Iran that could support oil transportation.	In 2012, CalSTRS identified Samsung C & T as potentially having ties to Iran and began the review process.	3,181	$174,495
12	Siam Cement (Thailand)	Siam Cement was identified as possibly working in the Iranian petrochemical industry.	In 2012, CalSTRS identified Siam Cement as potentially having ties to Iran and began the review process.	Stock 1,422,900 ADRs 266,900	Stock $18,823,636 ADRs $3,435,174
13	Societe Generale (France)	Societe Generale was identified as possibly having banking relationships with state-owned Iranian banks.	In 2012, CalSTRS identified Societe Generale as potentially having ties to Iran and began the review process.	Stock 736,983 Bonds 10,400,000	Stock $26,651,648 Bonds $10,505,542
14	Standard Chartered (United Kingdom)	Standard Charted was identified as possibly having banking relationships with state-owned Iranian banks.	In 2012, CalSTRS identified Standard Chartered as potentially having ties to Iran and began the review process.	Stock 3,731,485 Bonds 527,500,000	Stock $87,012,786 Bonds $531,542,894
15	Sumitomo Mitsui Financial (Japan)	Sumitomo Mitsui was identified as possibly having banking relationships with state-owned Iranian banks.	In 2012, CalSTRS identified Sumitomo Mitsui Financial as potentially having ties to Iran and began the review process.	Stock 2,918,724 Bonds 13,370,000	Stock $93,928,622 Bonds $14,051,868
16	Thales SA (France)	Thales is a French aerospace and defense company that lists Iran as a country where they do business.	In 2012, CalSTRS identified Thales SA as potentially having ties to Iran and began the review process.	66,569	2,394,360

7 Companies Being Monitored					
	Company Name (Domicile)	*Summary of Ties to Iran*	*Summary of Changes From 2011*	*Shares Held by CalSTRS 11/30/2012*	*Market Value ($) of Shares Held by CalSTRS 11/30/2012*
1	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, the CalSTRS maintained Gazprom as "Monitor" as the GAO stated they have insufficient information on the company's activities. CalSTRS determined to maintain Gazprom as "Monitor" due to the Russian government's reported interest in developing a deal with Iran.	ADR (USA) 3,586,375 ADR (UK) 1,086,762 Bonds 4,080,375	ADR (USA) $31,882,874 ADR (UK) $9,672,182 Bonds $5,237,569
2	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. In 2012, L'Air Liquide confirmed to investors they have not taken on new business in Iran. CalSTRS has determined to designate L'Air Liquide as "Monitor" until they confirm this commitment with staff.	272,788	$33,318,144
3	Maire Tecnimont S.p.A. (Italy)	Maire Tecnimont is reported to have an agreement with PetroPars the Iranian state-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. In 2012, Maire Tecnimont confirmed to CalPERS that they are curtailing their activities in Iran. CalSTRS determined to designate Maire Tecnimont as "Monitor" until they confirm that position with staff.	43,296	$20,283

	Company Name (Domicile)	*Summary of Ties to Iran*	*Summary of Changes From 2011*	*Shares Held by CalSTRS 11/30/2012*	*Market Value ($) of Shares Held by CalSTRS 11/30/2012*
4	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 oil field 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 removed the company from the “Restricted” list and designated them as “Monitor.” In 2012, CalSTRS determined to maintain the “Monitor” designation until the company confirms the completion of their final Iranian contract.	PTT PCL 831,700 PTT E&P 3,747,800 PTT E&P Rights 628,756	PTT PCL $8,672,010 PTT E&P $19,538,873 PTT E&P Rights 348,285
5	Saras (Italy)	Saras was identified as possibly purchasing crude oil from Iran.	In 2012, CalSTRS identified Saras as potentially having ties to Iran and began the review process. Subsequently, Saras confirmed with the California DGS and CalPERS that they are cutting their ties to comply with EU sanctions. CalSTRS determined to designate Saras as “Monitor” until they confirm that position with staff.	250,676	$305,326
6	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. Staff met with executives of the company and confirmed they do have oil-testing relations in Iran within the limits of U.S. Sanctions. CalSTRS determined to designate the company as “Monitor” to ensure the company does not exceed U.S. sanction limits.	29,619	$66,470,100
7	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. In 2012, the company confirmed they do not operate in the nuclear, defense, or weapons sectors of Iran but do have limited business in the oil and gas sector below U.S. sanction limits. CalSTRS determined to designate the company as “Monitor” to ensure the company does not exceed U.S. sanction limits.	146,219	$5,799,596

12 Companies Removed in 2012					
	Company Name (Domicile)	*Summary of Ties to Iran*	*Summary of Changes From 2011*	*Shares Held by CalSTRS 11/30/2012*	*Market Value ($) of Shares Held by CalSTRS 11/30/2012*
1	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. In 2012, CalSTRS removed Aker Solutions from the list after confirming they prohibited all new investment in Iran in September 2010.	246,348	$4,636,873
2	Chiyoda Corporation (Japan)	Chiyoda was identified as possibly working in the Iranian petrochemical industry.	In 2012, Chiyoda Corporation was identified, reviewed, and subsequently removed from the Iran list after the company confirmed they completed their last project in Iran in 2005.	139,359	$2,004,120
3	Danieli (Italy)	Danieli was identified as possibly providing steel mill equipment to Iran, which could support the oil and gas industries.	In 2012, Danieli was identified, reviewed, and subsequently removed from the Iran list after the company confirmed they dismissed their local branch in Iran and no longer operate in the country.	Stock 15,968 ADRs 21,518	Stock 472,472 ADRs $347,030
4	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. In 2012, CalSTRS liquidated the holdings in Doosan Heavy Industries and Construction. CalSTRS will renew the engagement process if Doosan Heavy Industries and Construction securities are purchased.	0	$0
5	Ebara Corporation (Japan)	Ebara Corporation was identified as possibly providing equipment and services that could be used in the oil and gas industry to Iran.	In 2012, Ebara Corporation was identified, reviewed, and subsequently removed from the Iran list after the company confirmed they put a halt to all Iranian business on March 22, 2012.	450,850	$1,732,987

	Company Name (Domicile)	*Summary of Ties to Iran*	*Summary of Changes From 2011*	*Shares Held by CalSTRS 11/30/2012*	*Market Value ($) of Shares Held by CalSTRS 11/30/2012*
6	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. In 2012, CalSTRS liquidated the holdings in Hyundai Heavy Industries. CalSTRS will renew the engagement process if Hyundai Heavy Industries securities are purchased.	0	$0
7	Mitsui Engineering & Shipbuilding (Japan)	Mitsui Engineering & Shipbuilding has two projects in advanced stages of construction. The company has reported it 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. In 2012, CalSTRS removed the company from the list after research confirmed the company is not taking new Iranian business.	542,299	$716,753
8	Mitsui OSK Lines (Japan)	Mitsui OSK Lines was identified as possibly providing shipping services for Iran.	In 2012, CalSTRS identified Mistui OSK Lines as potentially having ties to Iran. The company was subsequently removed after confirming they ceased car carrier and dry bulk business with the country to comply with the Iran Divestment Act. Furthermore, to the company's knowledge, their Tankers business does not have any business with Iranian related companies.	1,028,135	$2,580,623
9	Polskie Gornitwo Naftowe i Gazownictwo (Poland)	PGNiG is reported to have an agreement for increasing production of an oil field in Iran.	In 2011, CalSTRS identified Polskie Gornitwo Naftowe i Gazownictwo as potentially having ties to Iran and began the review process. In 2012, CalSTRS liquidated the holdings in PGNiG. CalSTRS will renew the engagement process if PGNiG securities are purchased.	0	$0
10	Saipem S.p.A. (Japan)	In 2012, Saipem was identified as possibly building a refinery in Iran.	In 2012, Saipem was identified, reviewed, and subsequently removed from the Iran list after the company confirmed they stopped doing business with Iran in September 2010 when their parent company ENI pulled out of the country.	1,294,718	$57,640,240

	Company Name (Domicile)	*Summary of Ties to Iran*	*Summary of Changes From 2011*	*Shares Held by CalSTRS 11/30/2012*	*Market Value ($) of Shares Held by CalSTRS 11/30/2012*
11	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. In 2012, the company was removed after research confirmed the company has no projects in Iran and will not take new projects in compliance with Japanese government sanctions.	86,100	$347,254
12	Worley Parsons Ltd. (Australia)	Worley Parsons was Identified as possibly working on the North Pars Liquefied Natural Gas Project.	In 2012, Worley Parsons was identified, reviewed, and subsequently removed from the Iran list after the company confirmed they have not accepted new business in Iran since August 2010 and have had no business with the country since April 2012.	1,960,884	$50,242,202

Attachment I

CALSTRS
HOW WILL YOU SPEND YOUR FUTURE?

California State Teachers'
Retirement System
Investments
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cailman@calstrs.com

November 1, 2012

Dr.-Ing. Heinrich Hiesinger, Chairman of the Board
ThyssenKrupp AG
ThyssenKrupp Allee 1
45143 Essen Germany

Dear Dr. Hiesinger,

This letter is sent to you on behalf of the members of the California State Teachers' Retirement System (CalSTRS). CalSTRS was established for the benefit of California's public school teachers over 99 years ago and is currently the second-largest public pension system in the United States. The CalSTRS portfolio is currently valued at approximately $155 billion and serves the investment and retirement interests of nearly 856,000 plan participants. The long-term nature of CalSTRS' liabilities, and its responsibilities as a fiduciary to its members, makes the fund keenly interested in governance issues. Corporate Governance is an integral part of the investment management plan at CalSTRS, and we regard our management of proxies and other corporate actions as seriously as any other plan asset. Currently, CalSTRS holds $17,119,289 worth of ThyssenKrupp AG securities in our portfolio.

Under a 1999 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. ThyssenKrupp AG has been identified as having operations in Northern Ireland and not having taken substantial action towards inclusiveness. As long-term investors, we encourage ThyssenKrupp AG 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