

# California State Teachers' Retirement System Investment Reports

December 31, 2013

## 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-Feurer) - Iran.
- Chapter 341, Statutes of 1999 (SB 105-Burton) - Northern Ireland.

## Background on CalSTRS

With 100 years of experience and \$176 billion of assets under management, CalSTRS is the oldest and largest educator only pension system in the world. CalSTRS members include California public school employees, pre-kindergarten through community college, who teach, are involved in the selection and preparation of instructional materials, or are supervising persons engaged in those activities. CalSTRS members are employed by approximately 1,400 school districts, community college districts, county offices of education and regional occupational programs. CalSTRS is administered by a 12-member Teachers' Retirement Board (board). The board sets the policies and is responsible for ensuring benefits are paid by the system in accordance with the law. The board is comprised of:

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

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

## Teachers' Retirement Fund

The Teachers' Retirement Fund (fund), from which CalSTRS benefit payments are made, is valued at about \$176 billion as of November 30, 2013. Historically, investment returns have contributed roughly two-thirds of the costs of the educators' defined benefit retirement plan. The board's investment actions reflect a policy of investing on a long-term basis. This is done in a comprehensive, measured manner. In July 2013, the board reviewed and revised the long-term asset allocation targets based on the final results of the fiscal year 2012-13 Asset/Liability study. The funds resulted in an investment asset allocation of:

Global Equity	51 percent
Fixed Income	16 percent
Real Estate	13 percent
Private Equity	13 percent
Inflation Sensitive	6 percent
Cash	1 percent

In July 2013, 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 contracts with International Shareholder Services (ISS), a division of MSCI, to provide data on companies with operations in Northern Ireland. CalSTRS contracts 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. In 2011, the 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. 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. Furthermore, 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.

Lastly, 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, Statutes of 2006 (AB 2941-Koretz), the Sudan Divestment law. 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, and 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 five companies that were in either the “Being Reviewed” or “Being Monitored” categories for ties to Sudan. While these companies have been removed, they continue to be monitored by our third party vendors and will be subject to the law if new information comes forward. Moreover, CalSTRS continues to monitor the portfolio for both investments with new ties or companies with existing ties entering the portfolio. [Attachment G](#) lists the companies in all four categories.

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

## **Actions Taken**

CalSTRS continues 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 participated in 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 law, 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 list is 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 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. On November 24, 2013, Iran and western negotiators reached a deal that would reduce sanctions in return for Iran's promise to curb its nuclear program. If the deal is finalized and federal sanctions on Iran are relaxed, CalSTRS will evaluate companies in accordance with the new federal requirements and continue to ensure their compliance with California law.

Currently, the 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 26 companies with ties or possible ties to Iran. Currently, eight 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. In October 2012, the 21 Risk Factor Review Committee added CNOOC (Chinese National Offshore Oil Company) to the list of restricted securities. In June 2013, CalSTRS added China Blue Chemical Ltd. to the restricted list and divested holdings of the company.

In 2012, 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 June 2013, PTT confirmed the completion of its obligation in Iran and was removed from the Iran related securities list.

In addition to the eight “Restricted” companies, there are eight companies in the “Being Reviewed” category or second tier (determining if criteria for divestment are met). It should be noted that the large increase in companies reviewed was due to a change in federal law, which expanded sanctions to finance, shipping and insurance activities. Staff continues to engage 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 10 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 24 companies that were in either the “Being Reviewed” or “Being Monitored” categories for ties to Iran. While these companies have been removed, they continue to be monitored by our third party vendors and will be subject to the law if new information comes forward. Moreover, CalSTRS continues to monitor the portfolio for both investments with new ties or companies with existing ties entering the portfolio. [Attachment H](#) lists the companies in all four categories.

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

## **Actions Taken**

CalSTRS continues 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 Houston, London, Paris, 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 contracts 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 determined that it holds \$3,272,001,206 worth of equity with exposure to Northern Ireland, which represents 3.27 percent of CalSTRS' equity holdings. Additionally, CalSTRS holds \$477,704,336 worth of bonds with exposure to Northern Ireland, which represents 1.70 percent of its fixed income portfolio. In total, CalSTRS holds \$3,749,705,542 worth of securities with exposure to Northern Ireland, which represents 2.13 percent of the total fund.

CalSTRS identified 45 holdings representing 41 companies it believes have not made substantial action toward the goals of inclusiveness in Northern Ireland. CalSTRS sent a letter to each of the companies requesting they take actions toward inclusiveness in Northern Ireland ([Attachment I](#)).

<b>Company Name</b>	<b>Security Type</b>	<b>Shares / Face Value</b>	<b>Market Value 11/30/13</b>
Abertis Infraestructuras SA	Stock	479,400	\$ 10,215,179
AGF Management Limited	Stock	70,633	\$ 957,385
AstraZeneca PLC	Bonds	15,000,000	\$ 16,551,605
AstraZeneca PLC	Stock	1,405,882	\$ 80,912,564
Ayala Corporation	Stock	225,070	\$ 3,007,789
Bank of Ireland	Stock	26,649,598	\$ 10,377,442
Bouygues SA	Stock	415,768	\$ 15,714,630
Britvic Plc	Stock	220,561	\$ 2,442,320
Celesio AG	Stock	122,802	\$ 3,945,945
Compagnie De Saint Gobain SA	Stock	610,239	\$ 32,520,290
Debenhams PLC	Stock	1,418,649	\$ 2,248,293
DFDS A/S	Stock	1,560	\$ 127,001
DSV A/S	Stock	1,791,752	\$ 54,945,666
Electrolux AB	Stock	348,164	\$ 8,501,744
Essilor International S.A.	Stock	613,104	\$ 64,452,732
Fred Olsen Energy ASA	Stock	28,587	\$ 1,131,150
Getinge AB	Stock	197,980	\$ 6,209,640
GlaxoSmithKline PLC	Bonds	38,280,000	\$ 37,392,380

GlaxoSmithKline PLC	Stock	6,582,700	\$ 174,519,477
HALFORDS GROUP PLC	Stock	176,736	\$ 1,413,930
Harvey Norman Holdings Limited	Stock	3,406,362	\$ 10,054,684
HCL Technologies Limited	Stock	980,600	\$ 17,041,632
Heineken NV	Bonds	5,450,000	\$ 5,390,748
Heineken NV	Stock	402,418	\$ 26,909,016
Interserve PLC	Stock	191,385	\$ 2,047,143
J D Wetherspoon PLC	Stock	108,565	\$ 1,267,963
John Menzies PLC	Stock	38,879	\$ 494,838
Lafarge SA	Bonds	6,029,000	\$ 6,736,544
Lafarge SA	Stock	212,708	\$ 15,135,154
Lagardere SCA	Stock	121,728	\$ 4,133,525
Lookers Plc	Stock	221,724	\$ 443,098
Mears Group PLC	Stock	133,731	\$ 973,165
Metro AG	Stock	282,827	\$ 14,205,717
Metso Oyj	Stock	160,467	\$ 6,506,449
PostNL N.V.	Stock	399,419	\$ 2,347,710
Randstad Holding NV	Stock	122,757	\$ 7,665,031
Rentokil Initial Plc	Stock	1,845,974	\$ 3,208,249
Sandvik AB	Stock	977,529	\$ 13,707,347
Teleperformance S.A.	Stock	53,476	\$ 3,050,022
TERUMO CORPORATION	Stock	177,142	\$ 9,258,142
ThyssenKrupp AG	Stock	508,651	\$ 13,342,049
TNT Express N.V.	Stock	585,283	\$ 5,378,225
Willis Group Holdings Limited	Stock	473,280	\$ 21,193,478
Workspace Group PLC	Stock	115,018	\$ 951,446
WS Atkins plc	Stock	82,364	\$ 1,813,276
	Stock		\$ 654,770,536
	Bonds		\$ 66,071,277
			\$ 720,841,813

CalSTRS identified 108 holdings representing 87 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 / Face Value	Market Value 11/30/13
3i Group PLC	Stock	1,237,968	\$ 7,503,058
Adecco SA	Stock	166,603	\$ 12,868,798
Aer Lingus Group PLC	Stock	210,410	\$ 391,732
Akzo Nobel NV	Stock	248,906	\$ 18,785,116
Allianz SE	Stock	675,023	\$ 117,504,075

Anglo American PLC	Bonds	3,000,000	\$ 3,018,574
Anglo American PLC	Stock	1,801,017	\$ 39,797,601
Aon PLC	Stock	782,221	\$ 63,860,522
Associated British Foods plc	Stock	420,265	\$ 15,785,357
Aviva plc	Stock	4,220,365	\$ 29,678,233
Axa SA	Bonds	5,595,000	\$ 6,230,235
Axa SA	Stock	2,474,870	\$ 64,983,883
Banco Santander, S.A.	Bonds	10,500,000	\$ 10,528,397
Banco Santander, S.A.	Stock	12,694,078	\$ 113,086,746
Barclays PLC	Bonds	119,570,000	\$ 121,599,659
Barclays PLC	Stock	23,792,900	\$ 105,892,245
Berendsen plc	Stock	171,585	\$ 2,588,607
Bombardier Inc.	Bonds	3,432,000	\$ 3,634,002
Bombardier Inc.	Stock	1,568,948	\$ 7,083,755
BT Group PLC	ADR	10,400	\$ 635,232
BT Group PLC	Bonds	18,000,000	\$ 26,060,056
BT Group PLC	Stock	10,588,310	\$ 64,641,691
BUNZL PLC	Stock	398,965	\$ 9,070,921
Capita PLC	Stock	652,692	\$ 10,659,347
Carillion Plc	Stock	382,688	\$ 1,888,735
Compass Group PLC	Stock	2,542,191	\$ 38,352,612
CRH PLC	Bonds	15,000,000	\$ 16,465,535
CRH PLC	Stock	809,291	\$ 20,561,272
Danske Bank A/S	Stock	772,628	\$ 17,600,755
DCC PLC	Stock	120,087	\$ 5,697,744
Deutsche Beteiligungs AG	Stock	4,704	\$ 131,970
Deutsche Lufthansa AG	Stock	365,619	\$ 7,957,470
Deutsche Post AG	Stock	1,037,712	\$ 36,777,706
Diageo PLC	ADR	75,469	\$ 9,635,127
Diageo PLC	Bonds	8,080,000	\$ 8,073,432
Diageo PLC	Stock	3,045,639	\$ 97,084,165
Dixons Retail PLC	Stock	3,672,855	\$ 3,092,388
Ferrovial SA	Stock	529,784	\$ 10,048,091
FUJITSU LIMITED	Stock	2,165,673	\$ 10,091,594
G4S Plc	Stock	2,809,793	\$ 12,021,942
Glanbia Plc	Stock	238,167	\$ 3,449,494
Grafton Group PLC	Stock	179,673	\$ 1,832,101
Hays plc	Stock	1,292,730	\$ 2,625,770
Home Retail Group plc	Stock	1,126,706	\$ 3,523,252
HSBC Holdings PLC	Bonds	52,923,000	\$ 56,502,982
HSBC Holdings PLC	Stock	23,825,437	\$ 266,126,886
Huhtamaki Oyj	Stock	87,843	\$ 2,203,081

Hutchison Whampoa Limited	Bonds	4,130,000	\$ 4,388,340
Hutchison Whampoa Limited	Stock	2,259,577	\$ 28,737,824
J Sainsbury PLC	Stock	1,675,808	\$ 11,183,363
Kerry Group PLC	Stock	188,468	\$ 12,111,927
Kingfisher PLC	Stock	3,425,414	\$ 21,091,746
Kingspan Group PLC	Stock	662,593	\$ 11,388,863
Kone Oyj	Stock	169,261	\$ 15,590,438
Koninklijke Philips Electronics NV	Bonds	300,000	\$ 286,924
Koninklijke Philips Electronics NV	Stock	1,222,490	\$ 43,850,762
Kuehne & Nagel International	Stock	54,911	\$ 7,133,903
KYOCERA CORPORATION	Stock	369,700	\$ 19,574,796
Ladbrokes plc	Stock	5,735,086	\$ 16,421,336
Linde AG	Stock	189,898	\$ 38,860,913
Lloyds Banking Group PLC	Bonds	12,330,000	\$ 13,649,509
Lloyds Banking Group PLC	Stock	112,567,516	\$ 142,718,798
Marks and Spencer Group PLC	Stock	1,816,584	\$ 14,491,441
Michelin SCA	Stock	292,156	\$ 31,802,913
Mitchells & Butlers plc	Stock	183,113	\$ 123,086
MITIE Group PLC	Stock	358,058	\$ 1,827,000
MOTHERCARE PLC	Stock	80,280	\$ 500,039
NEXT plc	Stock	203,093	\$ 18,280,572
Nortel Networks	Bonds	1,245,000	\$ 1,301,025
Onex Corporation	Bonds	22,200,000	\$ 25,342,495
Onex Corporation	Stock	104,439	\$ 5,721,604
Pace Plc	Stock	335,783	\$ 1,736,993
Premier Foods Plc	Stock	197,913	\$ 394,703
Provident Financial PLC	Stock	131,570	\$ 3,446,137
Rexel S.A.	Bonds	819,000	\$ 1,143,320
Rexel S.A.	Stock	207,222	\$ 5,263,380
Rolls-Royce Group PLC	Stock	242,757,360	\$ 397,649
RPS Group Plc	Stock	244,560	\$ 1,253,883
RYOBI LIMITED	Stock	98,000	\$ 414,536
Schlumberger N.V.	Stock	3,857,607	\$ 341,089,611
Seagate Technology PLC	Bonds	6,000,000	\$ 5,618,708
Seagate Technology PLC	Stock	14,820	\$ 726,773
Serco Group plc	Stock	1,428,116	\$ 10,655,627
Signet Jewelers Limited	Stock	659,044	\$ 50,683,405
Smurfit Kappa Group plc	Bonds	400,000	\$ 418,213
Smurfit Kappa Group plc	Stock	226,082	\$ 5,386,884
Sodexo S.A.	Stock	101,444	\$ 10,212,673
SuperGroup PLC	Stock	29,411	\$ 579,566
Telefonica S.A.	Bonds	113,635,000	\$ 56,320,913

Telefonica S.A.	Stock	5,169,347	\$ 85,234,115
Tesco PLC	Stock	160,379	\$ 2,867,577
Thales SA	Stock	113,886	\$ 6,966,138
The Royal Bank of Scotland Group PLC	Stock	1,980,278	\$ 10,613,695
Thomas Cook Group plc	Stock	1,870,431	\$ 5,324,988
Travis Perkins PLC	Stock	220,674	\$ 6,492,092
Trigano S.A.	Stock	4,241	\$ 90,830
Trinity Mirror PLC	Stock	139,367	\$ 414,917
TUI AG	Stock	151,085	\$ 2,198,009
Tyco International Ltd.	Stock	85,902	\$ 3,276,302
Vodafone Group PLC	ADR	62,100	\$ 2,303,289
Vodafone Group PLC	Bonds	31,490,000	\$ 32,525,590
Vodafone Group PLC	Stock	63,422,597	\$ 235,621,116
WH Smith PLC	Stock	125,645	\$ 1,949,047
William Hill PLC	Stock	786,770	\$ 4,969,492
Wolseley Plc	Stock	507,265	\$ 27,395,610
WPP Plc	Bonds	17,989,999	\$ 18,525,150
WPP Plc	Stock	2,269,838	\$ 50,231,639
Zurich Insurance Group AG	Stock	221,927	\$ 62,109,598
	Stocks		\$ 2,604,657,022
	ADR		\$ 12,573,648
	Bonds		\$ 411,633,059
			<u>\$ 3,028,863,729</u>

## **Shareholder Proposals Relating to Northern Ireland**

In 2013, 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) 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.

<b><i>CALSTRS 21 RISK FACTORS</i></b>	
<b>Monetary Transparency</b>	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.
<b>Data Dissemination</b>	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.
<b>Accounting</b>	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.
<b>Payment System: Central Bank</b>	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.
<b>Securities Regulation</b>	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.
<b>Auditing</b>	The investment's long-term profitability by whether or not the country uses International Standards on Auditing in setting national standards.
<b>Fiscal Transparency</b>	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.

<p><b>Corporate Governance</b></p> <p>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.</p>
<p><b>Banking Supervision</b></p> <p>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.</p>
<p><b>Payment System: Principles</b></p> <p>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.</p>
<p><b>Insolvency Framework</b></p> <p>The investment's long-term profitability from its business operations and activities in specific countries with regard to bankruptcy reform or insolvency legislation.</p>
<p><b>Money Laundering</b></p> <p>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.</p>
<p><b>Insurance Supervision</b></p> <p>Whether or not a country has a regulatory framework in line with International Association of Insurance Supervisors (IAIS) Principles.</p>
<p><b>Respect for Human Rights</b></p> <p>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.</p>
<p><b>Respect for Civil Liberties</b></p> <p>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.</p>

<p><b>Respect for Political Rights</b></p> <p>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.</p>
<p><b>Discrimination Based on Race, Sex, Disability, Language, or Social Status</b></p> <p>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.</p>
<p><b>Worker Rights</b></p> <p>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.</p>
<p><b>Environmental</b></p> <p>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.</p>
<p><b>War/Conflicts/Acts of Terrorism</b></p> <p>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.</p>
<p><b>Human Health</b></p> <p>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.</p>





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## CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM



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## CALSTRS BUSINESS PLAN

FISCAL YEAR 2013-14

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# INTRODUCTION

## CALSTRS BUSINESS PLAN FOR FISCAL YEAR 2013–14

### **CALSTRS IS CELEBRATING ITS 100<sup>th</sup> YEAR OF SECURING THE FINANCIAL FUTURE OF CALIFORNIA'S EDUCATORS.**

Over the past months we have planned celebratory events and created a visual history to mark this important milestone. Underlying our first 100 years CalSTRS recognizes that having a long-term orientation brings a much wiser understanding of investment trends and the system's funding and benefits structure. The value of being a long-term responsible organization has grown into a more thoughtful understanding of the importance of building sustainability into the core foundation of CalSTRS overarching business strategy. Strengthening CalSTRS for the next 100 years and beyond involves closely assessing traditional financial risks as well as the impact of environmental, social and governance factors in order to effectively position our efforts.

This annual business plan presented each July to the Teachers' Retirement Board is an important statement of CalSTRS' strategic priorities for the coming fiscal year. As part of this exercise each year, the executive staff updates the environmental scan to reflect the current conditions facing CalSTRS anticipated issues that may bear upon our future success. Accurately reading economic signals has challenged the skills of the best and the brightest economists this past decade. Yet, given the nature of our business, these trends guide the monetary engine of our retirement services.

As we look more broadly at the external economy, we see a number of relevant trends. The Dow Jones Industrial Average reached an all-time high in late spring and our fiscal year returns will certainly reflect these strong market movements. The long running anemic real estate market is showing signs of resuscitation as housing starts are gaining momentum. But relative to our interests of retirement security, significant gaps remain.

The National Institute on Retirement Security (NIRS) released a report in June 2013 entitled "The Retirement Savings Crisis: Is it worse than we think?" Needless to say, the Great Recession has left many households concerned about their retirement and deeply depressed the savings levels of 401(k)'s. Yet looking at the entire U.S. population, nearly 45 percent do not own any retirement account assets. While we have long recognized the low savings rates in 401(k) plans, the median retirement account balance for all working-age households is \$3,000, and \$12,000 for near-retirement households. With nearly 78 million baby boomers entering retirement over the next decade, these compelling statistics frame the economic, social and political challenges that will impact the policy environment for the retirement and social security debates facing this nation.

Within those policy discussions is, of course, the continuing focus on the funding and benefit adequacy of public pensions. The Governor and Legislature took significant steps in passing the Public Employees Pension Reform Act which became effective in January 2013. While that legislation will certainly affect future benefit levels of new hires, and provides well needed reforms to defining credible compensation, the more daunting challenge of stabilizing long-term funding for CalSTRS remains. In recent months, CalSTRS has provided a comprehensive funding alternative report to the Governor and Legislature as requested by the passage of SCR 105. We followed up with meetings with every legislator to raise continued awareness of the need to address CalSTRS' long-term funding needs and the ultimate risk failing to do so presents to the state General Fund. Strong support for the criticality of acting on the funding shortfall is evident from the Legislative Analyst's Office as well as a variety of news outlet editorials. Finally, the solid stakeholder community which supports CalSTRS and our educators demonstrates a visible commitment to moving a solution forward.

We certainly will continue to work to bring these various parties and interests together toward a legislative solution. At the same time, we need to be just as cognizant of the significant financial risks that result from delayed funding. To that end, staff will conduct further financial analyses during the year that provide detailed consequences for the state through various delay scenarios.

This will also be the fiscal year in which newly adopted GASB accounting standards take effect, and Moody's applies its new accounting framework. Both changes raise significant education responsibilities for CalSTRS, and are referenced in the plan that follows. Beyond the pure educational components of these technical accounting changes, we can expect critics to further question the viability of public pension plans and advocates to reassert the need for plan sponsors to fully fund their annual required contributions (ARC).

This plan places considerable emphasis on attention to risk. It includes a variety of objectives and initiatives that span many activities. We are continuing the progress already made with employee education on internal controls and implementing more intensive training for staff on our new financial system, BusinessDirect. We also are taking the next steps (procurement) in our BusinessRenew program to prepare for the significant development efforts that will be undertaken next fiscal year to replace our core pension administration system called START.

Finally, although it may seem we are operating in an ever-changing and chaotic environment, it's important to remind ourselves and the broader community that CalSTRS also has some remarkable features that have created a stable source of security for our 862,000 educator members. These are often noted, but worth repeating:

- » A career-oriented membership base that values the defined benefit plan and is attentive to the actions of CalSTRS both in terms of benefit adequacy and its commitment to responsible investing.
- » A moderate benefit providing, on average, a 53 percent replacement ratio and a benefit that encourages members to retire later than many other public workers.

- » A hybrid-like model that constrains salary spiking and provides supplemental savings through a cash balance plan and encourages voluntary savings through defined contribution options.
- » A consistent statutory set level of required employer and employee contributions over decades with costs sharing of approximately 50/50.

The outcomes from the initiatives in the attached plan represent CalSTRS' strong efforts to address its funding deficiencies, attend to risk, and provide its members with great customer service.

A handwritten signature in black ink that reads "Jack Ehnes". The signature is written in a cursive style with a large, sweeping initial "J".

**Jack Ehnes**

Chief Executive Officer

# ENVIRONMENTAL SCAN

**OUR ENVIRONMENTAL SCAN** is the foundation for developing the plan's strategies and objectives. The scan assesses the strengths, weaknesses, opportunities and threats to our internal and external environments. It also compliments our risk management, particularly as it relates to internal weaknesses and external threats. Each year the executive staff refreshes the SWOT to determine influencers for executing our strategic plan.

Strengths and weaknesses are examined from an internal perspective but also represent how we may be viewed by external forces. The strengths identified represent the uniqueness of CalSTRS from the perspectives of our external audiences, our members, stakeholders, policymakers, business partners, and others—and our internal organization. The characteristics that emerge are used to build upon and leverage opportunities, while helping to mitigate weaknesses and threats.

Using the same internal and external perspectives, the weaknesses in our SWOT reflect areas that we perceive need to be eliminated or strengthened to mitigate risk or unlock opportunities. For example, our strong reputation and solid relationships, along with trends in the investment environment and technology industry, will be leveraged to overcome weaknesses and threats. Our responsiveness to threats is evident throughout our FY 2013–14 Business Plan as we identified strategies to address political, regulatory and economic forces, and our increased exposure to internal and external risks.

Our environmental scan is the basis for the FY 2013–14 Business Plan and is tailored to the current needs of our members by continuously improving a strong, fully sustainable organization.

## STRENGTHS

### STRONG BOARD AND EXECUTIVE LEADERSHIP

- » Responsive board members with a commitment to demonstrated excellence in plan governance.
- » Board and management relationships that rest on effective policy formulation and adherence.
- » Board committees dedicated to thorough examination of issues and accomplishment of key strategies.

### IMPROVED RISK MITIGATION

- » Enhanced compensation spiking detection and enforcement efforts.
- » Board visibility and executive oversight of strategic and operational risk strategies and system of internal controls.
- » Avoidance of many of the characteristic issues that have plagued and tarnished other large state pension plans.

### SOLID REPUTATION

- » Strong relationships with key stakeholder organizations and expansive multi-channel communications approach.
- » Transparency in investment decisions, focus on value and environmental, social and governance factors, and high ethical standards for investment partners.
- » Consistent national recognition and strong global reputation of the investment program and corporate governance initiatives. Focused on market conditions with agile and diversified investment strategies.

### STRONG ORGANIZATION AND CULTURE

- » Dedicated and experienced senior leadership team with deep understanding of the business model.
- » Commitment to sound planning and decision-making based on performance and accountability.
- » Solid ethical foundation and adherence to core values by committed and capable employees and board members who value fiduciary responsibility, transparency and customer service.
- » Emerging performance management system that aligns competencies to organizational performance.

- » Commitment to a sustainable workforce and dedicated resources to support implementation of best practices in employee engagement, such as a positive work environment in a sustainable building and an internationally honored employee recognition program.

### EFFECTIVE TECHNOLOGY DEVELOPMENT METHODS

- » Increased collaboration and communication capabilities through technology, fostering greater employee engagement.
- » Experience in delivery of large technology projects, including use of best practices for external oversight.
- » Commitment to priority and resource management with the implementation of a project portfolio management approach.

## WEAKNESSES

### INADEQUATE PLAN FUNDING

- » Funding level projections that continue to decline, without CalSTRS ability to adjust contribution levels.
- » Lack of consensus on state resource prioritization hinders finalization of a multiyear funding plan.

### INCOMPLETE BOARD REPRESENTATION

- » Lingered board vacancies that may disrupt, pressure or change board culture, strategies or priorities once new members are appointed.

### STRAINED ORGANIZATION AND CULTURE

- » Pressing needs for significant process and technology changes to improve internal controls, customer service, operational efficiency, and lower administrative costs.
- » Continued operational challenges caused by overly restrictive, inefficient and costly state fiscal and administrative systems, policies and processes, particularly related to procuring external services and hiring and compensating staff.
- » Impact of BusinessRenew implementations on employee morale and engagement.
- » Retirement of executive staff and senior leaders currently and within the next five years.
- » Enactment of the Public Employees' Pension Retirement Act disadvantages new hires—affecting our ability to recruit from external candidate population.

## OPPORTUNITIES

### IMPROVED INVESTMENT ENVIRONMENT

- » Institutional investors working together to lower fees and improve legal terms.
- » Cost-efficient investment structure producing positive returns.
- » Economy that is demonstrating growth.
- » Opportunities for growth in environmental adaptations and technology in response to climate change.

### IMPROVED REPUTATION AND RELATIONSHIPS

- » Enactment of PEPRA enhances anti-spiking efforts.
- » Educating the public regarding the genuine and compelling needs of CalSTRS' membership.
- » Priority of education and pension funding issues on the local, state and national stages.
- » Unique characteristics of CalSTRS' membership and benefit structure from other plans.
- » Strong reputation and leadership among its membership, business partners, industry professionals, the public, media and peers, which facilitates consensus building.

### EXPANDED USE OF TECHNOLOGY

- » Improved customer service, system agility and operational efficiency, with the prioritization, funding and implementation of technology initiatives.
- » E-service capabilities established for members and business partners.
- » Positive relationship with employers, including school districts and county offices of education, and the use of technology to improve ongoing interactions.
- » Lessons learned from recent implementation efforts and awareness of additional internal controls to reduce operational risk.

## THREATS

### CONTINUED TURMOIL OF PUBLIC PENSION PLANS

- » Ongoing scrutiny of nationwide of public pension funding, governance and benefits could affect future plan designs and financial security of educators, without addressing funding needs.
- » Changes in economic assumptions increase unfunded liability, increasing skepticism of long-term viability of defined benefit plans.

### INCREASED REGULATION

- » Impact of new Governmental Accounting and Standards Board statements and Moody's credit rating criteria on state and employer financial statements, and the possibilities of negative reactions from taxpayers and policymakers.
- » Financial weaknesses that spawn further federal efforts to regulate the activities of public pension plans.

### VOLATILE ECONOMY

- » Increasing complex and dynamic external investment risk environment.
- » Monetary policy, specifically the consequences on the investment markets of the unwinding of the unprecedented global monetary easing that has taken place since the financial crisis.
- » Fiscal policy—effects of austerity/budget deficits on the consumer and their impact on global economic growth.
- » The potentially significant slowdown of China's economy, the world's second largest and historically one of the main global growth engines.
- » The potential for a governmental policy misstep leading to either a prolonged environment of low investment returns or high inflation.
- » Divestment and other external pressures on the investment process.

### INCREASED RISK EXPOSURE

- » Lack of progress on the development of a national energy policy and the reduction of environmental threats at a global level, which increases the portfolio's risk exposure to climate change and stranded carbon assets.
- » Ongoing potential risk of cyber-terrorism or computer hacking resulting in information security, financial, operational, and/or reputational loss.
- » Credibility threatened by CalSTRS' current inability to adapt systems quickly to legislative changes.
- » Fluctuating workload due to demographic changes in the membership and driven by changing economic conditions, will create additional demands on staff to maintain service levels while also appropriately supporting BusinessRenew projects.
- » Human Resource classifications and pay that are out of date and ineffective hinder successful staff recruitment and retention. There is an unknown impact regarding the reduction in retirement benefits for new state employees that could further exacerbate the recruitment and retention of highly qualified and skilled employees.
- » State civil service system that does not keep pace with the changing skill sets required of staff, particularly as more e-service and technology enhancements evolve to provide support to employers and members.

# MISSION, VISION & CORE VALUE

## OUR MISSION

Securing the financial future and sustaining the trust of California's educators.

## OUR VISION

Your Reward—A secure retirement  
Our Reward—Getting you there

## OUR CORE VALUES

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

### CUSTOMER SERVICE

We never compromise on quality as we strive to meet or exceed the expectations of our customers.

### ACCOUNTABILITY

We operate with transparency and accept responsibility for our actions.

### LEADERSHIP

We model best practices in our industry and innovate to achieve higher standards.

### STRENGTH

We ensure the strength of our system by embracing a diversity of ideas and people.

### TRUST

We conduct ourselves with integrity, acting ethically in every endeavor.

### RESPECT

We respect the needs of our members, co-workers, and others, treating everyone with fairness, honesty, and courtesy.

### STEWARDSHIP

We recognize our fiduciary responsibility as the foundation for all decision-making.

# STRATEGIC GOALS

## **GOAL 1 - FINANCIAL**

Ensure a financially sound retirement system.

## **GOAL 2 - RISK MANAGEMENT**

Responsibly manage risk to the organization.

## **GOAL 3 - MEMBER/CUSTOMER**

Enhance services to members and customers.

## **GOAL 4 - WORKFORCE & PROCESS IMPROVEMENTS**

Improve the work environment and internal efficiency.

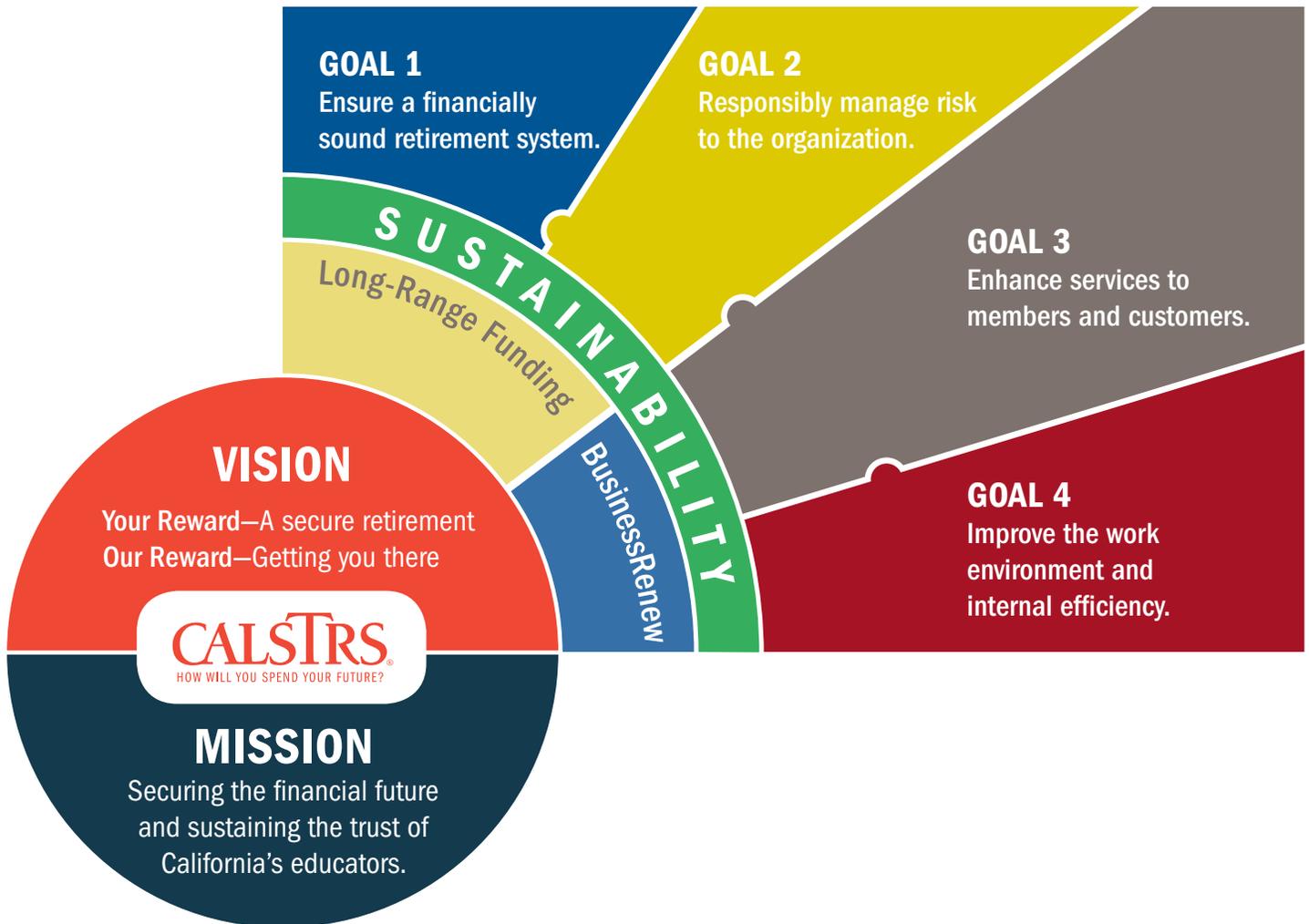


# STRATEGY MAP

**CALSTRS BUSINESS PLAN REPRESENTS A COMMITMENT** of accountability toward execution of our five-year strategic plan. Two strategies continue to be our focal points in our commitment to sustained value: **long-range funding and BusinessRenew**. These strategies describe how we, as an organization, are committed to creating sustained value for our members through participation of stakeholders, the community-at-large, global partners, and employees. We listen to input from these groups and align our planning with a top-down approach across four goal areas: **Financial, Risk Management, Member/Customer and Workforce and Process Improvements**. Our strategy map is a visual description of how these goals interrelate in support of CalSTRS' mission and vision.

Objectives, initiatives and activities identified in our business plan provide the framework that represents a cause and effect relationship across each of our four goals. Performance is measured through a combination of short- and long-term objectives across these goal areas, creating visibility of the drivers of performance. For example, financial outcomes respond to risk management the same way that risk management and service to our members responds to internal capabilities, such as having a strong workforce and managing processes, knowledge, tools and technologies.

Each year, CalSTRS' business strategy is reviewed and fine-tuned to represent the current focus of our organization, allowing us to use our continuous assessments of the changing environment. The integration of these strategies is essential to maintaining visibility of our desired outcomes, managing our progress, and understanding external and internal impacts to make successful course corrections. Our determination to continuously respond to the changing needs and desires of our members and the environment reflects our desire to be seen as a sustainable, world-class organization, committed to securing the financial future and sustaining the trust of California's educators.





# FINANCIAL

## GOAL 1

### Ensure a financially sound retirement system.

Ensuring a financially sound retirement system for California's public educators is central to CalSTRS' mission and vision. The strategies in this goal embody our commitment to proactively challenge issues related to funding and the long-term viability of our benefit programs. The funding shortfall can be managed. It will take a multi-pronged approach of sound investments, adjustable contribution rates and strong advocacy of a sustainable fund. This ensures our individual members will retain a secure retirement, and preserves the collective needs of our diverse member population. The objectives and initiatives below represent our commitments to meeting our fiduciary responsibility and securing the futures of California's public educators.

## OBJECTIVE A

Secure legislation to adjust contributions for establishing long-term viability of CalSTRS benefit programs.

### INITIATIVE 1

Identify a plan that provides long-term funding for the CalSTRS Defined Benefit Program. (July 2012–14)

#### Key Activities for FY 2013–14:

- » Work with affected stakeholders to determine effective timeframe for legislative implementation.
- » Conduct in-depth analysis on impacts from any further delays to the funding improvements.

### INITIATIVE 2

Educate stakeholders and policymakers on the value of the CalSTRS Defined Benefit Program in achieving retirement security. (July 2012–14)

#### Key Activities for FY 2013–14:

- » Continue to meet with legislators about the CalSTRS Defined Benefit Program.

### INITIATIVE 3

Educate stakeholders and policymakers on the economic impact of CalSTRS benefit payments and investments on the California economy. (July 2012–14)

#### Key Activities for FY 2013–14:

- » Complete study of economic impact of benefits.
- » Develop communication materials on economic impact of benefits study.
- » Initiate study of economic impact of investments.

## OBJECTIVE B

Achieve the performance objectives set in the investment policy and management plan.

### INITIATIVE 1

Structure the investment portfolio within the strategic and tactical asset allocation ranges. (July 2012–17)

#### Key Activities for FY 2013–14:

- » Earn an absolute return above 7.5 percent.
- » Achieve an extra 60 basis points above the total fund policy benchmark return.

## OBJECTIVE C

Implement the diversity in the management of investments business plan.

### INITIATIVE 1

Develop a process whereby emerging global equity managers in manager-of-manager structures can be hired directly. (July 2013–15)

#### Key Activities for FY 2013–14:

- » Develop options and a plan to consider the transition of emerging global equity managers to a direct management structure.

## OBJECTIVE D

Increase participation in global securities litigation.

### INITIATIVE 1

Develop a monitoring and evaluation process for global securities litigation opportunities. (July 2012–14)

#### Key Activities for FY 2013–14:

- » Develop standardized terms for engagement of counsel and funding entities for foreign securities litigation in collaboration with a working group of plan general counsels.
- » Develop a reliable and comprehensive foreign securities cases monitoring process in collaboration with law firms and security litigation monitoring services.

## INITIATIVE 2

Revise the securities litigation policy in the Teachers' Retirement Board Policy Manual to address foreign securities litigation. (July 2012–14)

#### Key Activities for FY 2013–14:

- » Revise the corporate governance policy to address foreign security opt in/loser pay cases.

## OBJECTIVE E

Educate regulatory standard setting organizations, policymakers and stakeholders on the unique characteristics of CalSTRS benefit programs.

### INITIATIVE 1

Educate CalSTRS' employers regarding the impact of proposed and actual changes to Governmental and Accounting Standards Board statements and similar changes by other entities, such as rating agencies, to accounting and financial reporting of pensions through a broad spectrum of communicational channels. (July 2012–15)

#### Key Activities for FY 2013–14:

- » Monitor and update communication plan focused on employer and other stakeholder groups.
- » Implement communication plan through employer and other stakeholder interactions and delivery of communication and educational materials.

### INITIATIVE 2

Participate as necessary in the implementation of accounting standards for multi-employer cost-sharing plans and pensions. (July 2012–14)

#### Key Activities for FY 2013–14:

- » Participate as a stakeholder in implementation guide discussions for GASB 68.
- » Implement changes to CalSTRS financial statements to conform to GASB 67 standards and provide information for state and employer financial statements.
- » Assess impact of GASB 68 on CalSTRS financial statements—CalSTRS' presentation of a portion of the state employees' unfunded pension liability and adjustment to recognition of pension expense and associated deferred inflows and outflows.

- » Provide input to GASB on project related to fair valuation of investment assets.
- » Implement financial reporting changes to present assets by investment type.

### **RISKS RELATIVE TO GOAL 1**

- » Failure of the Legislature and Administration to pass a measure that would address CalSTRS funding needs.
- » Reform proposals could compromise contractual rights of members thereby creating litigation challenges.
- » Pension reform legislation could substantially reduce guaranteed defined benefit pension provided to members.
- » The fund will not achieve the actuarially expected return over the long-term (absolute return).
- » Invalid actuarial methodologies and incorrect information underlying the actuarial assumptions negatively affect the fund.
- » The asset classes and/or total portfolio strategies do not add value above the benchmarks over the long-term (relative return).
- » Inaccurate reporting of long-term funding needs could result in loss of member, stakeholder and public trust.

# RISK MANAGEMENT

## GOAL 2

### Responsibly manage risk to the organization.

Our risk management goal reflects our dedication to creating a fully sustainable organization. Our perseverance in the way we manage and respond to our internal and external risk environments is evident in each of the goals, objectives and initiatives in this business plan. We are committed to addressing risks and opportunities as we cultivate our approach to corporate sustainability by transforming our business culture and practices. CalSTRS is recognized as a global leader in corporate sustainability. We are formalizing a concerted standard of risk management that extends from our board to each employee. The objectives and initiatives in this goal reveal our commitment to being a strong and agile organization by continuing to expand our knowledge, tools and practices related to our investments, the quality of our audits, and the transformation of our business culture and practices.

## OBJECTIVE A

Create a culture of risk awareness by incorporating enterprise risk management into CalSTRS' strategy and business operations.

### INITIATIVE 1

Formalize practices for effective oversight of risk. (July 2012–15)

#### Key Activities for FY 2013–14:

- » Revise board policy and committee charters.
- » Refine risk management framework and tools, such as an internal policy and team charter, to identify and align risk at the program level.
- » Assess effectiveness of internal risk management framework and processes.

### INITIATIVE 2

Assess and respond to risk at all levels of the organization. (July 2012–15)

#### Key Activities for FY 2013–14:

- » Identify critical business processes to assess and respond to program risks.
- » Initiate the development of an internal reporting framework and annual risk management plan related to program risk.
- » Assess internal control effectiveness and risk mitigations through regular audits.
- » Develop and implement ongoing training and communication relative to established risk management framework.

### INITIATIVE 3

Expand and enhance awareness of information security. (July 2013–15)

#### Key Activities for FY 2013–14:

- » Develop and deliver an annual mandatory training course for all employees.
- » Develop and deliver other education and communication opportunities and materials to support ongoing awareness of information security.

## OBJECTIVE B

Enhance the internal audit function so that the quality of audits is in line with best practices.

### INITIATIVE 1

Enhance the employer audit effort to identify systemic employer reporting issues. (July 2013–14)

#### Key Activities for FY 2013–14:

- » Establish a satellite employer audit unit in the Glendale Member Service Center, with a focus on Los Angeles Unified School District.
- » Develop and implement methodologies to extrapolate employer audit sampling results to determine the magnitude of findings and additional corrective actions needed.

### INITIATIVE 2

Engage in an external quality audit review of Audit Services. (On or before March 2016)

## OBJECTIVE C

Develop and integrate new risk management tools and strategies to reduce the downside volatility of investment returns.

### INITIATIVE 1

Develop and implement more robust, top-down risk tools for the total portfolio. (July 2012–14)

#### Key Activities for FY 2013–14:

- » Implement the BlackRock enterprise risk management system.
- » Develop a long-horizon performance attribution report for the tactical asset allocation committee.

## OBJECTIVE D

Accelerate transformation of CalSTRS to a fully sustainable global organization by integrating environmental, social and governance opportunities into its culture and strategies.

### INITIATIVE 1

Develop an organizational sustainability policy and educate staff. (July 2013–14)

#### Key Activities for FY 2013–14:

- » Incorporate appropriate best practices into sustainability policy.
- » Engage internal stakeholders and finalize employee consensus-based sustainability policy.
- » Develop communication and training plans for sustainability policy.
- » Educate leadership and employees on responsibilities as identified in new sustainability policy.
- » Establish communication channels for internal stakeholder input on sustainability policy.

### INITIATIVE 2

Engage stakeholders on sustainability policies and expectations. (July 2013–14)

#### Key Activities for FY 2013–14:

- » Develop an enhanced responsible contractor policy and implement for CalSTRS contracts.
- » Develop external stakeholder engagement plan.

### INITIATIVE 3

Establish an internal planning and reporting framework using Global Reporting Initiative principles. (July 2013–17)

#### Key Activities for FY 2013–14:

- » Engage sustainability champions in key areas of the organization to develop goals, objectives and performance metrics toward measuring sustainable progress.
- » Build the framework for future reporting of Global Reporting Initiative principles.

### INITIATIVE 4

Integrate environmental, social and governance factors into internal and investment operations, and across entire investment portfolio. (July 2012–17)

#### Key Activities for FY 2013–14:

- » Integrate and formalize the evaluation of the 21 risk factors across the investment portfolio and asset classes.

## **RISKS RELATIVE TO GOAL 2**

- » Unintended investment exposures are not identified and managed.
- » Environmental, social and governance factors are not integrated across entire investment portfolio.
- » Perceived pension abuses, such as compensation spiking.
- » Board member or staff member engages in unethical behavior.
- » Information security breach.
- » Staff has inappropriate access to member information.
- » Lack of understanding and awareness of internal control weaknesses.

# MEMBER/ CUSTOMER

## GOAL 3

### Enhance services to members and customers.

Customer service is fundamental to CalSTRS, and we recognize that the other three goals are intrinsically connected to enhancing services to members and customers. Our primary customers, CalSTRS members, are the key recipients of our products and services. We also recognize the need to collaborate with our other partners and stakeholders to deliver the products and services our members count on. A key objective continues to be expanding and enhancing ways that members, both active and retired, can interact with us to meet their specific needs. In addition to broader communication channels, a major educational and communication effort focuses on CalSTRS' hybrid benefit program as a way to achieve financial security. Our financial, risk management and workforce and process improvement goals enable us to continue to provide the best possible customer service to our members and business partners.

## OBJECTIVE A

Increase members' understanding of the role of CalSTRS' hybrid benefit program elements in achieving financial security for retirement.

### INITIATIVE 1

Enhance communication channels to improve use of CalSTRS' benefit programs in achieving retirement security. (July 2012–15)

#### Key Activities for FY 2013–14:

- » Initiate upgrade to 403bCompare.com website.
- » Develop marketing strategy for defined contribution programs.

### INITIATIVE 2

Educate members on their roles in achieving retirement security. (July 2013–17)

#### Key Activities for FY 2013–14:

- » Rebrand Client Outreach and Guidance's entire suite of services.
- » Expand strategy of outreach efforts for existing and future Member Service Centers, including school-affiliated organizations.
- » Refresh CalSTRS on Campus as a model for resource allocation of staff assigned to Member Service Centers.
- » Revise the retirement income management workshop.
- » Develop two member education webinars.

## OBJECTIVE B

Expand member and business partner e-services.

### INITIATIVE 1

Establish business partner e-services for vendors through the implementation of the CalSTRS vendor portal. (October 2012–June 2015)

**Key Activities for FY 2013-14:**

- » Draft policy on electronic submission of vendor documents to CalSTRS.
- » Continue communication with vendors regarding access to CalSTRS through the vendor portal.
- » Educate internal contract managers on electronic portal capabilities.

**INITIATIVE 2**

Achieve 80 percent electronic data exchange with vendor business partners. (October 2013-15)

**Key Activities for FY 2013-14:**

- » Encourage vendors to submit invoices for payment through the portal.
- » Encourage vendors to submit responses to procurement solicitations for evaluation through the portal.

**INITIATIVE 3**

Extend e-service capabilities to the annual Retirement Progress Reports. (July 2013-14)

**Key Activities for FY 2013-14:**

- » Implement system modifications.
- » Communicate delivery change to members.

**OBJECTIVE C**

Complete transition of contracted counseling services to CalSTRS internal operations.

**INITIATIVE 1**

Open Orange County Member Service Center. (July 2013-14)

**Key Activities for FY 2013-14:**

- » Select site and negotiate lease.
- » Complete design and construction.
- » Recruit Member Service Center employees.
- » Open center.

**INITIATIVE 2**

Open Inland Empire member service center. (July 2014-15)

**INITIATIVE 3**

Open San Diego member service center. (July 2015-16)

**RISKS RELATIVE TO GOAL 3:**

- » Unable to meet member service expectations.
- » Inability to ensure accurate and timely benefits due to the current technology platform.
- » Inaccurate, untimely and incomplete employer reporting.

# WORKFORCE & PROCESS IMPROVEMENTS

## GOAL 4

### Improve the work environment and internal efficiency.

Improving the work environment and internal efficiencies to ensure a sustainable organization are fundamental CalSTRS' goals and key enablers of a sustainable organization. Having the right people, in the right place, at the right time, using the right business processes and technologies are essential drivers of employee engagement. We are dedicated to developing a culture and workforce that is agile and responsive, and improving business processes and systems that are flexible and adaptable to a changing environment. The objectives and initiatives in this goal reflect our commitment to innovation and our ability to respond to challenges in an external environment of statutes that are cumbersome, inflexible and often, impermeable to change. This goal responds positively to risks related to our workforce development, accountability, and enterprise-wide systems and processes.

## OBJECTIVE A

Successfully implement all scheduled phases of BusinessRenew.

### INITIATIVE 1

Complete implementation of CARM functions. (July 2012–14)

#### Key Activities for FY 2013–14:

- » Continue implementation of CARM release 1.5 functions and assimilation of all implemented BusinessDirect functionality.
- » Develop ongoing training and support program for BusinessDirect system functionality for CalSTRS' staff and management.
- » Develop policy for BusinessDirect security and ongoing monitoring for policy compliance.
- » Update BusinessDirect to reflect the CalSTRS 2 percent at 62 benefit structure.
- » Update BusinessDirect to address GASB 67 and 68 financial reporting requirements.

### INITIATIVE 2

Complete data preparation project. (July 2012–14)

#### Key Activities for FY 2013–14:

- » Adopt final data analysis report recommendations.
- » Develop the request for proposal for data strategy and preparation solution.

### INITIATIVE 3

Complete the Pension Solution procurement for project. (July 2013–14)

#### Key Activities for FY 2013–14:

- » Publish Pension Solution RFP document.
- » Complete organizational readiness assessments.
- » Complete RFP evaluations.
- » Award contract.

### INITIATIVE 4

Initiate Pension Solution project implementation. (July 2014–17)

### INITIATIVE 5

Initiate data conversion for Pension Solution project. (July 2015–17)

### **INITIATIVE 6**

Complete Enterprise Information Management (EIM) analysis and roadmap. (July 2013–17)

#### **Key Activities for FY 2013–14:**

- » Complete and adopt final EIM implementation roadmap and business cases.
- » Initiate critical EIM roadmap implementation initiatives.

### **OBJECTIVE B**

Develop a workforce plan for the organization.

#### **INITIATIVE 1**

Implement recommendations of the Leadership Development and Succession Plan. (July 2013–17)

#### **Key Activities for FY 2013–14:**

- » Continue the development of the Executive Development Program.
- » Identify mission critical positions.

#### **INITIATIVE 2**

Establish statutory positions as appropriate. (July 2012–January 2014)

#### **Key Activities for FY 2013–14:**

- » Attain legislation to include Chief Financial Officer and Chief Operating Officer positions in board's compensation setting authority.
- » Formalize Deputy Chief Investment Officer position within investments.

#### **INITIATIVE 3**

Establish and/or modify classification specifications to align with needed competencies within the organization. (July 2012–15)

#### **Key Activities for FY 2013–14:**

- » Conduct classification and salary study and job analysis of pension program series.
- » Conduct organizational assessment of Investments Branch.

### **INITIATIVE 4**

Implement the recommendations of the Workforce Strategy Plan. (July 2013–17)

#### **Key Activities for FY 2013–14:**

- » Create a Professional Development Program.
- » Complete the initial Executive Development Program.

### **INITIATIVE 5**

Develop a recruitment strategy to attract a fully diversified workforce. (July 2013–15)

#### **Key Activities for FY 2013–14:**

- » Research and apply best practices in workforce diversity to the recruitment strategy.
- » Analyze and assess workforce profiles and identify relevant gaps.

### **OBJECTIVE C**

Increase the percentage of internally managed assets of the total fund.

#### **INITIATIVE 1**

Implement and report progress on the internal management asset plan. (July 2012–14)

#### **Key Activities for FY 2013–14:**

- » Update the Investment Committee on the internal asset management plan.
- » Shift a portion of the Europe, Australia and Far East assets to internal management.

### **OBJECTIVE D**

Develop better ways to evaluate success of the organization, from the board to all levels of staff.

#### **INITIATIVE 1**

Identify appropriate performance benchmarks for all major responsibilities within CalSTRS. (July 2014–17)

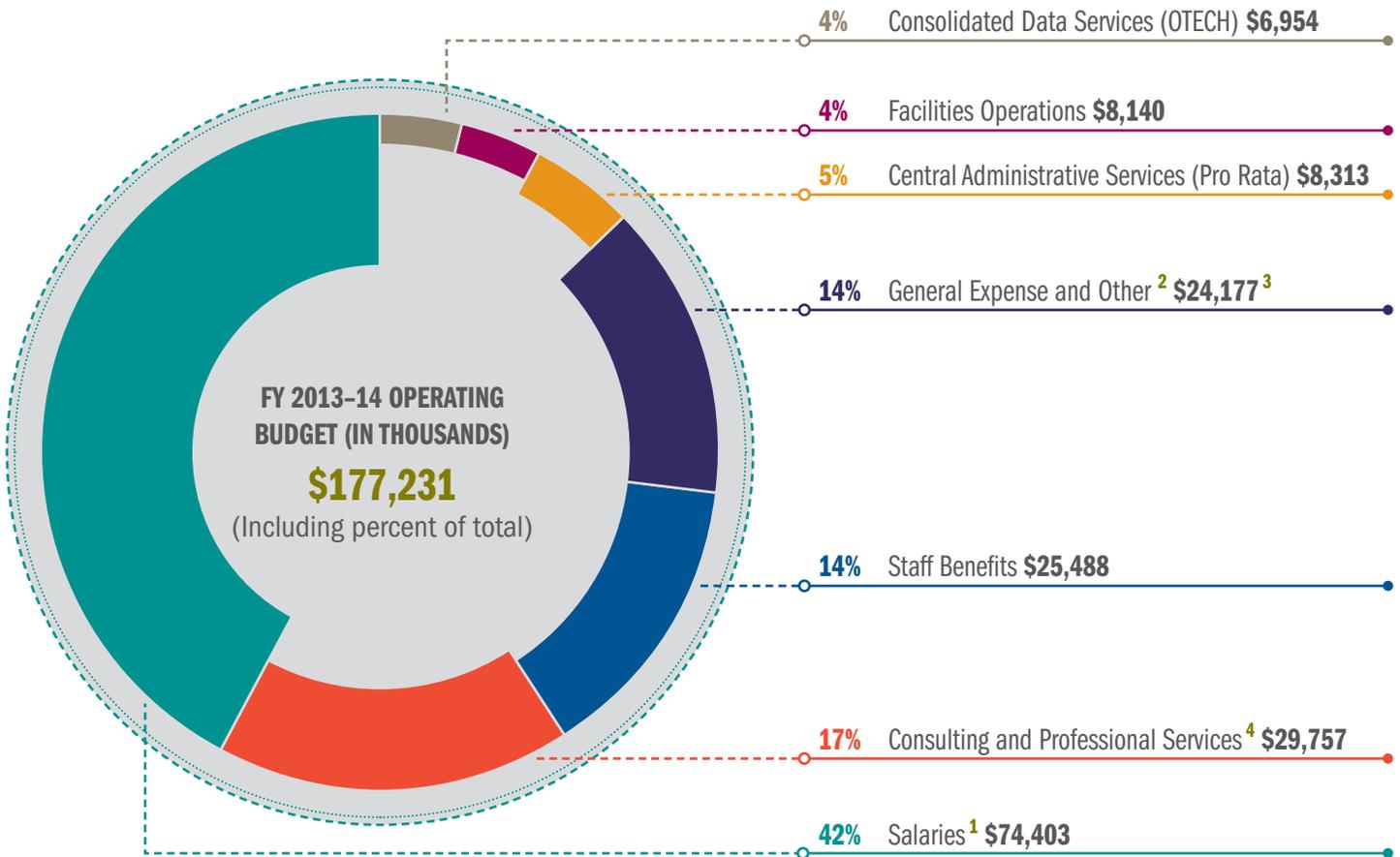
**RISKS RELATIVE TO GOAL 4:**

- » Inability to ensure accurate and timely benefits due to the current technology platform.
- » Inability to perform critical business functions due to lack of resource availability in the event of a disruption of normal business.
- » Staff and leadership turnover could result in lack of long-term business stability and sustainability.
- » Lack of time, tools and training to adequately analyze financial results and research and correct identified issues.
- » Inaccurate, untimely and incomplete employer reporting.
- » Information received from subsidiary systems is received in an untimely or incomplete manner, or is manipulated inappropriately for financial statement presentation.

# BUDGET & RESOURCES

## OVERVIEW OF FY 2013-14 CALSTRS ADMINISTRATIVE BUDGET

Operating Budget	\$177,231,000
Continuous Appropriation - Investments	\$175,135,307
<b>CalSTRS Administrative Budget</b>	<b>\$352,366,307</b>

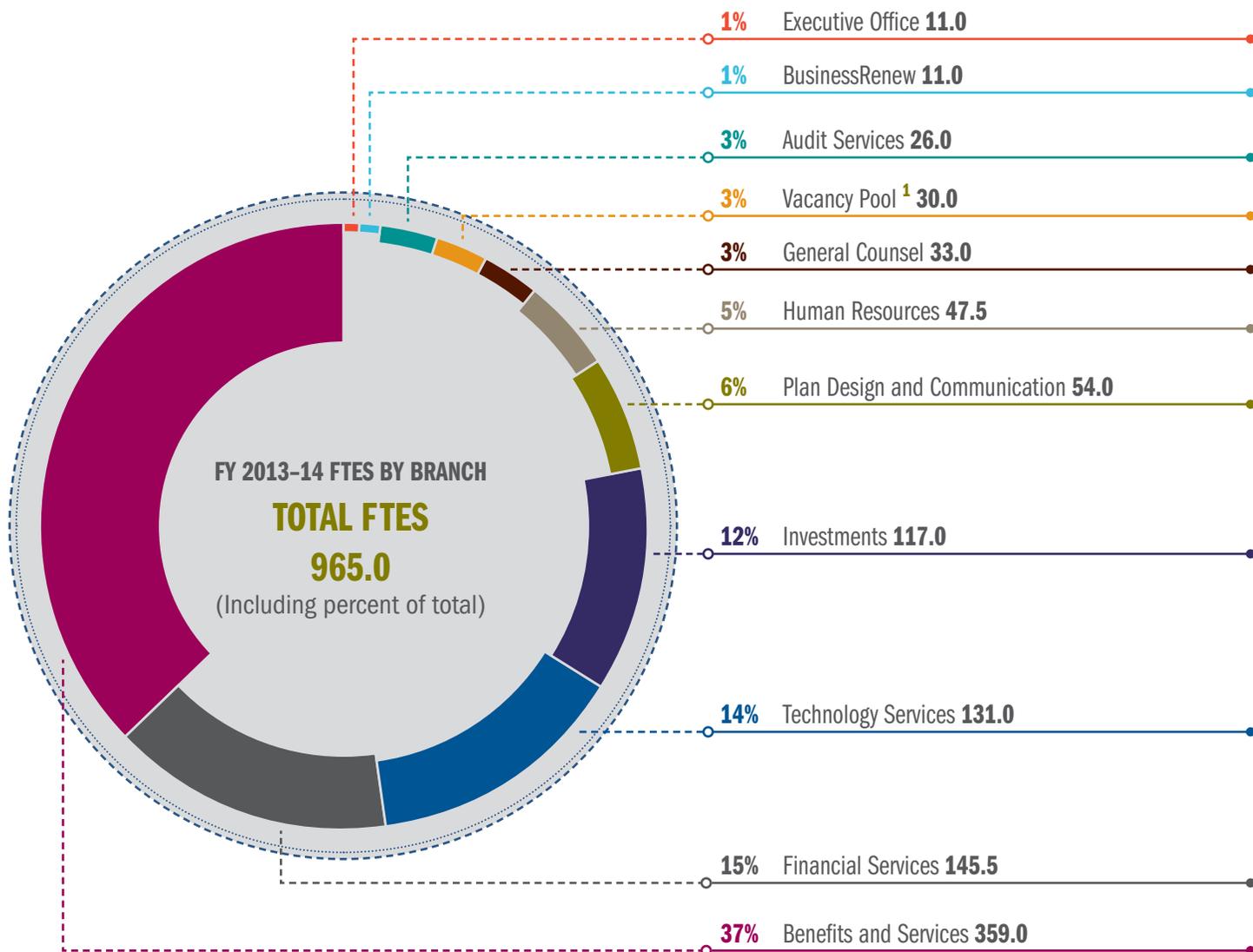


<sup>1</sup> Includes salaries for authorized FTEs (\$64.7M), incentives (\$3.9M), overtime (\$500K), and temporary help (\$5.3M).

<sup>2</sup> Includes Training, Travel, Postage, Communications, Printing, Insurance, Data Processing/IT, Equipment over \$5,000 and Special Items of Expense.

<sup>3</sup> Includes available funding of approximately \$11.5M for the contingency fund. (Includes \$5.4M for projected salary, benefit and retirement increases.)

<sup>4</sup> Includes significant IT Consulting Resources for BusinessRenew.



<sup>1</sup> FTEs in the Vacancy Pool may be distributed throughout the year based on critical needs of the organization.



CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM  
P.O. BOX 15275  
SACRAMENTO CA 95851-0275  
800-228-5453  
**CALSTRS.COM**



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

August 1, 2013

Toshiro Miyazaki  
President & CEO  
MODEC Inc.  
Nihonbashi Maruzen Tokyu Building  
3-10, Nihonbashi 2-chome Chuo-ku  
Tokyo 103-0027  
Japan

Dear Mr. Miyazaki:

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 100 years ago. CalSTRS serves the investment and retirement interests of over 862,000 plan participants. As of June 30, 2013, the CalSTRS portfolio was valued at nearly **\$166 billion**; approximately **\$89 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 15,400 shares of MODEC Inc..

Our independent research providers have identified MODEC Inc. as having 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 that do business in Sudan may be perceived as furthering or condoning the egregious human rights violations currently 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'

Toshiro Miyazaki

August 1, 2013

Page 2

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?

Toshiro Miyazaki  
August 1, 2013  
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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,

A handwritten signature in black ink, appearing to read 'C. Ailman', written in a cursive style.

Christopher Ailman, Chief Investment Officer  
California State Teachers' Retirement System





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

August 1, 2013

Narita Naziree  
Head, Group Business Planning & Investor Relations  
Malayan Banking Bhd  
14th Floor, Menara Maybank, 100 Jalan Tun Perak  
50050 Kuala Lumpur  
Malaysia

Dear Ms. Naziree,

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 100 years ago. CalSTRS serves the investment and retirement interests of over 862,000 plan participants. As of June 30, 2013, the CalSTRS portfolio was valued at nearly **\$166 billion**; approximately **\$89 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 1596038 shares of Malayan Banking Bhd.

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](http://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 Malayan Banking Bhd 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 States 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 50050 Kuala Lumpur.

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



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

August 1, 2013

Nadia Chambery  
Investor Relations CSR  
Total SA  
2, place Jean Millier  
La Defense 6  
92078 Paris La Defense Cedex  
France

Dear Ms. Chambery,

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 100 years ago. CalSTRS serves the investment and retirement interests of over 862,000 plan participants. As of June 30, 2013, the CalSTRS portfolio was valued at nearly **\$166 billion**; approximately **\$89 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 2,427,118 shares of Total.

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 Total as doing business in, or with Sudan. Our previous analysis placed Total 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 your 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?

8/1/2013

Page 3

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,

A handwritten signature in black ink, appearing to read 'C. Ailman', written in a cursive style.

Christopher Ailman, Chief Investment Officer  
California State Teachers' Retirement System





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

August 1, 2013

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

Dear Mr. Baranov,

This letter is sent to you on behalf of the California State Teachers' Retirement System (CalSTRS). As you may be aware, CalSTRS is a public pension fund established for the benefit of California's public school teachers 100 years ago. CalSTRS serves the investment and retirement interests of over 862,000 plan participants. As of June 30, 2013, the CalSTRS portfolio was valued at nearly **\$166 billion**; approximately **\$89 billion** of the fund's assets are invested in the public equity markets, on both a domestic and an international basis. A significant percentage of CalSTRS' public equity portfolio is invested in the indexed or passive style of investment management; these stocks do not trade on company news or events; we hold these stocks for the long-term. We do use our corporate governance rights to address issues with corporations that are held in our portfolio; in our view, this strategy is more efficient for the investing considerations of diversification, minimizing risks and costs, and maximizing returns than simply selling a security each time we have shareholder concerns.

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

Our independent research providers have identified Gazprom OAO as doing business in, or with the country of Iran. Currently, CalSTRS owns 4277688 shares of your company. Our previous analysis placed Gazprom OAO in a "Monitor" status and not subject to divestment. We are requesting an updated disclosure of your direct or indirect business activities in Iran so that we, as fiduciaries, can accurately assess the risk associated with your activities there and make informed investment decisions.



We request that you answer the following questions:

- (1) Does your company, any subsidiary of your company, or joint venture thereof (“Affiliated Business Entity”) engage in any direct or indirect business activity in Iran? If yes, identify the name and nature of such business and how long has such business been taking place?
- (2) What portion of you company’s or any Affiliated Business Entity’s current revenue stream is from any direct or indirect business activity in Iran, and what portion of the company’s or Affiliated Business Entity’s total assets were used to earn said revenue?
- (3) Has your company or any Affiliated Business Entity made a capital investment in Iran?
- (4) Has your company or any Affiliated Business Entity entered into any licensing agreement with the Iran government in order to engage in current or future business activities?
- (5) Has your company or any Affiliated Business Entity made sales of gasoline to Iran?
- (6) Has your company or any Affiliated Business Entity purchased oil or Natural gas from Iran?
- (7) Is your company or an Affiliated Business Entity doing any business with a corporation that is owned by the Iranian government?
- (8) How many employees of your company or Affiliated Business Entity are in Iran?
- (9) What fees and/or taxes does your company and/or any Affiliated Business Entity pay to the Iran government and what are the fees and/or taxes for?

8/1/2013

Page 3

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,

A handwritten signature in black ink, appearing to read "C. Ailman", written in a cursive style.

Christopher Ailman, Chief Investment Officer  
California State Teachers' Retirement System



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

<b>9 Companies Divested and Restricted</b>					
<b>Company Name (Domicile)</b>	<b>Summary of Ties to Sudan</b>	<b>Summary of Changes From 2012</b>	<b>Shares Held by CalSTRS 11/30/13</b>	<b>Market Value (\$) of Shares Held by CalSTRS 11/30/13</b>	
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 2013.	0	\$0	
2 Kunlun Energy Co. and Sinopec, a linked company (China)	While Kunlun Energy Co. 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., have remained "Restricted" in 2013.	0	\$0	
3 Dongfeng Motor Group and Dongfeng Automobile Company Ltd., a linked company (China)	Dongfeng Motor Group and Dongfeng Automobile Co. Ltd. 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 Dongfeng Automobile Company Ltd. were designated as "Restricted." CalSTRS has maintained the "Restricted" designation in 2013.	0	\$0	
4 MISC Bhd. (Malaysia)	MISC Bhd. is a Malaysian shipping company that is linked to Sudan through its parent company, Petronas (which is also "Restricted"). Additionally, MISC Bhd. has a joint venture that provides shipping services to Sudan.	In 2009, MISC Bhd. was designated as "Restricted." CalSTRS has maintained the "Restricted" designation in 2013.	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 2013.	0	\$0	
6 PECD Berhad (Malaysia)	PECD Berhad has an ongoing contract to build an oil export terminal in port Sudan.	In 2009, PECD Berhad was designated as "Restricted." CalSTRS has maintained the "Restricted" designation in 2013.	0	\$0	

<b>Company Name (Domicile)</b>	<b>Summary of Ties to Sudan</b>	<b>Summary of Changes From 2012</b>	<b>Shares Held by CalSTRS 11/30/13</b>	<b>Market Value (\$) of Shares Held by CalSTRS 11/30/13</b>
7 PetroChina and CNPC - as connected corporations to the Chinese National Oil Company (China)	PetroChina has no operations in Sudan but is linked through its parent, CNPC, which has multiple interests in the country.	In 2009, CalSTRS designated PetroChina as "Restricted." CalSTRS has maintained the "Restricted" designation in 2013.	0	\$0
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 2013.	0	\$0
9 Sudan Telecom Company (Sudatel) (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 2013.	0	\$0

### 3 Companies Under Review

<b>Company Name (Domicile)</b>	<b>Summary of Ties to Sudan</b>	<b>Summary of Changes From 2012</b>	<b>Shares Held by CalSTRS 11/30/13</b>	<b>Market Value (\$) of Shares Held by CalSTRS 11/30/13</b>
1 China Railway Group (China)	China Railway Group is reportedly involved in the construction of the railroad from Khartoum to Port Sudan.	In 2013, CalSTRS identified China Railway Group as potentially having ties to Sudan and began the review process.	10,912,000	\$6,291,609
2 Elisa Oyj (Finland)	Comptel OYJ, a subsidiary of Elisa OYJ, reportedly has agreements with Sudan Telecom Company, a restricted company.	In 2013, CalSTRS identified Elisa Oyj as potentially having ties to Sudan and began the review process.	148,426	\$3,742,696
3 Kawasaki Kisen Kaisha Ltd. (Japan)	Kawasaki Kisen Kaisha Ltd. lists port of Sudan in its service network.	In 2013, CalSTRS identified Kawasaki Kisen Kaisha Ltd. as potentially having ties to Sudan and began the review process.	680,341	\$1,615,033

3 Companies Being Monitored					
	Company Name (Domicile)	Summary of Ties to Sudan	Summary of Changes From 2012	Shares Held by CalSTRS 11/30/13	Market Value (\$) of Shares Held by CalSTRS 11/30/13
1	Glencore Xstrata Plc (Switzerland)	Glencore Xstrata Plc confirmed in a meeting with CalSTRS that it is interested in purchasing oil from South Sudan if it can be done in compliance with U.S. and international sanctions.	In 2012, Glencore Xstrata Plc was designated as "Review" and was subsequently moved to "Monitor" after meeting with the company. CalSTRS has maintained a "Monitor" status in 2013.	17,388,550	\$88,255,546
2	JX Holdings (Japan)	JX Holdings was formed through a merger between Nippon Oil and Nippon Mining. JX Holdings confirms that it purchases some Sudanese oil through international traders but does not have any direct contact with the country and has reduced its purchases to comply with U.S. sanctions.	JX Holdings was designated as "Review" in 2010, and the engagement process was started. In 2011, CalSTRS moved JX Holdings to a "Monitor" designation and maintained that designation in 2013.	2,562,316	\$13,341,615
3	Volvo AB (Sweden)	Volvo AB has been identified as selling trucks and construction equipment to Sudan. The company confirmed its major customer is the state-owned sugar company, which is not a restricted entity.	In 2012, Volvo AB was identified as "Review" for potentially having ties to Sudan. In 2013, CalSTRS moved Volvo AB to "Monitor" status.	1,859,336	\$24,578,926

## 5 Companies Removed in 2013

	Company Name (Domicile)	Summary of Ties to Sudan	Summary of Changes From 2012	Shares Held by CalSTRS 11/30/13	Market Value (\$) of Shares Held by CalSTRS 11/30/13
1	MODEC (Japan)	MODEC is a majority owned subsidiary of Mitsui Engineering and Ship Building, a previously identified company that was subsequently removed from the Sudan-related securities list.	In 2013, MODEC was identified as "Review" for potentially having ties to Sudan. CalSTRS removed MODEC in 2013 after confirming its only tie is its status as a subsidiary of a previously identified company.	6,500	\$190,812
2	PTT PCL (Thailand)	PTT PCL has been identified as a possibly purchasing crude oil from Sudan.	In 2012, PTT PLC was identified as "Review" for potentially having ties to Sudan. In 2013, the company confirmed it does not purchase Sudanese crude oil or have any ties to the country, and the company was removed from the Sudan-related securities list.	1,076,600	\$9,890,906
3	Reliance Industries (India)	Reliance Industries lists Sudan as one of its export countries.	In 2012, Reliance Industries was identified as "Review" for potentially having ties to Sudan. In 2013, CalSTRS removed Reliance Industries after the company confirmed it does not have any ties to the country.	Common Stock 972,000	Common Stock \$13,271,090
4	Schneider Electric (France)	Schneider Electric has contracts to provide services and products in Sudan.	In 2013, CalSTRS removed Schneider Electric after the company confirmed that it has contracts to sell products for expansion of the Sudanese electric grid. Schneider Electric is not involved in power generation or providing power for oil exploration and production. All sales are done outside of the country and monitored and audited by a third party for compliance with international standards.	144A GDR's 268,199	144A GDR's \$7,332,561
5	Total SA (France)	Total SA has had an interest in an oil block in South Sudan that has been inactive since 1985 due to security concerns. Total SA is considering resuming operations in Block B but has confirmed to CalSTRS that it will not return until the company is satisfied with the security and humanitarian conditions.	In 2009, CalSTRS designated Total SA as "Monitor." CalSTRS has maintained the "Monitor" designation. In 2013, CalSTRS removed Total SA after confirming that it will not be active in Sudan and that the Conflict Risk Network removed the company from their scrutinized list.	2,431,581	\$147,641,529

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

8 Companies Divested and Restricted					
Company Name (Domicile)	Summary of Ties to Iran	Summary of Changes From 2012	Shares Held by CalSTRS 11/30/2013	Market Value (\$) of Shares Held by CalSTRS 11/30/2013	
1 China Blue Chemical Ltd. (China)	China Blue Chemical Ltd. is a majority owned subsidiary of CNOOC, a restricted company.	In 2013, one of CalSTRS external managers purchased shares of China Blue Chemical Ltd. CalSTRS initiated a review of the company and determined to add it to the "Restricted" list.	0	\$0	
2 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 it does not and will not seek business in Iran as the company has and is 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 2013.	0	\$0	
3 Daelim Industrial Co. Ltd. (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 Co. Ltd. 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 2013.	0	\$0	

Company Name (Domicile)	Summary of Ties to Iran	Summary of Changes From 2012	Shares Held by CalSTRS 11/30/2013	Market Value (\$) of Shares Held by CalSTRS 11/30/2013
4 Kunlun Energy Co. 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
5 MISC Bhd. (Malaysia)	MISC Bhd. is a Malaysian shipping company that is linked to Iran through its parent company, Petronas (which is also "Restricted"). Additionally, MISC Bhd. has several ports of call in Iran.	In 2009, CalSTRS designated MISC Bhd. as "Restricted." CalSTRS has maintained the "Restricted" designation in 2013.	0	\$0
6 Oil and Natural Gas Company of India (India)	Oil and Natural Gas Company of India (ONGC) holds stakes in at least one Iranian gas field and is reportedly considering others.	ONGC was not on the 2009 Iran list but has already been restricted for ties to Sudan. In early 2010, CalSTRS also designated the company as "Restricted" for ties to Iran. CalSTRS has maintained the "Restricted" designation in 2013.	0	\$0
7 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 2013.	0	\$0
8 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 2013.	0	\$0

8 Companies Under Review					
Company Name (Domicile)	Summary of Ties to Iran	Summary of Changes From 2012	Shares Held by CalSTRS 11/30/2013	Market Value (\$) of Shares Held by CalSTRS 11/30/2013	
1 Abengoa SA (France)	Abengoa SA was identified by CalSTRS' service providers as possibly providing services to Iran's energy sector.	In 2013, CalSTRS identified Abengoa SA as potentially having ties to Iran and began the review process.	<u>Class A</u> 388,598  <u>Class B</u> 246,733	<u>Class A</u> \$1,285,773  <u>Class B</u> \$655,082	
2 Alfa Laval AB (Sweden)	Alfa Laval AB was identified by CalSTRS' service providers as providing energy related products in Iran.	In 2013, CalSTRS identified Alfa Laval AB as potentially having ties to Iran and began the review process.	300,655	\$7,153,031	
3 Atlas Copco AB (Sweden)	Atlas Copco AB was identified by CalSTRS' service providers as possibly selling natural gas delivery systems in Iran.	In 2013, CalSTRS identified Atlas Copco AB as potentially having ties to Iran and began the review process.	<u>Class A</u> 631,095  <u>Class B</u> 372,029	<u>Class A</u> \$17,641,055  <u>Class B</u> \$9,426,021	
4 Banco de Sabadell (Spain)	Banco de Sabadell was identified by CalSTRS' service providers as possibly providing financial services to Iran.	In 2013, CalSTRS identified Banco de Sabadell as potentially having ties to Iran and began the review process.	3,159,214	\$8,159,809	
5 China Shipping Container Lines (China)	China Shipping Container Lines was identified by CalSTRS' service providers as possibly providing transportation services to Iran.	In 2013, CalSTRS identified China Shipping Container Lines as potentially having ties to Iran and began the review process.	1,000	\$269.59	
6 Malayan Banking Bhd. (Malaysia)	Malayan Banking Bhd. was identified by CalSTRS' service providers as possibly providing financial services to Iran.	In 2013, CalSTRS identified Malayan Banking Bhd. as potentially having ties to Iran and began the review process.	4,591,186	\$13,931,678	

<b>Company Name (Domicile)</b>	<b>Summary of Ties to Iran</b>	<b>Summary of Changes From 2012</b>	<b>Shares Held by CalSTRS 11/30/2013</b>	<b>Market Value (\$) of Shares Held by CalSTRS 11/30/2013</b>
7 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 1,280,900  ADRs 372,200	Stock \$16,036,182  ADRs \$4,567,013
8 State Bank of India (India)	State Bank of India was identified by CalSTRS' service providers as possibly providing financial services to Iran.	In 2013, CalSTRS identified State Bank of India as potentially having ties to Iran and began the review process.	9,400	\$545,200

<b>10 Companies Being Monitored</b>				
<b>Company Name (Domicile)</b>	<b>Summary of Ties to Iran</b>	<b>Summary of Changes From 2012</b>	<b>Shares Held by CalSTRS 11/30/2013</b>	<b>Market Value (\$) of Shares Held by CalSTRS 11/30/2013</b>
1 AF AB (Sweden)	AF AB's Swiss subsidiary was identified as possibly doing consulting work in the Iranian power sector.	In 2013, CalSTRS identified AF AB as potentially having ties to Iran and began the review process. CalSTRS designated AF AB as "Monitor" while we await confirmation they no longer have ties to the country.	40,154	\$1,323,937
2 BP PLC (United Kingdom)	The National Iranian Oil Company is a non-operating minority stakeholder in two BP PLC oil fields outside of Iran.	In 2012, CalSTRS identified BP PLC as potentially having ties to Iran and began the review process. In 2013, CalSTRS designated BP PLC as "Monitor" while the company analyzes the potential sanctionability of its project with Iran.	Stock 23,106,883  Bonds \$161,028,000	Stock \$182,438,100  Bonds \$162,734,796

Company Name (Domicile)	Summary of Ties to Iran	Summary of Changes From 2012	Shares Held by CalSTRS 11/30/2013	Market Value (\$) of Shares Held by CalSTRS 11/30/2013
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. In 2013, CalSTRS designated Danske Bank as "Monitor" while CalSTRS analyzes the company's compliance controls.	772,628	\$17,600,755
4 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. In 2013, CalSTRS designated Gail Ltd. as "Monitor".	Stock 83,907	Stock \$454,446
5 Gazprom (Russia)	In July 2008, Gazprom signed an MOU with the National Iranian Oil Company (NIOC), which expired in July 2010. Additionally, Gazprom Neft, a subsidiary of Gazprom, signed an MOU with the NIOC providing for joint exploration of oil fields in Iran.	In 2009, CalSTRS designated Gazprom as "Further Review." In 2010, CalSTRS designated Gazprom as "Monitor" after confirming the company has no current investments in the country. In 2011, CalSTRS maintained Gazprom as "Monitor" as the GAO stated it has insufficient information on the company's activities. CalSTRS determined to maintain Gazprom as "Monitor" in 2013 due to the Russian government's reported interest in developing a deal with Iran.	ADR (USA) 4,923,398  ADR (UK) 4,217,816	ADR (USA) \$42,488,925  ADR (UK) \$36,568,465
6 Georg Fischer AG (Switzerland)	In 2013, Georg Fischer AG was identified by CalSTRS' service providers as providing piping systems for water transportation to Iran.	In 2013, CalSTRS identified Georg Fischer AG as potentially having ties to Iran and began the review process. CalSTRS subsequently designated Georg Fischer AG as "Monitor" to ensure piping systems are not used for oil production.	4,151	\$2,870,995
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. In 2013, CalSTRS designated Intesa Sanpaolo as "Monitor" while CalSTRS analyzes the company's compliance controls.	Stock 17,037,705  ADRs 409,048  Bonds \$8,900,000	Stock \$41,291,886  ADRs \$815,916  Bonds \$9,055,564

	<b>Company Name (Domicile)</b>	<b>Summary of Ties to Iran</b>	<b>Summary of Changes From 2012</b>	<b>Shares Held by CalSTRS 11/30/2013</b>	<b>Market Value (\$) of Shares Held by CalSTRS 11/30/2013</b>
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. In 2013, CalSTRS designated JX Holdings as "Monitor" to ensure the company's purchases are compliant with U.S. sanctions.	2,562,316	\$13,341,615
9	Mitsubishi Chemical Holding Corp. (Japan)	Mitsubishi Chemical Holding Corp. was identified by CalSTRS' service providers as possibly providing analytical instruments to Iran.	In 2013, CalSTRS identified Mitsubishi Chemical Holding Corp. as potentially having ties to Iran and began the review process. CalSTRS designated Mitsubishi Chemical Holding Corp. as "Monitor" while we await confirmation they do not provide support to Iran's energy industry.	2,013,070	\$9,360,830
10	SGS SA (Switzerland)	SGS SA is engaged in verification and testing of oil and gas in Iran.	In 2011, CalSTRS identified SGS SA as potentially having ties to Iran and began the review process. Staff met with executives of the company and confirmed the company does 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.	28,430	\$64,275,427

24 Companies Removed in 2013					
	Company Name (Domicile)	Summary of Ties to Iran	Summary of Changes From 2012	Shares Held by CalSTRS 11/30/2013	Market Value (\$) of Shares Held by CalSTRS 11/30/2013
1	L'Air Liquide (France)	As of August 2011, L'Air Liquide, a France-based gas company, had operations in Iran through its 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 it has not taken on new business in Iran. In 2013, L'Air Liquide confirmed it no longer has any business with Iran, and CalSTRS determined to remove L'Air Liquide from the "Monitor" list.	332,970	\$46,514,257
2	AXA SA (France)	AXA SA 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. In 2013, CalSTRS determined the company does not have ties to Iran and has adequate compliance procedures, and CalSTRS removed the company from the "Review" list.	<u>Stock</u> 2,474,870  <u>Bonds</u> \$800,000	<u>Stock</u> \$64,983,883  <u>Bonds</u> \$829,565
3	Compagnie Generale de Geophysique- Veritas (France)	Compagnie Generale de Geophysique-Veritas was identified as possibly providing testing services for the Iranian energy sector.	In 2013, CalSTRS identified Compagnie Generale de Geophysique-Veritas and began the review process. After confirming the company had ceased operations in Iran in 2009, the company was removed from the "Review" list.	<u>Stock</u> 192,100  <u>Bonds</u> \$5,495,000	<u>Stock</u> 3,983,464  <u>Bonds</u> \$5,651,055
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. In 2013, CalSTRS confirmed the company does not have ties to Iran and has adequate compliance procedures in place, and CalSTRS removed the company from the "Review" list.	<u>Stock</u> 1,379,282  <u>Bonds</u> \$339,310,000	<u>Stock</u> \$66,648,855  <u>Bonds</u> \$340,933,599

	<b>Company Name (Domicile)</b>	<b>Summary of Ties to Iran</b>	<b>Summary of Changes From 2012</b>	<b>Shares Held by CalSTRS 11/30/2013</b>	<b>Market Value (\$) of Shares Held by CalSTRS 11/30/2013</b>
5	Golar LNG (Switzerland)	Golar LNG was identified as possibly providing natural gas transportation services for Iran.	In 2013, CalSTRS identified Golar LNG as potentially having ties to Iran and began the review process. CalSTRS subsequently removed the company from the "Review" list after confirming the company does not have ties to Iran.	97,949	\$3,558,487
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. In 2013, CalSTRS removed the company after confirming it does make limited purchases of Iranian crude oil, but the purchases are cleared through the Japanese Ministry of Trade and the U.S. Department of Defense.	48,167	\$4,328,984
7	Kuehne & Nagel International AG (Switzerland)	Kuehne & Nagel International AG was identified as possibly providing transportation services for Iran.	In 2013, CalSTRS identified Kuehne & Nagel International AG as potentially having ties to Iran and began the review process. CalSTRS subsequently removed the company from the "Review" list after confirming the company does not have ties to Iran.	54,911	\$7,133,903
8	Maire Tecnimont S.p.A. (Italy)	Maire Tecnimont S.p.A. 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 S.p.A. as potentially having ties to Iran and began the review process. In 2012, Maire Tecnimont S.p.A. confirmed to CalPERS that it is curtailing its activities in Iran. CalSTRS determined to designate Maire Tecnimont S.p.A. as "Monitor" until the company confirms that position with staff. In 2013, CalSTRS sold all of its holdings in Maire Tecnimont S.p.A.	0	\$0

	<b>Company Name (Domicile)</b>	<b>Summary of Ties to Iran</b>	<b>Summary of Changes From 2012</b>	<b>Shares Held by CalSTRS 11/30/2013</b>	<b>Market Value (\$) of Shares Held by CalSTRS 11/30/2013</b>
9	Mitsubishi Corp. (Japan)	Mitsubishi Corp. was identified by CalSTRS' service providers as possibly importing oil from Iran.	In 2013, CalSTRS identified Mitsubishi Corp. as potentially having ties to Iran and began the review process. The company was subsequently removed after confirming it is in compliance with U.S., UN and Japanese sanctions.	1,518,243	\$29,885,797
10	Mitsubishi UFJ Financial Group (Japan)	Mitsubishi UFJ Financial Group was identified as possibly having banking relationships with state-owned Iranian banks.	In 2012, CalSTRS identified Mitsubishi UFJ Financial Group as potentially having ties to Iran and began the review process. In 2013, CalSTRS removed the company after the company confirmed it is in compliance with sanctions and has compliance procedures in place.	19,586,846	\$126,095,165
11	Mitsui & Co. Ltd. (Japan)	Mitsui & Co. Ltd. was identified by CalSTRS' service providers as possibly providing steel and chemical products to Iran.	In 2013, CalSTRS identified Mitsui & Co. Ltd. as potentially having ties to Iran and began the review process. CalSTRS removed Mitsui & Co. Ltd from the "review" last after confirming the company had curtailed it's business with Iran.	3,519,674	\$48,790,284
12	Mitsui Chemicals, Inc. (Japan)	Mitsui Chemicals, Inc. was identified by CalSTRS' service providers as a subsidiary of Mitsui & Co., which was identified as possibly providing steel and chemical products to Iran	In 2013, CalSTRS identified Mitsui Chemicals, Inc. as potentially having ties to Iran and began the review process. The company was subsequently removed after confirming its operations, which are all permissible under U.S., UN and Japanese sanctions, are declining, and it is not seeking further business in the country.	721,322	\$1,761,642
13	Mizuho Financial Group (Japan)	Mizuho Financial Group 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. In 2013, CalSTRS removed the company after the company confirmed it is in compliance with sanctions and has compliance procedures in place.	Stock 27,051,465  Bonds \$5,000,000	Stock \$56,816,929  Bonds \$4,927,202

	<b>Company Name (Domicile)</b>	<b>Summary of Ties to Iran</b>	<b>Summary of Changes From 2012</b>	<b>Shares Held by CalSTRS 11/30/2013</b>	<b>Market Value (\$) of Shares Held by CalSTRS 11/30/2013</b>
14	MODEC (Japan)	MODEC was identified by CalSTRS' service providers as possibly providing services to Iran's energy sector.	In 2013, CalSTRS identified MODEC as potentially having ties to Iran and began the review process. CalSTRS subsequently removed the company from the "Review" list after confirming the company does not have ties to Iran.	6,500	\$190,812
15	Natixis (France)	Natixis was identified as possibly having banking relationships with state-owned Iranian banks.	In 2013, CalSTRS identified Natixis as potentially having ties to Iran and began the review process. CalSTRS subsequently removed the company from the "Review" list after the company confirmed it is in compliance with sanctions and has compliance procedures in place.	1,248,026	\$6,905,752
16	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 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 it as "Monitor." In 2013, CalSTRS removed PTT from the "Monitor" list after the company confirmed it no longer has any ties to Iran.	<u>PTT PCL</u> 1,076,600 <u>PTT E&amp;P</u> 4,556,113	<u>PTT PCL</u> \$9,890,906 <u>PTT E&amp;P</u> \$22,702,525
17	Samsung C & T (South Korea)	Samsung C & T was identified as possibly having operations in Iran that could support oil transportation.	In 2012, CalSTRS identified Samsung C & T as potentially having ties to Iran and began the review process. In 2013, CalSTRS sold all of its holdings in Samsung C & T. CalSTRS will reinstate the review process if shares of Samsung C & T are purchased in the future.	0	\$0

	<b>Company Name (Domicile)</b>	<b>Summary of Ties to Iran</b>	<b>Summary of Changes From 2012</b>	<b>Shares Held by CalSTRS 11/30/2013</b>	<b>Market Value (\$) of Shares Held by CalSTRS 11/30/2013</b>
18	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. In 2013, Saras confirmed it no longer has any ties to Iran, and CalSTRS removed the company from the "Monitor" list.	258,842	\$313,836
19	SNC - Lavalin Group Inc. (Canada)	SNC - Lavalin Group Inc. reportedly provides engineering, construction and management services for the oil and gas sector in Iran.	In 2011, CalSTRS identified SNC - Lavalin Group Inc. as potentially having ties to Iran and began the review process. In 2012, the company confirmed it does not operate in the nuclear, defense or weapons sectors of Iran but does 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. In 2013, CalSTRS removed SNC - Lavalin Group Inc. after the company confirmed it no longer has any ties to Iran.	167,657	\$7,447,727
20	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. In 2013, CalSTRS removed the company after the company confirmed it is in compliance with sanctions and has compliance procedures in place.	<u>Stock</u> 1,068,386  <u>Bonds</u> \$260,485,000	<u>Stock</u> \$61,583,076  <u>Bonds</u> \$260,739,673

	<b>Company Name (Domicile)</b>	<b>Summary of Ties to Iran</b>	<b>Summary of Changes From 2012</b>	<b>Shares Held by CalSTRS 11/30/2013</b>	<b>Market Value (\$) of Shares Held by CalSTRS 11/30/2013</b>
21	Sony Financial Holdings, Inc. (Japan)	Sony Financial Holdings, Inc. was identified by CalSTRS' service providers because it is majority owned by Sony Corp, which sells home electronics in Iran.	In 2013, CalSTRS identified Sony Financial Holdings, Inc. as potentially having ties to Iran. CalSTRS reviewed the company to confirm it does not provide financial services to Iran, and the company was subsequently removed from the "Review" list.	174,964	\$3,117,612
22	Standard Chartered (United Kingdom)	Standard Chartered 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. In 2013, CalSTRS removed the company after the company confirmed it is in compliance with sanctions and has compliance procedures in place.	<u>Stock</u> 4,446,588  <u>Bonds</u> \$5,000,000	<u>Stock</u> \$105,504,875  <u>Bonds</u> \$4,697,397
23	Sumitomo Mitsui Financial (Japan)	Sumitomo Mitsui Financial 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. CalSTRS reviewed the company to confirm it does not provide financial services to Iran, and the company was subsequently removed from the "Review" list.	<u>Stock</u> 3,386,824	<u>Stock</u> \$167,744,812
24	Thales SA (France)	Thales SA is a French aerospace and defense company that lists Iran as a country where it does business.	In 2012, CalSTRS identified Thales SA as potentially having ties to Iran and began the review process. In 2013, CalSTRS removed Thales SA after the company confirmed it only provides products permissible under U.S., EU and UN sanctions.	113,886	\$6,966,138

November 14, 2013

California State Teachers'  
Retirement System  
Christopher J. Ailman  
Chief Investment Officer  
100 Waterfront Place, MS-4  
West Sacramento, CA 95605  
916-414-7401

Markus Pinger  
CEO  
Celesio AG  
Neckartalstrasse 155  
Stuttgart, 70376  
GERMANY

Dear Markus Pinger,

This letter is sent to you on behalf of the California State Teachers' Retirement System (CalSTRS). CalSTRS was established for the benefit of California's public school teachers 100 years ago and is the largest educator-only pension fund in the world. CalSTRS serves the investment and retirement interests of nearly 862,000 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. As of October 31, 2013, the CalSTRS portfolio was valued at nearly **\$176 billion** with approximately **\$99 billion** of the fund's assets invested in the public equity markets, on both a domestic and an international basis. CalSTRS currently holds \$3,828,980.28 worth of Celesio AG securities in our portfolio.

Under a 1999 California Law, CalSTRS is required to monitor our portfolio for companies that have operations in Northern Ireland. In addition to the law, CalSTRS investments are governed by a 21-point Geopolitical Risk Policy that can be accessed in our Board Policy Manual found on our website [www.calstrs.com](http://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. Celesio AG has been identified as having operations in Northern Ireland and as having not taken substantial action towards inclusiveness. As long-term investors, we encourage Celesio 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,

A handwritten signature in black ink, appearing to read 'C. Ailman', written in a cursive style.

Christopher Ailman  
Chief Investment Officer