

California State Teachers' Retirement System Investment Reports

December 31, 2014

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 over 100 years of experience and \$189 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 Governance 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 \$189 billion as of November 28, 2014. 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 2014, 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. 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. In 2014, the committee adopted a charter governing its operation and scope of duties ([Attachment C](#)).

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.

Furthermore, 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 D & E](#)). 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 F & G](#)).

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 five companies in the second tier or "Being Reviewed" category (determining if criteria for divestment is met). Lastly, CalSTRS has identified five 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 nine 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 H](#) lists the companies in all four categories. It should be noted, that the large increase in companies identified and reviewed in 2014 was the result of a CalSTRS portfolio change. In 2014, CalSTRS temporarily placed assets with an emerging markets enhanced index strategy. This strategy greatly increased the number of companies to which CalSTRS was exposed.

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.

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 Environmental, Social, and Governance 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 curb its nuclear program. While negotiations are ongoing, 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 29 companies with ties or possible ties to Iran. Currently, nine 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 December 2014, CalSTRS added China Oilfield Services to the restricted list and initiated liquidation of our investments in the company.

In addition to the nine "Restricted" companies, there are 14 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 identified and reviewed in 2014 was the result of a CalSTRS portfolio change. In 2014, CalSTRS temporarily placed assets with an emerging markets enhanced index strategy. This strategy greatly increased the number of companies to which CalSTRS was exposed. 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 six companies in its portfolio that have ties to Iran or concerns regarding Iran under our Environmental, Social, and Governance 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 42 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 I](#) 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 Antwerp, London, Ludwigshafen, Munich, New York, Paris and Stockholm.

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 \$3,455,226,661 worth of equity with exposure to Northern Ireland, which represents 3.18 percent of CalSTRS' equity holdings. Additionally, CalSTRS holds \$787,994,025 worth of bonds with exposure to Northern Ireland, which represents 2.63 percent of its fixed income portfolio. In total, CalSTRS holds \$4,243,220,686 worth of securities with exposure to Northern Ireland, which represents 3.18 percent of the total fund.

CalSTRS identified 24 holdings representing 22 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 J](#)).

Company Name	Security Type	Shares / Face Value	Market Value 11/30/2014
Abertis Infraestructuras SA	Stock	448,457	\$9,621,573
Bouygues SA	Stock	584,686	\$22,052,826
Britvic Plc	Stock	470,236	\$4,886,102
Celesio AG	Stock	50,169	\$1,676,156
Debenhams PLC	Bonds	595,000	\$926,914
Debenhams PLC	Stock	1,418,649	\$1,599,606
DFDS A/S	Stock	18,877	\$1,745,791
DSV A/S	Stock	1,698,285	\$53,321,260
Electrolux AB	Stock	265,558	\$7,907,611
Essilor International S.A.	Stock	207,596	\$23,369,593
Halfords Group PLC	Stock	176,736	\$1,322,996
Harvey Norman Holdings Limited	Rights	99,428	\$152,751
Harvey Norman Holdings Limited	Stock	2,187,454	\$6,889,201
HCL Technologies Limited	Stock	1,336,792	\$35,810,429
Interserve PLC	Stock	275,975	\$2,508,867
J D Wetherspoon PLC	Stock	108,565	\$1,392,449
John Menzies PLC	Stock	38,879	\$204,578

Lafarge SA	Stock	192,072	\$13,691,550
Lookers Plc	Stock	555,117	\$1,199,691
Metso Oyj	Stock	148,382	\$4,611,561
Randstad Holding NV	Stock	120,050	\$5,939,269
Sandvik AB	Stock	1,195,969	\$12,548,389
Terumo Corporation	Stock	339,200	\$7,716,561
Willis Group Holdings Limited	Stock	708,316	\$30,252,176
	Bonds		\$926,914
	Rights		\$152,751
	Stock		\$250,268,235
			<u>\$251,347,900</u>

CalSTRS identified 125 holdings representing 98 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 11/31/2014
3i Group PLC	Stock	1,438,765	\$10,004,113
Adecco SA	Stock	248,146	\$17,474,526
Aer Lingus Group PLC	Stock	128,632	\$277,742
AGF Management Limited	Stock	72,241	\$631,020
Akzo Nobel NV	Stock	282,291	\$19,552,562
Allianz SE	Stock	775,496	\$133,849,556
Anglo American PLC	Stock	3,274,927	\$67,775,786
Aon PLC	Stock	705,033	\$65,208,502
Associated British Foods plc	Stock	441,557	\$22,148,763
AstraZeneca PLC	Bonds	15,000,000	\$16,304,795
AstraZeneca PLC	Stock	1,822,526	\$136,429,221
Aviva plc	Stock	4,616,600	\$36,727,530
Axa SA	Bonds	5,595,000	\$6,986,838
Axa SA	Stock	2,799,063	\$67,747,688
Banco Santander, S.A.	Bonds	10,100,000	\$10,156,376
Banco Santander, S.A.	Stock	15,822,719	\$142,989,329
Bank of Ireland	Stock	39,958,600	\$13,558,983
Barclays PLC	Bonds	425,589,716	\$428,226,865
Barclays PLC	Stock	28,223,078	\$108,353,275
Barloworld Ltd	Stock	75,500	\$714,641
Berendsen plc	Stock	169,077	\$2,721,971
Bombardier Inc.	Bonds	2,200,000	\$2,305,513
Bombardier Inc.	Stock	1,764,935	\$6,748,622
BT Group PLC	ADR	84,218	\$486,628
BT Group PLC	Bonds	20,000,000	\$29,362,419

BT Group PLC	Stock	11,764,301	\$75,573,155
BUNZL PLC	Stock	359,942	\$9,983,547
Capita PLC	Stock	633,853	\$10,621,310
Carillion Plc	Stock	465,490	\$2,533,937
Dixons Carphone	Stock	1,331,320	\$8,825,443
Compagnie De Saint Gobain SA	Stock	703,476	\$32,395,940
Compass Group PLC	Stock	1,785,000	\$30,469,862
CRH PLC	Bonds	15,000,000	\$16,479,464
CRH PLC	Stock	1,070,459	\$25,355,259
Danske Bank A/S	Stock	766,696	\$21,836,970
DCC PLC	Stock	118,626	\$6,615,423
Deutsche Beteiligung	Stock	4,704	\$137,898
Deutsche Lufthansa AG	Stock	258,744	\$4,630,393
Deutsche Post AG	Stock	986,882	\$32,867,360
Diageo PLC	Bonds	8,080,000	\$8,356,659
Diageo PLC	Stock	3,473,580	\$107,762,474
Ferrovial SA	Stock	623,017	\$12,799,750
Fujitsu Limited	Stock	2,478,673	\$14,161,757
G4S Plc	Stock	3,252,220	\$15,259,139
Getinge AB	Stock	194,479	\$4,510,552
Glanbia Plc	Stock	242,636	\$3,761,129
GlaxoSmithKline PLC	Bonds	38,280,000	\$38,614,274
GlaxoSmithKline PLC	Stock	6,971,865	\$162,136,649
Grafton Group PLC	Stock	250,896	\$2,522,519
Hays plc	Stock	1,527,085	\$3,175,902
Heineken NV	Stock	449,073	\$34,376,024
Heineken NV	Bonds	5,450,000	\$5,437,944
Home Retail Group plc	Stock	718,145	\$2,253,801
HSBC Holdings PLC	Bonds	69,903,000	\$77,578,278
HSBC Holdings PLC	Stock	25,688,357	\$256,260,419
Huhtamaki Oyj	Stock	86,185	\$2,189,678
Hutchison Whampoa Limited	Bonds	14,960,000	\$14,952,390
Hutchison Whampoa Limited	Stock	2,453,577	\$30,527,155
Kerry Group PLC	Stock	213,119	\$15,858,721
Kingfisher PLC	Stock	3,616,677	\$17,671,365
Kingspan Group PLC	Stock	695,293	\$11,216,396
Kone Oyj	Stock	315,869	\$14,569,785
Koninklijke Philips Electronics NV	Bonds	300,000	\$287,933
Koninklijke Philips Electronics NV	Stock	1,182,621	\$35,759,487
Kyocera Corporation	Stock	412,700	\$20,206,426
Ladbroke plc	Stock	853,006	\$1,486,602
Lagardere SCA	Stock	136,400	\$3,876,981

Linde AG	Stock	186,266	\$35,237,631
Lloyds Banking Group PLC	Bonds	15,620,000	\$13,374,408
Lloyds Banking Group PLC	Stock	147,635,780	\$185,773,291
Marks and Spencer Group PLC	Stock	1,911,416	\$14,622,632
Metro AG	Stock	331,263	\$11,278,181
Michelin SCA	Stock	418,396	\$38,571,818
Mitchells & Butlers plc	Stock	183,113	\$1,054,718
MITIE Group PLC	Stock	362,459	\$1,590,497
Mothercare PLC	Stock	83,467	\$239,206
NEXT plc	Stock	159,467	\$16,919,436
Nutreco N.V.	Stock	69,029	\$3,957,238
Onex Corporation	Bonds	5,476,222	\$5,466,123
Onex Corporation	Stock	105,645	\$6,012,106
Pace Plc	Stock	329,642	\$1,856,385
PostNL N.V.	Stock	773,300	\$3,001,038
Premier Foods Plc	Stock	566,593	\$328,306
Provident Financial PLC	Stock	517,893	\$18,556,746
Rentokil Initial Plc	Stock	1,815,357	\$3,385,942
Rexel S.A.	Bonds	200,000	\$209,921
Rexel S.A.	Stock	306,211	\$5,684,076
Rolls-Royce Group PLC	Preferred Stock	375,679,980	\$588,334
Rolls-Royce Group PLC	Stock	4,479,793	\$59,106,280
RPS Group Plc	Stock	244,560	\$903,864
Ryobi Limited	Stock	98,000	\$258,449
Schlumberger N.V.	Stock	3,779,308	\$324,831,553
Seagate Technology PLC	Bonds	3,000,000	\$3,140,387
Seagate Technology PLC	Stock	14,620	\$966,528
Serco Group plc	Stock	681,614	\$1,871,226
Signet Jewelers Limited	Stock	193,622	\$25,356,737
Smurfit Kappa Group plc	Stock	222,009	\$5,156,177
SuperGroup PLC	Stock	29,411	\$406,241
Telefonica S.A.	Bonds	111,795,000	\$58,066,794
Telefonica S.A.	Stock	5,994,683	\$96,255,709
Tesco PLC	Stock	125,567	\$1,769,239
Thales SA	Stock	92,766	\$4,934,645
The Royal Bank of Scotland Group PLC	Bonds	20,775,000	\$22,750,878
The Royal Bank of Scotland Group PLC	Stock	2,375,079	\$14,703,159
Thomas Cook Group plc	Stock	1,379,430	\$2,631,193
ThyssenKrupp AG	Bonds	482,000	\$634,054
ThyssenKrupp AG	Stock	633,914	\$16,812,966

TNT Express N.V.	Stock	477,916	\$3,229,202
Travis Perkins PLC	Bonds	327,000	\$521,126
Travis Perkins PLC	Stock	243,287	\$6,884,665
Trigano S.A.	Stock	4,241	\$104,895
Trinity Mirror PLC	Stock	264,601	\$603,957
TUI AG	Bonds	106,000	\$139,149
TUI AG	Stock	148,608	\$2,543,649
Tyco International Ltd.	Stock	1,250,656	\$53,653,142
Vodafone Group PLC	ADR	26,472	\$967,551
Vodafone Group PLC	Bonds	18,000,000	\$18,935,063
Vodafone Group PLC	Stock	41,421,024	\$151,757,321
WH Smith PLC	Stock	123,372	\$2,440,202
William Hill PLC	Stock	4,012,481	\$21,050,556
Wolseley Plc	Stock	558,744	\$31,413,266
Workspace Group PLC	Stock	115,018	\$1,239,253
WPP Plc	Bonds	7,809,999	\$8,779,460
WPP Plc	Stock	2,337,258	\$49,047,539
Zurich Insurance Group AG	Stock	278,929	\$87,659,264
	ADR		\$1,454,179
	Bonds		\$787,067,111
	Stock		\$3,202,763,162
	Preferred Stock		\$588,334
			<u>\$3,991,872,786</u>

Shareholder Proposals Relating to Northern Ireland

In 2014, 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 adhere to the California statutes referenced in this report and to the board's Investment Policy for Mitigating Environmental, Social, and Governance 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) Maximize 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 CalSTRS.

Attachment A: Investment Policy for Mitigating Environmental, Social, and Governance 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.

Attachment A

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

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

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

- A. The CIO will assess the gravity of the situation both as an ESG risk and as to the System. The extent of the responsibility of the System to devote resources to address these issues will be determined by: 1) the number of shares held in the corporation, and 2) the gravity of the violation of CalSTRS Policies.
- B. At the CIO's direction, the Investment Staff will directly engage corporate management to seek information and understanding of the corporate decision and its ramifications on ESG issues.
- C. The CIO and investment staff will provide a report to the Investment Committee of the findings and recommend any further action of engagement or need to commit further System resources. The Investment Committee can marshal further resources given the gravity of the situation.

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

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

CALSTRS 21 RISK FACTORS

Monetary Transparency

The long-term profitability by whether or not a country or company has free and open monetary and financial data, and its observance of applicable laws.

Data Dissemination

The long-term profitability by whether or not a country is a member of the IMF (or similar organization) and satisfies the conditions for access, integrity, and quality for most data categories.

Accounting

The long-term profitability by whether or not the accounting standards are formulated in accordance with International Accounting Standards or the U.S. Generally Accepted Accounting Principles.

Payment System: Central Bank

The long-term profitability by whether the activities of a country's central bank encompass implementing and ensuring compliance with principles and standards which are established to promote safe, sound, and efficient payment and settlement systems.

Securities Regulation

The long-term profitability by exposure to operations in countries that have not complied with IOSCO objectives, which provide investor protection against manipulation and fraudulent practices.

Auditing

The investment's long-term profitability by whether or not the country uses International Standards on Auditing in setting national standards.

Fiscal Transparency

The investment's long-term profitability by its exposure or business operations in countries that do not have not some level of fiscal transparency such as publication of financial statistics, sound standards for budgeting, accounting, and reporting.

Corporate Governance

The investment's long-term profitability by whether or not the government recognizes and supports good corporate governance practices and whether it generally adheres to OECD principles.

Banking Supervision

The investment's long-term profitability from its exposure to countries that have not endorsed/complied with the Basel Core Principles. An endorsement includes an agreement to review supervisory arrangements against the principles and bring legislation in line with the principles where necessary.

<p>Payment System: Principles</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>Insolvency Framework</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>Money Laundering</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>Insurance Supervision</p> <p>Whether or not a country has a regulatory framework in line with International Association of Insurance Supervisors, IAIS, Principles.</p>
<p>Respect for Human Rights</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</p>
<p>Respect for Civil Liberties</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>Respect for Political Rights</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>Discrimination Based on Race, Sex, Disability, Language, or Social Status</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>

Worker Rights

The investment's long-term profitability from management and practices globally in the area of worker's rights; specifically the right of association, the right to organize and bargain collectively, prohibition of forced or bonded labor, status of child labor practices and minimum age for employment, acceptable work conditions, or human trafficking.

Environmental

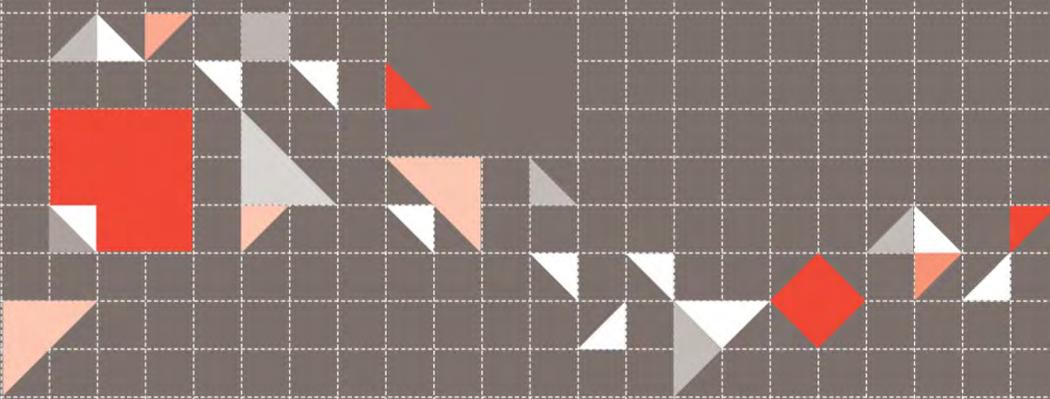
The investment's long-term profitability from activities and exposure to environmental matters such as; depleting or reducing air quality, water quality, land protection and usage, without regard for remediation. Consideration should be given to how a company is dealing with the impact of climate change, including whether the government is taking steps to reduce its impact, exacerbating the problem, or oblivious to the risk.

War/Conflicts/Acts of Terrorism

The investment's long-term profitability from business exposure to a country or region that has an internal or external conflict, war, acts of terrorism or involvement in acts of terrorism, and whether the country is a party to international conventions and

Human Health

The risk to an investment's long-term profitability from business exposure to an industry or company that makes a product which is highly detrimental to human health so that it draws significant product liability lawsuits, government regulation, United Nations sanctions and focus, and avoidance by other institutional investors.

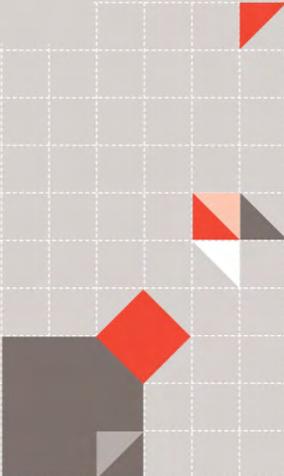


INVESTMENTS BRANCH BUSINESS PLANS

FISCAL YEAR 2014-15

CALIFORNIA TEACHERS' RETIREMENT SYSTEM

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INVESTMENTS CORE VALUES

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

Respect

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

Personal Development

We support an individual's career and personal goals.

Balance

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

Worth

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

Challenge

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

Purpose

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

Honesty

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

INTRODUCTION





INTRODUCTION

This year's theme is **“Changing Environment”**.

The theme takes on several meanings. In the global financial markets, over the past decade, it seems the only constant is change. Global risk abounds and the investment climate is constantly changing. Internally, the environment surrounding CalSTRS funding level will begin to change. Rather than talking about declining funding levels, we hopefully can discuss positive cash flow and improved funding. Within the Investment Committee, we will attempt to streamline the agenda packet and meeting time. Outside CalSTRS, a major theme will continue to be the change to our physical environment through climate change and the potential limit on fossil fuel consumption.

What matters most to the Investments Branch is achieving an absolute return of 7.5 percent net of costs on average, every year. The next critical goal, and one more in the control of the investment staff, is beating our benchmark, which means achieving a relative return of 60 basis points over the policy. The one constant drag on these goals is investment costs. To manage the costs, the CIO has built a ten-year financial plan, which is attached for the Committee's review. The two key drivers of cost are assets under management, AUM, and the complexity of the portfolio. AUM is easy to measure and estimate over the next year within one standard deviation. Complexity, on the other hand, is much more difficult to measure. We track the number of custodian accounts and the number of investment managers, but neither encapsulates the overall variety and intricacy of the portfolio.

As we look to our larger peers across the globe one-thing holds true, as they became larger they grew ever more complex in their investment strategies. As we look at our most recent additions in the innovation portfolio and the activist corporate governance managers, they are proving to be by far the most expensive strategies, averaging

around 80 basis points before incentive fees. This compares to our traditional asset management fees that range from 30 to 50 basis points on average. The other trend we have sited in larger funds is increased internal management which, in part, offsets the higher cost of new strategies. Our ten-year plan assumes we continue to implement the internal management plan and have limited growth in new strategies. As we look to the future and new ideas, we need to keep both considerations in mind. External investment managers, including corporate governance activists (lines 7 and 11 on the chart), are expected to exceed \$200 million next year. It's important to note that doesn't include incentive and partnership fees which, if we're successful in return, can double that number.

In these business plans, each asset class director has outlined their top three objectives for the year with a focus on how to achieve their policy benchmark. They also outline the risks, threats and obstacles that confound achieving their respective objective. But the biggest challenge is to clear aside the important day-to-day distractions and focus on the critical core mission. As we all have experienced in life, it is much easier said than done. Balanced against the consequences of not achieving the ultimate objective, the cost of these distractions is higher than it has ever been.

A handwritten signature in black ink, appearing to read 'C. Ailman', with a long horizontal flourish extending to the right.

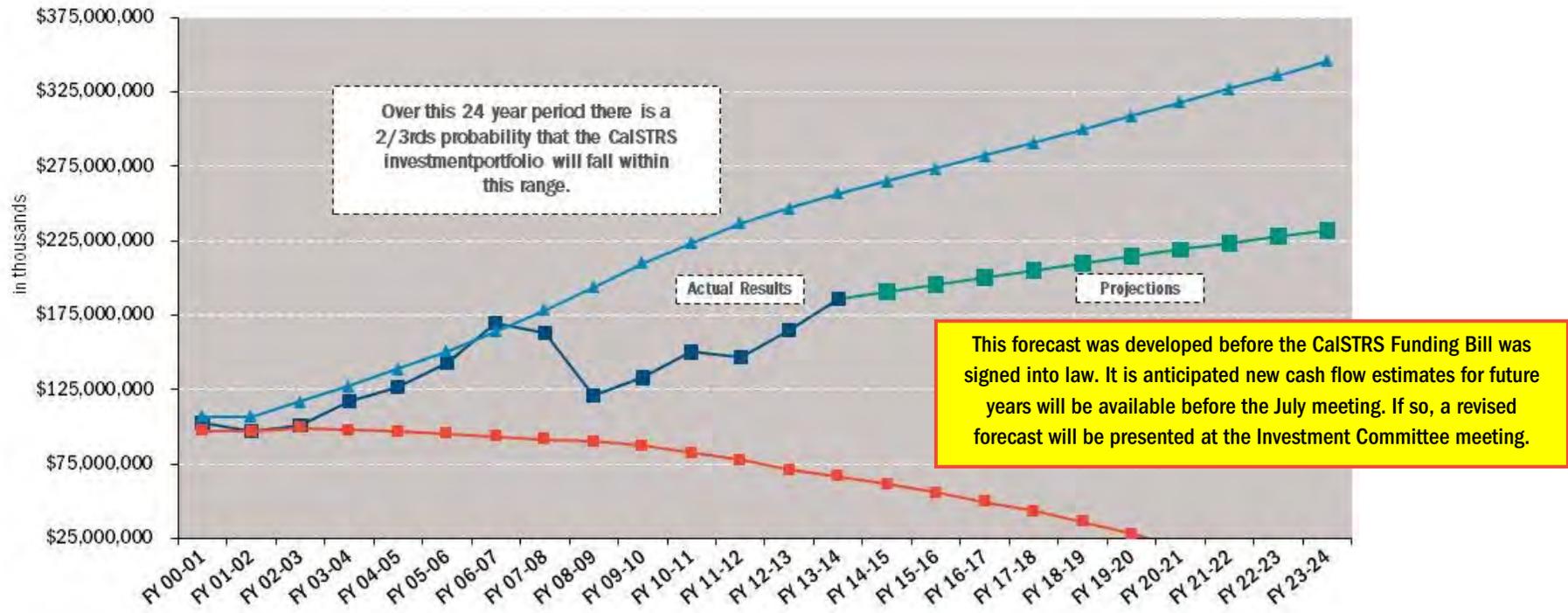
Christopher J. Ailman
Chief Investment Officer

CALSTRS INVESTMENTS BRANCH 10-YR COMPREHENSIVE FINANCIAL PLAN

(in thousands)	FY 13-14	FY 14-15	RY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23	FY 23-24
Defined Benefit Plan	\$ 175,065,000	\$ 180,393,675	\$ 185,773,301	\$ 191,131,798	\$ 196,460,983	\$ 201,750,957	\$ 206,987,779	\$ 212,147,662	\$ 217,198,437	\$ 222,109,919	\$ 226,857,363
D.B.S. & Cash Bal.	10,454,000	10,244,920	9,640,022	9,047,221	8,466,277	7,896,951	7,339,012	6,792,232	6,256,387	5,731,260	5,216,634
Pension2 [®] *	501,007	565,108	635,618	713,180	798,498	892,348	995,583	1,109,141	1,234,055	1,371,461	1,522,607
Total (less Pension2)	\$ 185,519,000	\$ 190,638,595	\$ 195,413,322	\$ 200,179,019	\$ 204,927,260	\$ 209,647,908	\$ 214,326,791	\$ 218,939,894	\$ 223,454,824	\$ 227,841,179	\$ 232,073,998
Low Return Environment**	\$ 66,617,758	\$ 61,547,886	\$ 55,921,449	\$ 49,639,728	\$ 43,165,655	\$ 35,922,503	\$ 27,860,051	\$ 18,916,713	\$ 9,021,166	\$ -	\$ -
High Return Environment**	\$ 256,613,964	\$ 264,979,444	\$ 273,523,248	\$ 282,180,713	\$ 290,952,398	\$ 299,837,799	\$ 308,833,080	\$ 317,925,365	\$ 327,094,362	\$ 336,322,907	\$ 345,600,450

*Pension2 assets: 403(b), 457, Roth IRA assets managed outside the Investments Branch and not included in growth estimate

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



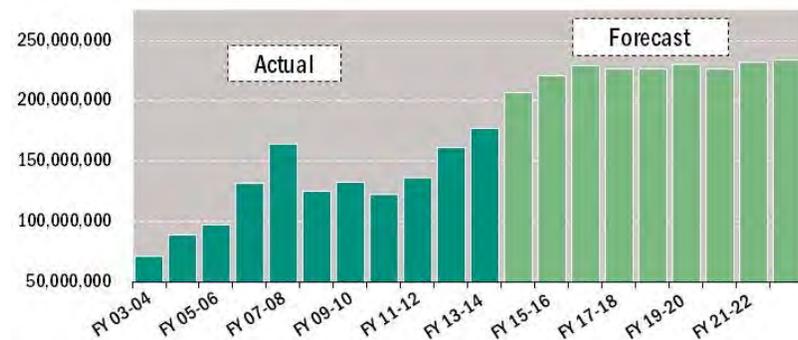
This forecast is based upon the current CalSTRS capital market assumptions over the next ten years. Actual results will vary widely. Since this chart is based upon a ten year average, individual year returns can and will vary significantly. The purpose of the chart is to help explain the potential growth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

PORTFOLIO GROWTH FORECAST

Fiscal Year	FY 13-14	FY 14-15	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23	FY 23-24
Total Assets (in billions)	\$ 185.5	\$ 190.6	\$ 195.4	\$ 200.2	\$ 204.9	\$ 209.6	\$ 214.3	\$ 218.9	\$ 223.5	\$ 227.8	\$ 232.11
Investments Branch Support Budget	The future growth rate of the assets will be revised based on the new funding plan.										
¹ Total Staff – PY's (Personal Years)	118	129	139	145	151	156	161	166	171	175	179
² Salaries & Est. Incentives (w/o Benefits)	\$ 13,272,244	\$ 19,055,025	\$ 20,879,124	\$ 22,529,233	\$ 24,284,453	\$ 26,152,575	\$ 28,024,916	\$ 29,901,906	\$ 31,784,349	\$ 33,799,649	\$ 35,959,015
³ General Expenses (Excludes IT Exp.)	129,233	131,818	134,454	137,143	139,886	142,684	145,537	148,448	151,417	154,445	157,534
⁴ Travel (In State, U.S. & non-U.S.)	616,542	746,539	832,391	869,849	908,992	949,897	992,642	1,037,311	1,083,990	1,132,770	1,183,744
⁵ CP&S & Misc. (Print, Comm. Training)	131,098	134,689	138,379	142,171	146,068	150,072	154,188	158,417	162,763	167,229	171,819
⁶ Total Support Budget	\$ 14,149,117	\$ 20,068,071	\$ 21,984,348	\$ 23,678,396	\$ 25,479,399	\$ 27,395,228	\$ 29,317,284	\$ 31,246,082	\$ 33,182,519	\$ 35,254,093	\$ 37,472,112
Continuous Appropriation											
⁷ Investment Managers	\$ 153,053,799	\$ 166,611,810	\$ 179,671,144	\$ 183,643,496	\$ 185,236,289	\$ 185,093,059	\$ 189,268,756	\$ 194,529,618	\$ 199,684,267	\$ 201,309,458	\$ 202,725,155
⁸ Consultants Fees	21,452,050	22,524,653	23,650,885	24,833,429	26,075,101	27,378,856	28,747,799	30,185,189	31,694,448	33,279,170	34,943,129
⁹ Custodian & Legal Fees	11,785,637	12,374,919	12,993,665	13,643,348	14,325,515	15,041,791	15,793,881	16,583,575	17,412,754	18,283,391	19,197,561
¹⁰ Risk Systems (Bloomberg & Blackrock)	5,239,922	5,449,519	5,667,500	5,894,200	6,129,968	6,375,167	6,630,174	6,895,381	7,171,196	7,458,044	7,756,365
¹¹ Corp. Gov. (Expenses & Inv. Mgrs.)	23,932,978	39,898,455	41,588,362	45,683,664	40,784,684	40,891,765	41,005,271	32,125,587	32,253,122	32,388,309	32,531,608
¹² Research & Market Data	2,299,524	2,439,505	2,585,085	2,736,489	2,893,948	3,057,706	3,228,014	3,405,135	3,589,340	3,780,914	3,980,150
¹³ Trading Systems	2,072,712	1,936,410	2,705,620	2,563,867	3,363,845	3,498,399	3,638,335	3,783,868	3,935,223	4,092,632	4,256,337
¹⁴ Misc.	51,568	53,631	55,776	58,007	60,328	62,741	65,250	67,860	70,575	73,398	76,334
¹⁵ Total Continuous	\$ 219,888,190	\$ 251,288,902	\$ 268,918,038	\$ 279,056,501	\$ 278,869,678	\$ 281,399,483	\$ 288,377,479	\$ 287,576,213	\$ 295,810,924	\$ 300,665,316	\$ 305,466,640
¹⁶ Total Expenses	\$ 234,037,307	\$ 271,356,973	\$ 290,902,386	\$ 302,734,897	\$ 304,349,077	\$ 308,794,711	\$ 317,694,763	\$ 318,822,294	\$ 328,993,443	\$ 335,919,409	\$ 342,938,752
¹⁷ % of Assets	12.62	14.23	14.89	15.12	14.85	14.73	14.82	14.56	14.72	14.74	14.78

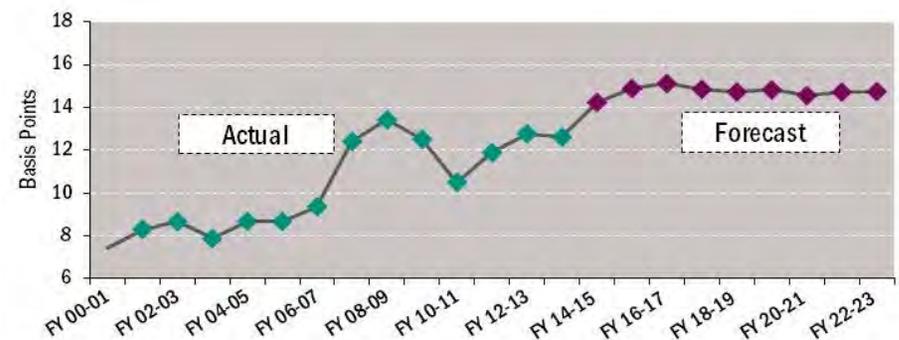
EXTERNAL INVESTMENT MANAGER COSTS

(Excluding incentive fees and partnership fees)

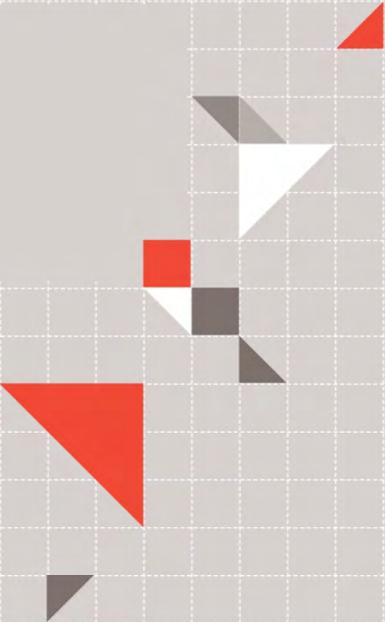


INVESTMENT MANAGEMENT COSTS

(Excluding incentive fees and partnership fees)



GLOBAL EQUITY



GLOBAL EQUITY

FAST FACTS

Assets: \$104.3 billion as of 3/31/2014

Benchmark: 67% Russell 3000 ex-Tobacco ex-Firearms Index and 33% MSCI ACWI ex-Tobacco ex-Firearms Index

Objective: Maximize the risk-adjusted returns to meet CalSTRS obligation to pay benefits

Staff Count: 10

Internal Management: \$38.0 billion (36%)

Number of External Managers: 48

External Management: \$66.3 billion (64%)

Board Consultants: Pension Consulting Alliance, Meketa

Investment Team

Acting Director: David Murphy

Portfolio Manager: Candace Ronan

Investment Officers: Jason Crawford, Sharon Jou, Helena Posner, Orintheo Swanigan, Curtis Takechi, Wilson Yee, Wayne Yim

Support Staff: Kathleen Hawkins

Transparency and Reporting

[Global Equity Quarterly Report, 3/31/2014](#)

[Portfolio Holdings by Asset Category, 6/30/2013](#)

[Comprehensive Annual Financial Report, 6/30/2013](#)



Link to the *CalSTRS Investments Branch*

PROGRAM DESCRIPTION

CalSTRS Global Equity Program



The Global Equity portfolio is managed both internally and externally using passive and active strategies across the U.S., Developed non-U.S. and Emerging Markets. Additionally, Global Equity is responsible for numerous ancillary programs including oversight and management of the Developing Manager Program, Sustainable Investments Program, Cash Equitization Program, Stock Distribution Program, Directed Brokerage Program and evaluation of investment options for inclusion in Pension2[®] which consists of 403(b), 457 and Roth 403(b) plans for CalSTRS members.

BUSINESS PLAN FOR FISCAL YEAR 2014-15

Expand Internal Management

With the implementation of a new trade and risk management system in March 2013, the Global Equity team established the foundation for increasing internal management. Staff's primary objective for fiscal year 2014-15 will be to grow the internally managed portfolio by adding a passive MSCI EAFE plus Canada IMI portfolio.

Refresh Active Manager Pool and Rebalance Allocations

In fiscal year 2013-14, staff began reviewing and evaluating the current investment manager line-up, which will continue into fiscal year 2014-15. Our goal is to partner with managers who have the highest probability of generating positive alpha while also contributing to our knowledge and understanding of the global markets. Staff will continue to replace low conviction managers with higher conviction managers and will also continue to reallocate assets between

Attachment B

investment managers to maximize the risk-adjusted return of the portfolio.

As part of this effort, staff developed a plan for transitioning managers from the Developing Manager Program to the Core portfolio. The transition process will include an annual review of managers and a recommendation by our managers-of-managers for possible transition to the Core portfolio. This annual review process will ensure that the Global Equity portfolio is consistently managed by the highest conviction equity managers.

STRENGTHS OF THE PROGRAM

One of the major strengths of the Global Equity portfolio is its long investment horizon. As the equity markets become more volatile, the uncertainty creates opportunities for investors able to allocate capital to areas offering attractive valuations. For example, emerging markets are currently underperforming most other markets but exhibit attractive valuations which over the long run should lead to outsized relative returns.

As a global investor with billions of dollars to invest, the CalSTRS Global Equity Portfolio has access to innovative ideas and investors globally. This accessibility occurs within a cost structure that is designed to be as efficient as possible. CalSTRS is often the largest investor in a strategy and negotiates terms that reflect that position. The ability to combine the best minds on Wall Street with low cost is a significant advantage.

The Global Equity team is a talented and cohesive group. Working as a team, staff is able to integrate both internal management and trading experience with a complex global portfolio of active external managers. This team approach and diversity of skills and perspectives allows for comprehensive solutions to the risks and opportunities within the global portfolio.

CHALLENGES FOR FISCAL YEAR 2014-15

Attracting and retaining qualified and high-performing investment professionals is essential for managing the complexities of the Global Equity portfolio and expanding our internal management capabilities. It's

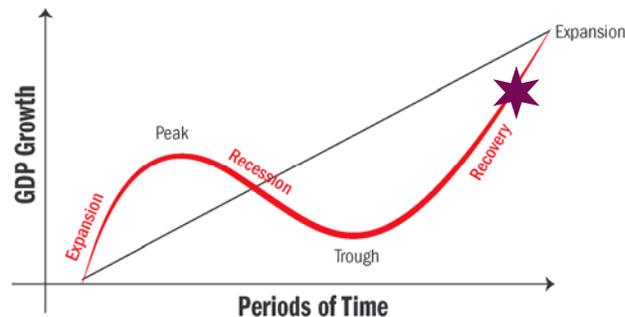
critical that the group is sufficiently staffed in order to effectively implement the components of this proposed business plan. To that end, during fiscal year 2013-14, the team filled one portfolio manager position and successfully recruited for the director of global equity position. The team plans to fill a vacant portfolio manager position and add two investment officers to the internal management team during fiscal year 2014-15.

Operating an investment management firm within the confines of a government structure presents challenges for meeting our performance objectives. Specifically, the current procurement process impairs staff's ability to timely hire new active managers. While these obstacles don't prevent staff from effectively managing the portfolio, it makes the job much more difficult. To address this challenge, the team embarked on an initiative to refresh the external manager pool during fiscal year 2013-14 and will complete this initiative during fiscal year 2014-15. This will allow the team to be more nimble when a need arises in the portfolio.

Potential threats to achieving our return objectives:

- Policy missteps by global central banks or governments
- Geopolitical issues intensify causing widespread concern
- China economic growth continues to slow, leading to a hard landing

MARKET CYCLE STAGE



MAJOR INVESTMENT COMMITTEE ACTIVITY, FISCAL YEAR 2014-15

- Semi-annual Manager Rating Report
- Directed Brokerage Annual Report

FIXED INCOME



FIXED INCOME

FAST FACTS

Assets: \$84.4 billion as of 3/31/2014

Total Debt

- Internal \$23.3 billion (81%)
- External \$ 5.4 billion (19%)

Benchmark: Total Debt (95% Barclays Agg + 5% Barclays HY Cash Pay ex-Tobacco ex-Firearms)

Staff Count: 20

Objective: Maximize risk-adjusted total return within a multi-asset class portfolio

Other Portfolios

- Internal \$41.8 billion (75%)
- External \$13.9 billion (25%)

Objective: Provide protection against inflation, rising interest rates and strengthening U.S. dollar.

Number of External Managers: 11

Investment Team

Acting Co-Directors: Glenn Hosokawa, Paul Shantic

Portfolio Managers: Deborah Contini, Rosie Lucchesini-Jack, Margaret Morris, John Perez

Investment Officers: Geetha Arani, Roy Clothier, Dan Depner, Sunny Dhillon, Cathy DiSalvo, Anthony Kennedy, Ian McCarty, Debra Ng, Kimmie Nicolas, Stacey Reichenberg, April Wilcox, Darin Yi

Support Staff: Jennifer James, Laurie Masters

Transparency and Reporting

[Fixed Income Quarterly Report, 3/31/2014](#)

[Securities Lending 2013 Annual Report](#)

[Portfolio Holdings by Asset Category, 6/30/2013](#)

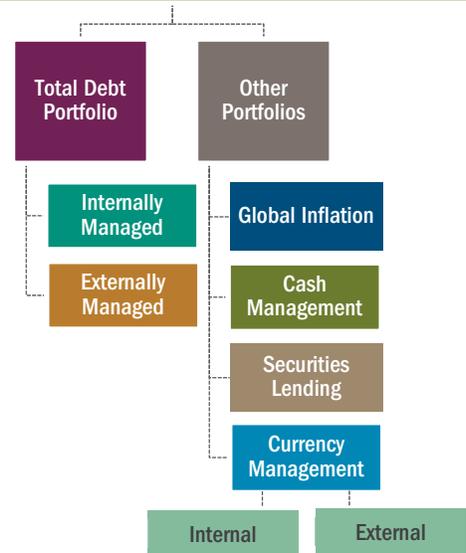
[Comprehensive Annual Financial Report, 6/30/2013](#)



Link to the CalSTRS Investments Branch

PROGRAM DESCRIPTION

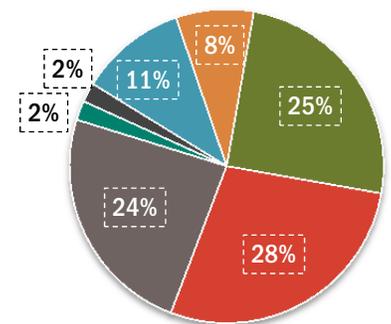
CalSTRS Fixed Income Program Assets Under Management



Total Debt Portfolio \$28.7 billion

as of 3/31/2014

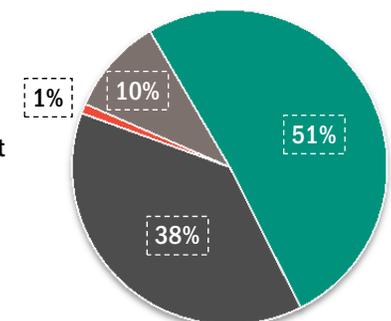
- Gov't / Agencies
- IG Credit
- Bank Loans
- Special Situations
- Core Plus
- High Yield
- Securitized



Other Portfolios \$55.7 billion

as of 3/31/2014

- Global Inflation
- Cash Management
- Currency Management
- Securities Lending



BUSINESS PLAN FOR FISCAL YEAR 2014-15

- Award and implement contracts for Securities Lending
- Further explore/evaluate emerging market debt opportunities
- Research fixed income non-index like strategies
- Continue to analyze/evaluate the benefits of derivatives against movements in interest rates

STRENGTHS OF THE PROGRAM

- Staff has an average of 14 years of experience in the fixed income market
- Access to external money managers' traders, analysts and strategists
- Robust compliance and risk management system
- Top-down approach to asset allocation with bottom up research and execution
- Cost effective structure in both internal and external management

CHALLENGES FOR FISCAL YEAR 2014-15

Internal Threats

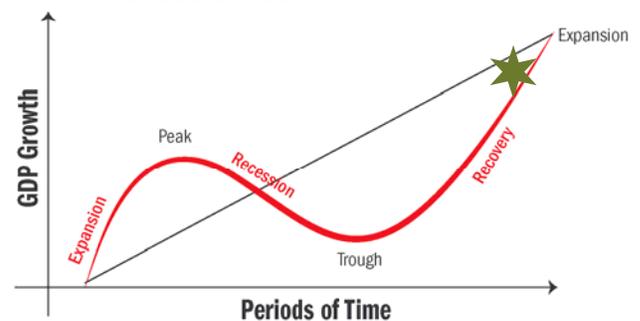
- Succession planning and the recruitment and retention of well-qualified staff. **Mitigation:** Provide upward mobility through education and training opportunities. Maintain open dialog with human resource staff.
- Projects or initiatives that take the investment staff away from the focus on the core, return-producing priorities of the Fixed Income portfolio. **Mitigation:** Unrelenting focus on portfolio returns
- Allocation of the internal risk budget. **Mitigation:** Continuous portfolio review to insure mid-course corrections if need be.

- Investigate new strategies. **Mitigation:** Work with other areas at CalSTRS during research and onboarding to ensure smooth implementation of new strategies.

External Threats

- Interest rate movements – speed, magnitude and timing of eventual rate tightening. **Mitigation:** Reduce overall duration with floating rate securities, short-term securities, use of derivatives, and tactical asset allocations.
- Diminished market volatility and increased complacency within financial markets. **Mitigation:** Continuous monitoring of market conditions; searching for alpha while utilizing internal and external resources.
- Financial regulation (e.g. Dodd-Frank). **Mitigation:** Working with internal and external partners to respond to changing regulation landscape.

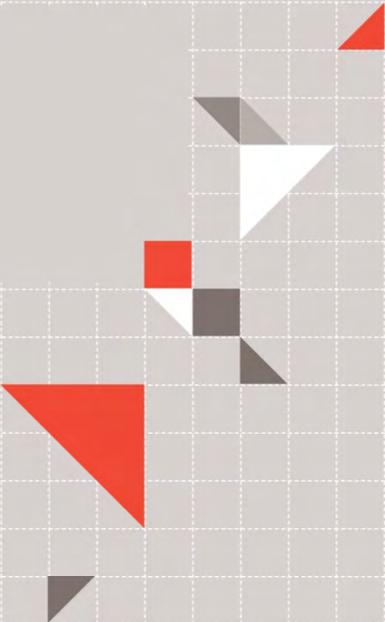
MARKET CYCLE STAGE



MAJOR INVESTMENT COMMITTEE ACTIVITY, FISCAL YEAR 2014-15

- Securities Lending Annual Report
- Asset Class Overview for Tactical Investment Strategy Discussion
- Semi-annual External Manager Report

REAL ESTATE



REAL ESTATE

FAST FACTS

Assets: \$22.6 billion as of 3/31/2014

Benchmark: ODCE

Objective:

- To provide improved diversification to the overall CalSTRS Investment Portfolio,
- To generate an enhance yield to the actuarial earnings rate assumption and provide stable cash flows, and
- To provide a hedge against inflation.

Staff Count: 18+1 vacancy; 19 total

Internal Management: \$0 mil, (0%)

Number of External Managers: 78

External Assets: \$22.6 billion, (100%)

Board Consultant: The Townsend Group

Investment Team

Director: Mike DiRé

Portfolio Managers: Mike Thompson, Hank Thomas, Greg Nyland, Don Palmieri

Investment Officers: Bruce Deutsch, Michael Yager, Daniel Clark, Tiffany Vispetto, Josh Kawaii-Bogue, Kari Salazar-Maynard, Matt Lisonbee, Kevin Bassi, Greg Arendt, Vandy Tep

Analysts: Jean Kagimoto

Support Staff: Susan Daniel, Gina Tavaréz

Transparency and Reporting

[Real Estate Quarterly Report, 3/31/2014](#)

[Real Estate Semi-Annual Performance Report, 9/30/2013](#)

[Portfolio Holdings by Asset Category, 6/30/2013](#)

[Comprehensive Annual Financial Report, 6/30/2013](#)



Link to the *CalSTRS Investments Branch*

PROGRAM DESCRIPTION



- Established in 1984
- The risk goal of the program is to be 50 percent core, 20 percent value add, and 30 percent opportunistic.
- Program is currently 92 percent U.S. and 8 percent non-U.S.
- The portfolio has approximately 80 manager relationships. CalSTRS seeks experienced and stable management teams who have access to market and off-market transactions. We prefer structures that emphasize alignment of interest and CalSTRS control over major decisions, and fees that reflect our economies of scale.

BUSINESS PLAN FOR FISCAL YEAR 2014-15

Rebalance Portfolio

Staff will continue the strategy to decrease opportunistic higher-risk investments while increasing core and value add holdings. Creating core through development and/or lease-up will be emphasized along with increases in ODCE fund investments if market prices of core real estate continue to be in excess of appraised values.

Continue to diversifying outside U.S.

Staff is working with Townsend, in addition to separate account advisors, to assess the opportunities and risks to diversify into core and value add investments outside the U.S. The strategy is to emphasize lower-risk, cash-flowing investments with CalSTRS control over major decisions.

Attachment B

Increase Liquidity in the portfolio

Though not a liquid asset class, we will be adding incremental liquidity through increased holdings in ODCE funds, reducing leverage and potentially adding REITS.

STRENGTHS OF THE PROGRAM

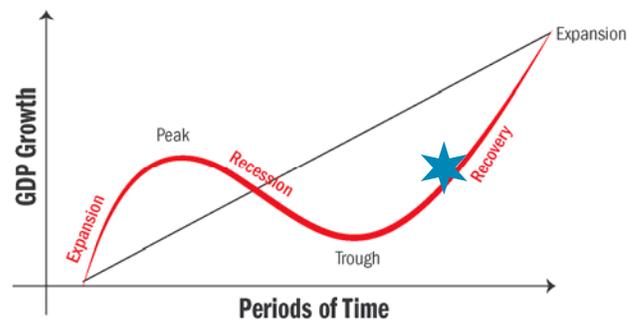
- Experienced and Focused Investment Team – CalSTRS has a property-type focused investment structure led by portfolio managers with 20-30 years of public and private investment experience. Our team’s collective investment acumen, coupled with top tier managers, allows CalSTRS to access, analyze, and close large and complex transactions that are not available to all industry participants.
- Advantageous Structures – CalSTRS size and experience investing through separate accounts and joint venture structures allows the program to negotiate favorable investment terms. These structures maximize alignment of interests and CalSTRS control of major decisions, and minimize fee drag on net returns.
- Investment Reach – The completion of the RFP for investment managers added management teams with global investment experience. CalSTRS is now better positioned to participate in investment opportunities, both within the U.S. and internationally.

CHALLENGES FOR FISCAL YEAR 2014-15

- Constrained Resources – The size of the Real Estate staff is small relative to the size and complexity of both the current portfolio, and importantly, the increasingly complex market opportunities. Our goal to reshape the portfolio out of opportunity funds and into joint ventures, separate accounts, open-end funds and REITS all require more staff expertise and time than closed-end fund investing,

- Overweight in Legacy Opportunity Funds – We have made significant progress in lowering the percentage of the portfolio invested in these higher risk strategies. However, we must continue to work with other limited partners to press for timely liquidations and return of capital.
- Preparation for Market Cycle Change – The current aggressive pricing in the core U.S. and selected global markets may be signaling a pricing adjustment. We are reviewing our portfolio holdings to minimize risk of write-downs. We also will strive to position CalSTRS to take advantage if market pricing moves to attractive levels.

MARKET CYCLE STAGE



MAJOR INVESTMENT COMMITTEE ACTIVITY, FISCAL YEAR 2014-15

- International Investments – Staff and Townsend may come to the Investment Committee to present strategy changes with respect to international investments.
- Semi-Annual Investment Reports – Townsend will continue to provide Semi-Annual Investment Reviews including Townsend’s “View of the World.”
- Update of Responsible Contracting Policy – This policy is currently under review and will be updated to reflect changes in the real estate industry.

PRIVATE EQUITY



PRIVATE EQUITY

FAST FACTS

Assets: \$21.8 billion as of 3/31/2014

Benchmark: Russell 3000 +3%

Objective: Enhanced equity return

Staff Count: 15

Internal Management: \$1.4 bill. (6.5%)
(Co-invests)

Number of External Managers: 124

External Assets: \$19.9 billion (93%)

Board Consultant: Mike Moy, PCA

Investment team

Director: Margot Wirth

Portfolio Managers: Deanna Winter, Mahboob Hossain, Seth Hall

Investment Officers: Delfina Palomo, Jean Kushida Uda, Kathleen Williams, Rob Ross, Geetika Misra, Chris Moore, John-Charles Gish, Kristian Altier, Nick Chladek

Support Staff: Cindy Connitt, Chris Singh

Transparency and Reporting

[Private Equity Quarterly Report, 3/31/2014](#)

[Private Equity Semi-Annual Performance Report, 9/30/2013](#)

[Private Equity Semi-Annual Performance Report, 3/31/2013](#)

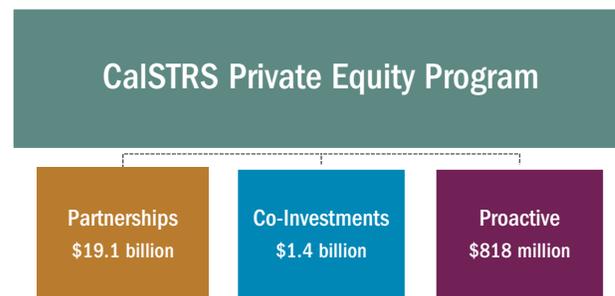
[Portfolio Holdings by Asset Category, 6/30/2013](#)

[Comprehensive Annual Financial Report, 6/30/2013](#)



Link to the CalSTRS Investments Branch

PROGRAM DESCRIPTION



- Established in 1988, the Private Equity Program invests globally in partnerships, separate accounts, general partner interests, secondary interests and co-investments. Partnerships account for 93 percent of the program's exposure. Investments are further broken down into the following categories: buyouts, equity expansion, debt-related and venture capital.
- Approximately 70 percent of the program's exposure is based in North America and 20 percent in Europe. Remaining exposure is concentrated in Asia but also includes various (other) emerging markets.
- External advisors support the program by providing investment selection advice, research and gate-keeping services. Cambridge Associates covers the Americas and Asia; Altius Associates covers Europe, Middle East and Africa.

BUSINESS PLAN FOR FISCAL YEAR 2014-15

- Continue diversifying away from an overreliance on very large buyout funds – On a relative basis, Staff is increasing the portfolio's allocations to small and middle market buyout funds, growth equity funds, debt-related funds, emerging market funds and other sub-asset categories.
- Improve Co-investment Program – Staff believes co-investments remain attractive due to fee and carried interest economics. Building on the program's long history of doing co-investments,

the Private Equity team is honing the sub-strategy and improving processes and controls. High equity prices and high entry multiples necessitate a shift in tactical parameters.

- Consolidate Proactive Program with overall Private Equity Program – New and Next Generation investment opportunities as well as Underserved Market opportunities will go through same under-writing process and investment committee review as all other private equity investment opportunities.

STRENGTHS OF PROGRAM

- Cohesive world-class investment team – Consists of a mix of long-tenured professionals plus outside hires with extensive global capital markets and external private equity-specific experience.
- Strong teamwork-oriented culture – Emphasizes process driven due diligence, analyses and investment selection activities; all with rigorous peer review.
- Relatively simple and manageable portfolio construction – Despite large portfolio size, number of manager relationships is relatively small.
- Advance expertise and natural fit in certain sub-sectors and activities – Namely, large buy-outs, debt and special situations, and energy-related funds, as well as co-investing.
- Excellent reputation in industry, combined with an extensive network of relationships – This results in advantageous information in-flow.

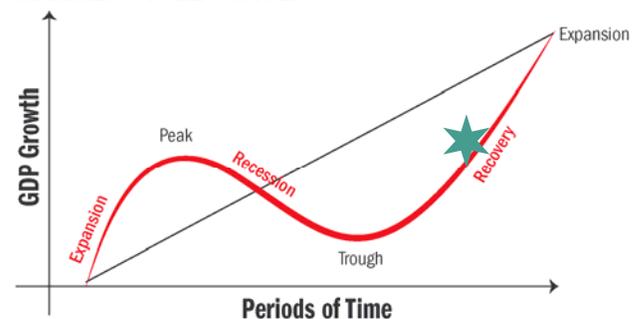
CHALLENGES FOR FISCAL YEAR 2014-15

- High equity prices and higher entry multiples – On one hand the private equity industry is benefitting from high prices because managers are opportunistically selling assets at a rapid pace. On the other hand, due to a shortage of reasonably priced deals, the private equity

industry is struggling to deploy its ever-increasing supply of dry powder.

- Over-exposure to pre-global financial crisis vintage years – 65 percent of the portfolio's exposure (on a fair market value basis) is tied to partnerships in the 2005, 2006, 2007 and 2008 vintage years. To a large degree, these investments drive the Private Equity portfolio's performance and these vintage year investments have not performed well relative to benchmarks. Divestment of these vintage year investments is difficult and would likely further impair overall performance.

MARKET CYCLE STAGE



MAJOR INVESTMENT COMMITTEE ACTIVITY, FISCAL YEAR 2014-15

- Potential adjustment to the Private Equity benchmark – The primary benchmark for this asset class is the Russell 3000 public market index plus a spread of three percent. This benchmark is significantly more volatile than the actual asset class performance, especially over shorter time horizons. Alternatives may involve the use of pooled industry data as a basis for the asset class's benchmark over shorter durations.
- Potential Request for Proposal for an advanced quantitative analysis technology platform – Staff continues to monitor and evaluate new technology product offerings that could significantly enhance the team's ability to analyze the Private Equity portfolio.

CORPORATE
GOVERNANCE



CORPORATE GOVERNANCE

FAST FACTS

Assets: \$4.6 billion as of 3/31/2014

Benchmark: Russell 3000 ex-Tobacco ex-Firearms (U.S. Equity) and MSCI ACWI ex-U.S. Index ex-Tobacco ex-Firearms (non-U.S. equity)

Objective: Absolute Return of 7.5% and/or outperform our benchmark by 150bps

Staff Count: 9

Internal Management: \$253 million, 8%

Number of External Managers: 9

External Assets: \$4.381 billion, 92%

Board Consultant: Pension Consulting Alliance and Meketa

Investment Team

Director: Anne Sheehan

Portfolio Managers: Janice Hester Amey, Brian Rice

Investment Officers: Philip Larrieu, Aisha Mastagni, Ly Van, Eric Kwong, Travis Antonio

Support Staff: Laurie Winston

Transparency and Reporting

[Corporate Governance Quarterly Report, 3/31/2014](#)

[Review of 2012-2013 Proxy Season](#)

[2013-2014 Corporate Governance Engagement Plan](#)

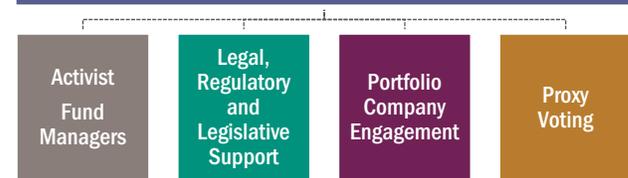
[Comprehensive Annual Financial Report, 6/30/2013](#)



Link to the *CalSTRS Investments Branch*

PROGRAM DESCRIPTION

CalSTRS Corporate Governance Program



- The Corporate Governance Program includes proxy voting, portfolio company engagements, filing of shareholder proposal initiatives and portfolio management.
- The Corporate Governance Activist Manager portfolio benchmarks are the Russell 3000 Index ex-Tobacco ex-Firearms (U.S. Equity) and the MSCI ACWI ex-U.S. Index ex-Tobacco ex-Firearms (non-U.S. Equity).
- The Corporate Governance Activist Manager portfolio consists of nine external managers and multiple side-by-side co-investments.

BUSINESS PLAN

- The Corporate Governance Activist Manager portfolio outperforms its U.S. and non-U.S. benchmarks.
- Staff reinforces CalSTRS reputation as a global leader on corporate governance, focusing on executive compensation, majority vote and diversity issues.
- CalSTRS continues to be a leader in sustainability awareness through engagement of financial market participants on environmental, social and governance, ESG, consideration.

Attachment B

STRENGTHS OF THE PROGRAM

Over the past five years, CalSTRS has become a leader in the field of corporate governance. We are considered experts in the field and are frequently sought out as speakers, analysts and press references on corporate governance topics.

We now have eight investment professionals, up from seven last year. This increased staff allows us to consider more issues and respond more quickly to those issues, and allows us to participate in outside events where we share the CalSTRS story.

We have increased the number of activist managers in our portfolio. We now have nine managers managing over \$4.6 billion. We have also substantially increased our co-investment opportunities which give staff the ability to conduct in-depth research and analysis on public equity securities.

CHALLENGES FOR FISCAL YEAR 2014-15

Staff is often constrained from taking on all of the issues presented to them due to limited resources and must choose those initiatives that will add the most value to the CalSTRS Portfolio.

Corporate governance requires a very broad set of skills that are hard to find in potential staff and challenges current staff to maintain a sufficient level of expertise.

Mergers and acquisitions activity in the financial markets has been robust for the past two years, as low interest rates, surplus corporate cash and growing private equity capital reserves have driven the trend. Declining M&A transactions in volume and deal value, or a shareholder preference for buy-backs instead of taking the risk of over-paying by acquirers present a challenge to corporate governance managers. A prolonged slowdown of M&A activity, increased volatility and uncertainty in the capital markets will likely impact our corporate governance managers and their activities.

MARKET CYCLE STAGE

The Corporate Governance unit pursues engagements throughout the market cycle. While markets have traditionally been more receptive to governance changes during down markets, this appears to be slowly changing. The financial crash highlighted the need for sound governance practices in any market and good governance is being recognized as a way to add value and mitigate risk.

Our managers are stock pickers and are looking for fundamentally sound companies where they can act as a catalyst to effect change and add value. At any given time, our managers will hold a variety of companies that are in various stages of the “j-curve”, where stocks initially decline after investment but begin to improve after the manager makes changes. In general, our managers are more challenged during markets of great outperformance or underperformance.

MAJOR INVESTMENT COMMITTEE ACTIVITY, FISCAL YEAR 2014-15

- Semi-annual reporting of the performance of the Corporate Governance Activist Manager portfolio along with a summary of selected portfolio company engagements.
- Review and potential update of the CalSTRS Corporate Governance Principles.
- Review and approval by CalSTRS Investment Committee of the 2014 Corporate Governance Engagement Plan
- Assist in evaluating and presenting ESG issues and potential investment opportunities

INFRASTRUCTURE



INFRASTRUCTURE

FAST FACTS

Assets: \$1.25 billion as of 3/31/2014

Benchmark: CPI + 5%

Staff Count: 3 full-time

Objective:

- Improve diversification to the overall CalSTRS Investment Portfolio,
- Generate enhanced yield and stable cash flows,
- Hedge against long-term liabilities and inflation,
- Preserve capital, and
- To act as a responsible steward of infrastructure investments through responsible contracting and environmental practices, efficient operation of assets, and the production of quality services and products.

Investment team

Portfolio Manager: Diloshini Seneviratne

Investment Officer: Christopher Ellis

Investment Officer: Michael Warmerdam (Joined June 2, 2014, from the Private Equity Home Loan Program)

Support Staff: Borrowed from Private Equity and Innovation and Risk units, as needed.

Transparency and Reporting

[Infrastructure Quarterly Report, 3/31/2014](#)

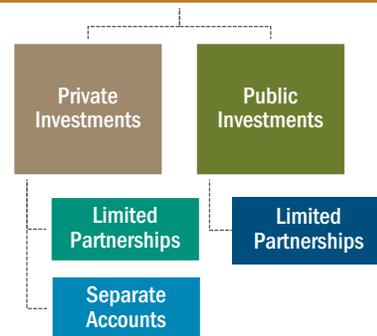
[Portfolio Holdings by Asset Category, 6/30/2013](#)

[Comprehensive Annual Financial Report, 6/30/2013](#)



Link to the CalSTRS Investments Branch

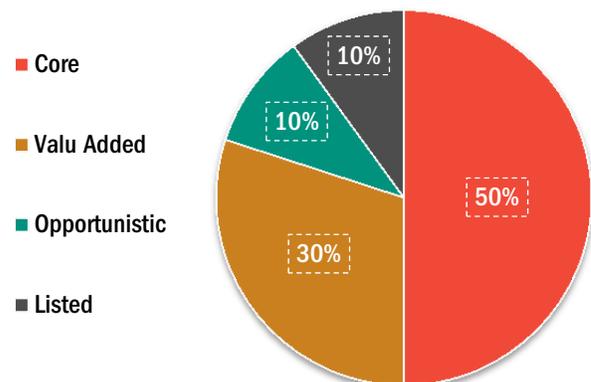
PROGRAM DESCRIPTION



The program was established in 2010 with the policy approved in mid-2008.

- Infrastructure is currently part of the Inflation Sensitive asset class.
- Policy objective is to invest in infrastructure assets that have unique characteristics such as assets that have a long-term life, are monopolistic in nature, provide essential services, and have a form of inflation linkage in the revenue stream.

PORTFOLIO TARGET ALLOCATIONS



BUSINESS PLAN FOR FISCAL YEAR 2013-14

- Continue to search for new investment opportunities that provide better governance and fee/compensation structures.
- Continue to diversify the portfolio structurally, geographically, and by industry; as well as, diversify based on revenue mechanisms (availability based, concessions, contracts, regulated asset base, etc.), while managing the risk return objectives for the program.
- In order to accomplish the above, consideration would be given to increase the team size up to five investment members, within the year.

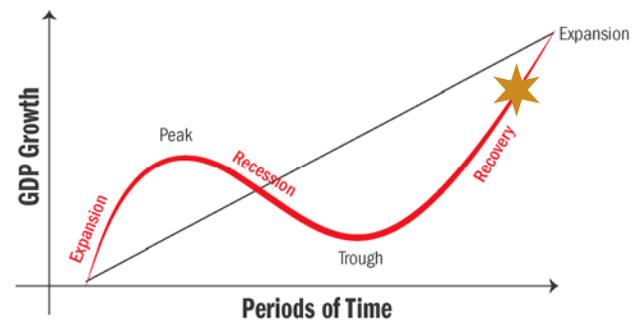
STRENGTHS OF THE PROGRAM

- The program has grown in strength since it was implemented in early 2010 with the allocation of dedicated staff. The intention is to grow the team further in order to build a stronger program and continue to meet policy objectives.
- Over the last few years, the Infrastructure policy was revised to strengthen the objectives and direction of the program. The last policy revision was done in February 2014 to provide staff discretion.
- The program has been recognized globally as an active investor, and therefore is generating a steady deal flow from fund managers as well as from operating companies wanting to joint venture with CalSTRS on direct investments.
- Staff is seeing an increased interest from other institutional investors wanting to team up with CalSTRS on unique investment opportunities.

CHALLENGES FOR FISCAL YEAR 2013-14

- The limited resources available to staff can be a challenge as the program continues to grow. Portfolio monitoring and reporting will need to be a focus in developing resource requirements.
- Currently, the program does not have program specific consultants to provide expert opinions or for performance measurement. As the program grows, this is an area that will need focus.
- The changing macro conditions such as regulatory changes, political uncertainties, and other similar trends are watched closely by staff as they can impact the portfolio and its investment opportunities.

MARKET CYCLE STAGE



MAJOR INVESTMENT COMMITTEE ACTIVITY, FISCAL YEAR 2013-14

- Update on Infrastructure policy

INNOVATION & RISK



INNOVATION & RISK

FAST FACTS

Assets: \$1,063 million as of 3/31/2014

Assets: Global multi-asset class

Benchmark: Custom based on the weighted-average performance of underlying strategy benchmarks

Objective: Incubate strategies new to CalSTRS that could improve the overall risk and return characteristics of the total fund

Staff Count: 7

Internal Management: N/A

Number of External managers: 10

External Assets: \$1,117 million

Hedge Fund Adviser: Lyxor Asset Management

Investment team

Director: Steven Tong

Portfolio Managers: Carrie Lo, Glen Blacet

Investment Officers: Angela Tran, Josh Diedesch, Matt Toepel

Support Staff: Nancy Flora

Transparency and Reporting

[Innovation & Risk Quarterly Report, 3/31/2014](#)

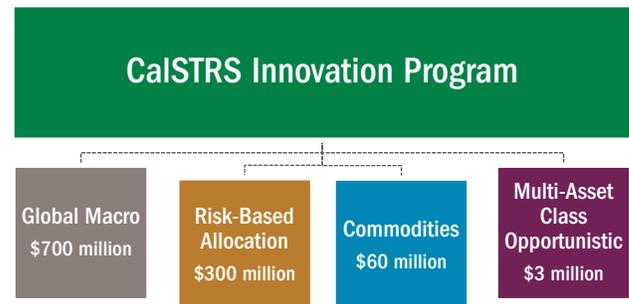
[Portfolio Holdings by Asset Category, 6/30/2013](#)

[Comprehensive Annual Financial Report, 6/30/2013](#)



Link to the CalSTRS Investments Branch

PROGRAM DESCRIPTION



Established in 2009 and organized around two distinct areas: alternative investment strategies outside of CalSTRS' traditional asset classes (Innovation) and Risk Management.

Innovation:

- Portfolio comprised of global mandate with primary goal of identifying, researching and incubating strategies that diversify the total plan.
- Implemented strategies: global macro, risk-based allocation, commodities, multi-asset class opportunistic.

Risk Management:

- Measure and understand risks that span the entire Investments portfolio.
- Support short- and long-term asset allocation decision-making.

BUSINESS PLAN FOR FISCAL YEAR 2014-15

- Complete implementation of commodities strategy – deploy the final \$50 million commitment to Commodities Program.
- Fund the risk-managed equity (low volatility equity/covered call) strategy with the goal of incubating a total of \$400 million split between four managers.
- Review and analyze additional strategies that diversify returns and lower the fund volatility across economic regimes (e.g., CTA's and Farmland).

Attachment B

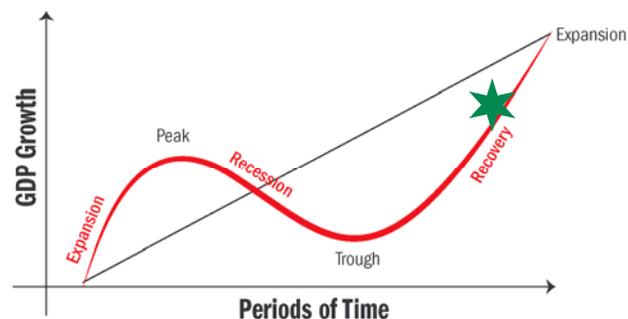
- Implement BlackRock Enterprise Risk Management System – Complete implementation with private markets assets, develop fund-level risk exposure reports, enhance plan scenario analyses.

STRENGTHS OF PROGRAM

A major benefit of this program is being able to research and fund new strategies with relatively small capital allocations to allow a comprehensive evaluation prior to a formal recommendation to the Board for full integration into the total plan's asset allocation.

- Global Macro – Allows CalSTRS to access markets and trade structures that are not typically present in traditional asset classes (i.e. EM debt, relative rates between countries and across asset classes, volatility trading using options, forwards, swaps).
- Commodities – Has historically provided an inflation hedge and diversification to equities.
- Risk-based Allocation – Strategy's goal is to provide a more attractive risk/return profile than a single asset class and a higher Sharpe ratio than a traditional 60 percent equities/40 percent fixed income asset allocation.
- Risk-based Equity – Potentially offers a partial solution to maintaining equity exposure with less risk, helping to reduce “tail risk” during adverse market conditions.
- Risk Management – The Risk Management unit leverages the expertise and knowledge of internal staff with resources and technology available through external relationships.
- The visibility of the Risk unit into all asset classes enables a more comprehensive and unified approach to measuring and understanding investment risk.

MARKET CYCLE STAGE



CHALLENGES FOR FISCAL YEAR 2014-15

- Constrained Resources – By the end of the calendar year, the Innovation team expects to be overseeing 16 managers in six separate strategies. The numbers and complexity of the approved strategies has been a constraint to exploring other potentially value-adding strategies in the future. The Innovation team is hiring two investment officers (IO I and II) for fiscal year 2014-15 to assist with some of the supporting tasks. However, additional senior investment officers would be needed before any significant growth in strategies can occur.
- Risk Management Execution – Full integration of the enterprise risk platform into the asset allocation and portfolio management process, along with the continued development of a comprehensive risk framework.

MAJOR INVESTMENT COMMITTEE ACTIVITY, FISCAL YEAR 2014-15

- As part of the Investment Committee's work plan objectives, Innovation and Risk staff will work with Board consultants and other asset classes to conduct a comprehensive review of the risk of investment return shortfall as well as shortfall management tools.

OPERATIONS



OPERATIONS

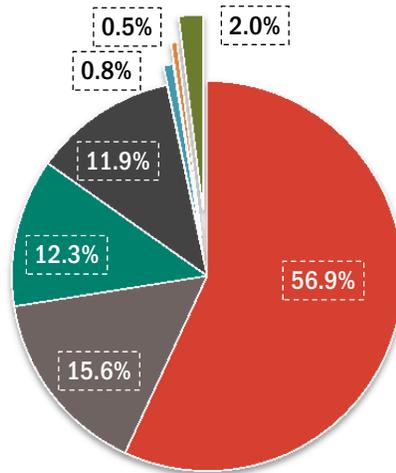
FAST FACTS

Assets: \$183,352,005,491 as of 3/31/2014

CalSTRS Asset Allocation

as of 3/31/2014

- Global Equity
- Fixed Income
- Real Estate
- Private Equity
- Absolute Return
- Inflation Sensitive
- Cash



Investment Team

Director: Debra M. Smith

Investment Officers: Kimberly McDonnell, Deborah Kanner, Haytham Sharief, Matthew Schroeder, Melissa DaRonco, Kelly Criss, Steve Kruth, Mami Wong, Matthew Schott, Diego Sanchez, Krista Jackson-Ingram, Mary Ann Avansino, Connie Tyer, Michael Lawrence, Gilda Ligaya, Denny Young, Carlos Maciel, Stephanie Ledesma.

Transparency and Reporting

[Current Investment Portfolio](#)

[Portfolio Holdings by Asset Category, 6/30/2013](#)

[Semi-Annual Performance Report December 2013](#)

[Comprehensive Annual Financial Report, 6/30/2013](#)



Link to the CalSTRS Investments Branch

PROGRAM DESCRIPTION



Investment Operations' primary function is to provide middle-office support for internal and external portfolio activities by performing pre-settlement and post-trade portfolio controls, cash and trade management, cash flow analysis, portfolio and total fund reporting, as well as trade compliance and ethics. We manage the global master custodian relationship ensuring that services and deliverables such as fund accounting, custody, performance calculations, and reporting are met in accordance with our service level agreement. Performance of these middle-office processes, oversight of the global master custodian, and efficient alignment of operational services assists the investment management team in executing the trustee approved Investment Policy and Management Plan.

BUSINESS PLAN FOR FISCAL YEAR 2014-2015

- **Cost Effective Measurement, CEM** - We continue our participation in this annual survey. This year's research will focus on performance targets, equity fees and compensation incentives. The research report will include total fund and asset class targets, externally managed public market performance fees and internal staff incentive structure.
- **Assess and Mitigate Operational Risks** - Monitor internal control processes to ensure they reflect the current working environment; maintain and test the Investment Business Continuity Plan designed to recover critical business processes within stipulated timeframes.

- Continued Education – Empower our staff and advance our abilities for internal management and innovation - cross train staff and support training courses and continuing education.

STRENGTHS OF THE PROGRAM

- The Investment Operations team is well qualified and has a wide breadth of investment experience and institutional knowledge. We provide support for portfolio activities across all asset classes incorporating them into our complex global investment portfolio. Working as a team, staff integrates new investment strategies into the workflow while effectively responding to ad-hoc requests and managing the daily operational process. This requires flexibility, prioritization and coordination.
- Minimize Reputational Risks/Cash Flow Analysis – We provide information to investment management to ensure sufficient cash balances are available to pay benefits to our members. Cash management discussions are reviewed at the monthly Tactical Asset Allocation meetings.
- Protection of Assets/Reduce Operational Risks – Our ongoing initiative is to continue to promote an internal control environment that protects our assets at all levels of the Investments Branch. This will strengthen the awareness that internal controls and risk management are the third tier in our policy and procedure hierarchy structure.

CHALLENGES FOR FISCAL YEAR 2014-2015

- Increased Investment Portfolio Complexity – As the complexity of the investment portfolio increases, we will continue to promote continuing education as it will be necessary to develop staff to focus on compliance and performance analysis.
- Ongoing Support & Prioritization – We strive to provide investment management with quality investment reporting and value-added services. This requires thoughtful prioritization since new

investment strategies and initiatives compete for existing resources.

- Internal Accounting System – We continue to meet with Financial Services staff to re-prioritize investment initiatives and learn to effectively navigate through the accounting system (BusinessDirect). Ongoing training courses will assist in streamlining administrative processes and provide enhanced budgetary reporting.

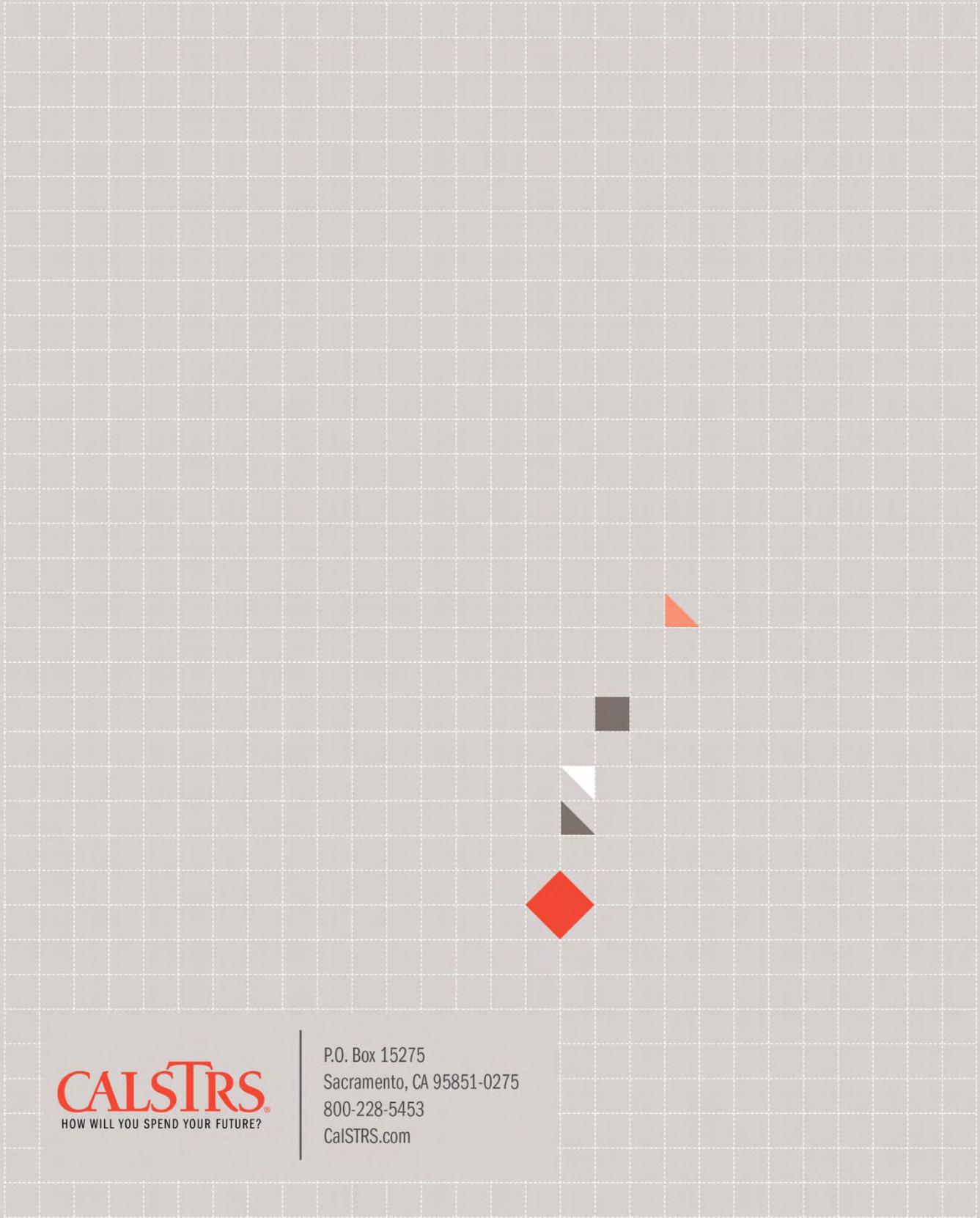
MARCH 31, 2014 INVESTMENT SUMMARY

Asset Mix	In Millions
Global Equity	\$104,264
Fixed Income	28,692
Real Estate	22,576
Private Equity	21,811
Cash	3,587
Inflation Sensitive	1,005
Absolute Return	1,417
Total	\$183,352

MAJOR INVESTMENT OPERATIONS ACTIVITY, FISCAL YEAR 2014-2015

- Continue to partner with Global Equity, Fixed Income and other asset classes to implement the internal/external management initiatives.
- In conjunction with Global Equity, discuss the resources and operational requirements needed to develop a work plan to bring MSCI EAFE plus Canada IMI portfolio in-house.
- Continue to partner with Innovation & Risk as they lead the effort to implement a total fund investment risk management system.
- Ongoing risk assessment and documentation of our internal controls. Continue to promote a review of these documents to ensure they are updated regularly and reflect the current work environment.

Attachment B



P.O. Box 15275
Sacramento, CA 95851-0275
800-228-5453
CalSTRS.com

Charter of the CalSTRS 21 Risk Factor Review Committee

Purpose

The 21 Risk Factor Review Committee (“the Committee”) is established by the Chief Investment Officer of California State Teachers’ Retirement System (“CalSTRS” or “the fund” CalSTRS to discuss geopolitical and Environmental Social and Governance (“ESG”) risks to the fund and to take actions to address ESG risks faced by the fund.

Membership and Structure

Membership

The 21 Risk Factor Review Committee shall consist of at least the Chief Investment Officer, Deputy Chief Investment Officer and Director of Corporate Governance as well as one representative of each asset class determined by each asset class’ director. From time to time, the committee may seek input from other CalSTRS Departments and groups such as the Green Team, Legal, or Legislative Affairs.

Meetings

Committee meetings will be open to all members of the Investment Office.

Meetings are led by the Chair, which shall be determined by Chief Investment Officer.

The Committee will meet at least quarterly and on ad hoc basis as circumstances dictate. Occasionally the committee may act through written consent to act on pressing issues and with a more in depth review of the issue at the next scheduled meeting.

Reporting

The Chair of the Committee or Chief Investment Officer shall report on the Committee’s activities of the CalSTRS board as circumstances demand.

The Chair of the committee shall draft an annual report to the CalSTRS board and legislatively required reports to the Legislature for approval of the Chief Investment Officer and CalSTRS Board.

Responsibilities

The responsibilities of the 21 Risk Factor Review Committee are:

- Evaluate ESG issues to determine if they violate 21 Risk Factors Policy
- Carry out CalSTRS Board’s directives relating to the 21 Risk Factors and Divestment policies

Attachment C

- Assist the investment office in addressing ESG Issues
- Assist asset classes on engagement of ESG issues
- Insure all asset classes are aware of ESG issues affecting the fund
- Determine if such issues should be elevated to the full board. Refer issues to the Teachers' Retirement Board for review.
- Prepare annual reports to the board and legislature on ESG issues related to investments

Appendix A – CalSTRS 21 Risk Factor Policy

Attachment A:

Investment Policy for Mitigating Environmental, Social, and Governance 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

Attachment C

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

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

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

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

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

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

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

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

CALSTRS 21 RISK FACTORS

Monetary Transparency

The long-term profitability by whether or not a country or company has free and open monetary and financial data, and its observance of applicable laws.

Data Dissemination

The long-term profitability by whether or not a country is a member of the IMF (or similar organization) and satisfies the conditions for access, integrity, and quality for most data categories.

Accounting

The long-term profitability by whether or not the accounting standards are formulated in accordance with International Accounting Standards or the U.S. Generally Accepted Accounting Principles.

Payment System: Central Bank

The long-term profitability by whether the activities of a country's central bank encompass implementing and ensuring compliance with principles and standards which are established to promote safe, sound, and efficient payment and settlement systems.

Securities Regulation

The long-term profitability by exposure to operations in countries that have not complied with IOSCO objectives, which provide investor protection against manipulation and fraudulent practices.

Auditing

The investment's long-term profitability by whether or not the country uses International Standards on Auditing in setting national standards.

Fiscal Transparency

The investment's long-term profitability by its exposure or business operations in countries that do not have not some level of fiscal transparency such as publication of financial statistics, sound standards for budgeting, accounting, and reporting.

Corporate Governance

The investment's long-term profitability by whether or not the government recognizes and supports good corporate governance practices and whether it generally adheres to OECD principles.

Banking Supervision

The investment's long-term profitability from its exposure to countries that have not endorsed/complied with the Basel Core Principles. An endorsement includes an agreement to review supervisory arrangements against the principles and bring legislation in line with the principles where necessary.

Attachment C

Payment System: Principles

The investment's long-term profitability by whether a country complies with the 10 Core Principles for Systemically Important Payment Systems, which includes operational reliability, efficiency, real time settlement, final settlement in central bank money; and whether rules and procedures are clear and permit participants to understand the financial risks resulting from participation in the system.

Insolvency Framework

The investment's long-term profitability from its business operations and activities in specific countries with regard to bankruptcy reform or insolvency legislation.

Money Laundering

The investment's long-term profitability from exposure and whether or not a country has implemented an anti-money laundering regime in line with international standards; consideration should be given to compliance with the 40 recommendations in the Financial Action Task Force, FATF, on Money Laundering; and whether it is a member of FATF.

Insurance Supervision

Whether or not a country has a regulatory framework in line with International Association of Insurance Supervisors, IAIS, Principles.

Respect for Human Rights

The investment's long-term profitability from its business operations and activities in countries that lack or have a weak judicial System. Assess the risk to an investment's long-term profitability from its business operations and activities in a country that engages in or facilitates the following: arbitrary or unlawful deprivation of life, disappearance, torture and other cruel, inhuman, or degrading treatment or punishment, arbitrary arrest, detention, or exile, arbitrary interference with privacy, family, home, or correspondence, use of excessive force and violations of humanitarian law in internal conflicts. Consideration should be given to governmental attitude regarding international and non-governmental investigation of alleged

Respect for Civil Liberties

The investment's long-term profitability from operations, activities, and business practices in countries or regions that do not allow freedom of speech and press, freedom of peaceful assembly and association, freedom of religion, freedom of movement within the country, allowance for foreign travel, emigration, and repatriation.

Respect for Political Rights

The investment's long-term profitability from business practices and activities in countries that do not allow their citizens the right to advocate for change to their government.

Discrimination Based on Race, Sex, Disability, Language, or Social Status

The investment's long-term profitability from business practices and activities on discrimination, such as discrimination against women, children, and persons with disabilities, national/racial/ethnic minorities, or indigenous people.

Worker Rights

The investment's long-term profitability from management and practices globally in the area of worker's rights; specifically the right of association, the right to organize and bargain collectively, prohibition of forced or bonded labor, status of child labor practices and minimum age for employment, acceptable work conditions, or human trafficking.

Environmental

The investment's long-term profitability from activities and exposure to environmental matters such as; depleting or reducing air quality, water quality, land protection and usage, without regard for remediation. Consideration should be given to how a company is dealing with the impact of climate change, including whether the government is taking steps to reduce its impact, exacerbating the problem, or oblivious to the risk.

War/Conflicts/Acts of Terrorism

The investment's long-term profitability from business exposure to a country or region that has an internal or external conflict, war, acts of terrorism or involvement in acts of terrorism, and whether the country is a party to international conventions and

Human Health

The risk to an investment's long-term profitability from business exposure to an industry or company that makes a product which is highly detrimental to human health so that it draws significant product liability lawsuits, government regulation, United Nations sanctions and focus, and avoidance by other institutional investors.

Appendix B – CalSTRS Divestment Policy

DIVESTMENT POLICY

As set forth in the California Constitution, Article 16, Section 17, and the California Education Code, Section 22250, the CalSTRS Retirement Board, its Investment Committee, and staff have fiduciary duties with respect to the system and the plan. These duties include duties of loyalty and prudence to invest “with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.” (Ed. Code, sec. 22250(b).)

This policy sets forth CalSTRS’ policy for responding to external or internal initiatives to divest of individual or groups of securities for purposes of achieving certain goals that do not appear to be primarily investment related. The Investment Committee opposes any divestment effort that would either implicitly or explicitly attempt to direct or influence the Investment Committee to engage in investment activities that violate and breach the Trustees’ fiduciary responsibility. Consistent with its fiduciary responsibility and the concepts of diversification and passive index management, the Investment Committee does not and will not systemically exclude or include any investments in companies, industries, countries or geographic areas, except in cases where: one of the CalSTRS 21 Risk Factors is violated over a sustained time frame to the extent that it becomes an economic risk to the Fund, a potential for material loss of revenue exists, and where it weakens the trust of a significant portion of members to the System.

When pressured to divest, CalSTRS firmly believes that active and direct engagement is the best way to resolve issues. Face to face meetings with shareowners and senior management, or the Board of Directors, are essential to bringing about change in a corporation. No further action will be taken until all efforts at engagement have been fully exhausted; efforts at engagement include, but are not limited to: shareholder resolutions, media campaigns, and other efforts at engagement.

CalSTRS’ commitment to engagement with companies rather than divestment is based on several considerations: (i) divestment would eliminate our standing and rights as a shareowner and foreclose further engagement; (ii) divestment would be likely to have negligible impact on portfolio companies or the market; (iii) divestment could result in increased costs and short-term losses; and (iv) divestment could compromise CalSTRS’ investment strategies and negatively affect investment performance.

If engagement fails to resolve the risk factor sufficiently, the CIO will bring the issue before the Investment Committee for consideration of divestment from the applicable securities. The Investment Committee will receive input from the following, but not limited to: investment managers, investment consultants, investment staff, fiduciary counsel, academics, and experts in the particular field or issue. If the Investment Committee determines that the making of an

investment or continuing to hold a security is imprudent and inconsistent with the fiduciary duty, the Investment Committee will instruct investment staff to remove the security from the portfolio.

Divestment does not apply to segments of the portfolio that track market indices, as CalSTRS policies require those segments to invest in all companies included in an index. Additionally, the policy does not apply to investments in a Limited Partnership due to CalSTRS position of limited liability as a Limited rather than General Partner.

CalSTRS will exclude or eliminate investments that fall within the terms of a State or Federal law regarding divestment, if the Investment Committee finds that divestment is consistent with its fiduciary duties and divestment is determined not to be imprudent.

REPORTING

On at least a quarterly basis, the Chief Investment Officer will prepare a comprehensive report that shows the performance difference between any divestment taken under this Policy and the unmodified CalSTRS benchmark of the respective asset class.

Any divestment decision should be reviewed at least annually by the CIO to ensure the key factors and risks continue to warrant divestment. The Investment Committee, at any time, can request a divestment decision be revisited.

Approved: March 5, 2009

Appendix C – CalSTRS Responsible Contractor Policy

I. Responsible Contractor Policy

The California State Teachers' Retirement System has a deep interest in the condition of workers employed by the CalSTRS and its advisors. CalSTRS, through the CalSTRS Responsible Contractor Policy supports and encourages fair wages and fair benefits for workers employed by its contractors and subcontractors, subject to fiduciary principles concerning duties of loyalty and prudence, both of which further require competitive returns on the CalSTRS real estate investments. The CalSTRS endorses small business development, market competition, and control of operating costs. The CalSTRS believes that an adequately compensated and trained worker delivers a higher-quality product and service. CalSTRS requires its real estate managers to abide by the Responsible Contractor policy on all applicable investments.



California State Teachers'
Retirement System
Investments
100 Waterfront Place, MS-04
West Sacramento, CA 95605
(916) 414-7400 FAX (916) 414-7533

June 20, 2014

Li Changjin
President
China Railway Group
Tower A, China Railway Square
No. 69, Fuxing Road,
Haidian District , Beijing , BEJ , 100039
China

Dear Mr. Changjin,

This letter is sent to you on behalf of the California State Teachers' Retirement System (CalSTRS). As you may be aware, CalSTRS is a public pension fund established for the benefit of California's public school teachers over 100 years ago. CalSTRS serves the investment and retirement interests of over 868,000 plan participants and their families. The CalSTRS portfolio is currently valued at approximately \$185 billion invested across both domestic and international markets. Currently, CalSTRS owns 8,115,118 shares of China Railway Group.

The long-term nature of CalSTRS' liabilities, and its responsibilities as a fiduciary to its members, makes the fund keenly interested in governance and geopolitical issues. As a long-term investor, we are concerned with risks posed by companies in our portfolio that are operating in sensitive areas such as Sudan. 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.

Our independent research providers have identified China Railway Group as having 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, Chapter 442 of the 2006 Statutes require the California Public Employees' Retirement System and the California

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Li Changjin

6/20/2014

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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.

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

Furthermore, to better understand your exposure to Sudan and your company's actions around the issue we would 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 Sudan. 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 to London, Zurich, or Tokyo are the most convenient for us. Lastly, if necessary, we can arrange to have staff meet at your headquarters in Beijing.

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
plarrieu@calstrs.com

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

June 23, 2014

Li Yong
Chief Executive Officer, President
China Oilfield Services
No. 201 Haiyoudajie
Yanjiao Economic & Development Zone

HEB 100010, Sanhe City, Langfang
China

Dear Mr. Yong,

This letter is sent to you on behalf of the California State Teachers' Retirement System (CalSTRS). As you may be aware, CalSTRS is a public pension fund established for the benefit of California's public school teachers over 100 years ago. CalSTRS serves the investment and retirement interests of over 868,000 plan participants and their families. The CalSTRS portfolio is currently valued at approximately \$185 billion invested across both domestic and international markets. Currently, CalSTRS owns 1,661,715 shares of China Oilfield Services.

The long-term nature of CalSTRS' liabilities, and its responsibilities as a fiduciary to its members, makes the fund keenly interested in governance and geopolitical issues. As a long-term investor, we are concerned with risks posed by companies in our portfolio that are 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.

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, Chapter 441 of the 2011 Statutes require 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 to not take actions that promote terrorism or that 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 China Oilfield Services as having business in, or with Iran. 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

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Li Yong
6/23/2014
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including purchases from and sales to Iran as well as any risk controls China Oilfield Services 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.

Furthermore, to better understand your exposure to Iran and your company's actions around the issue we would 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, Zurich, or Tokyo are the most convenient for us. Lastly, if necessary, we can arrange to have staff meet at your headquarters in Langfang.

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
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100 Waterfront Place, MS-04
West Sacramento, CA 95605
(916) 414-7400 FAX (916) 414-7533

June 20, 2014

Hirokazu Chiyo
Investor Relations Group
JX Holdings
6-3 Otemachi 2-chome
Chiyoda-ku
Tokyo 100-8161
Japan

Dear Mr. Chiyo,

This letter is sent to you on behalf of the California State Teachers' Retirement System (CalSTRS). As you may be aware, CalSTRS is a public pension fund established for the benefit of California's public school teachers over 100 years ago. CalSTRS serves the investment and retirement interests of over 868,000 plan participants and their families. The CalSTRS portfolio is currently valued at approximately \$185 billion invested across both domestic and international markets. Currently, CalSTRS owns 6,102,016 shares of JX Holdings.

The long-term nature of CalSTRS' liabilities, and its responsibilities as a fiduciary to its members, makes the fund keenly interested in governance and geopolitical issues. As a long-term investor, we are concerned with risks posed by companies in our portfolio that are operating in sensitive areas such as Sudan. To address these risks from an investor perspective 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.

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, Chapter 442 of the

Attachment F

Hirokazu Chiyo

6/20/2014

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2006 Statutes require 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 to not take actions that promote or otherwise enable human rights violations in Sudan. Additionally, the legislation requires that we periodically follow up with identified companies to ensure they are acting responsibly with regards to Sudan.

Currently, CalSTRS has JX Holdings in a Monitor status based on information from our independent service providers and our past communications. We are requesting an updated disclosure of your direct or indirect business activities with Iran including purchases from and sales to Sudan as well as any risk controls JX Holdings has undertaken to prevent US sanctions. Our goal is to maintain a complete and accurate understanding of your involvement with Sudan so that we, as fiduciaries, can accurately assess the risk associated with your activities there and make informed investment decisions.

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
plarrieu@calstrs.com

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

June 20, 2014

Andrey Baranov
Head of Investor Relations
Gazprom
16 Nametkina St.
Moscow
Russian Federation

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 over 100 years ago. CalSTRS serves the investment and retirement interests of over 868,000 plan participants and their families. The CalSTRS portfolio is currently valued at approximately \$185 billion invested across both domestic and international markets. Currently, CalSTRS owns 8,775,925 shares of Gazprom.

The long-term nature of CalSTRS' liabilities, and its responsibilities as a fiduciary to its members, makes the fund keenly interested in governance and geopolitical issues. As a long-term investor, we are concerned with risks posed by companies in our portfolio that are 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.

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, Chapter 441 of the 2011 Statutes require 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 to 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.

Currently, CalSTRS has Gazprom in a Monitor status based on information from our independent service providers and our past communications. We are requesting an updated disclosure of your direct or indirect business activities with Iran including purchases from and sales to Iran as well as any risk controls Gazprom has undertaken to prevent US sanctions. Our goal is to maintain a complete and accurate understanding of your involvement with Iran so that we, as

Attachment G

Andrey Baranov

6/20/2014

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fiduciaries, can accurately assess the risk associated with your activities there and make informed investment decisions.

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

9 Companies Divested and Restricted					
Company Name (Domicile)	Summary of Ties to Sudan	Summary of Changes From 2013	Shares Held by CalSTRS 11/28/2014	Market Value (\$) of Shares Held by CalSTRS 11/28/2014	
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 2014.	0	\$0	
2 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 2014.	0	\$0	
3 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 2014.	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, which provides shipping services to Sudan.	In 2009, MISC Bhd. was designated as "Restricted." CalSTRS has maintained the "Restricted" designation in 2014.	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 2014.	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 2014.	0	\$0	

	Company Name (Domicile)	Summary of Ties to Sudan	Summary of Changes From 2013	Shares Held by CalSTRS 11/28/2014	Market Value (\$) of Shares Held by CalSTRS 11/28/2014
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 2014.	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 2014.	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 2014.	0	\$0

5 Companies Under Review					
	Company Name (Domicile)	Summary of Ties to Sudan	Summary of Changes From 2013	Shares Held by CalSTRS 11/28/2014	Market Value (\$) of Shares Held by CalSTRS 11/28/2014
1	Bollere SA (France)	Bollere reportedly maintains an active interest in a Khartoum-based logistics company.	In 2014, CalSTRS identified Bollere as potentially having ties to Sudan and began the review process.	4,893	\$2,424,531
2	Bureau Veritas SA (France)	Bureau Veritas reportedly has business ties with Sudan through an office in Dubai.	In 2014, CalSTRS identified Bureau Veritas as potentially having ties to Sudan and began the review process.	223,339	\$5,341,593

Company Name (Domicile)	Summary of Ties to Sudan	Summary of Changes From 2013	Shares Held by CalSTRS 11/28/2014	Market Value (\$) of Shares Held by CalSTRS 11/28/2014
3 Clariant AG (Switzerland)	Clariant AG reportedly has an agent in Sudan that aids in the operation and testing of oilfields in Sudan.	In 2014, CalSTRS identified Clariant AG as potentially having ties to Sudan and began the review process.	276,023	\$5,013,391
4 Sapurakencana Petroleum Bhd. (Malaysia)	Sapurakencana Petroleum Bhd. reportedly has a contract to create drilling access to an oilfield in Sudan.	In 2014, CalSTRS identified Sapurakencana Petroleum Bhd. as potentially having ties to Sudan and began the review process.	3,789,417	\$3,136,842
5 Shanghai Electric Group (China)	Shanghai Electric Group reportedly has several contracts relating to power transmission in Sudan.	In 2014, CalSTRS identified Shanghai Electric Group as potentially having ties to Sudan and began the review process.	2,106,000	\$1,262,785

5 Companies Being Monitored

Company Name (Domicile)	Summary of Ties to Sudan	Summary of Changes From 2013	Shares Held by CalSTRS 11/28/2014	Market Value (\$) of Shares Held by CalSTRS 11/28/2014
1 China Railway Group (China)	China Railway group has two supply contracts and one works contract for railway maintenance in Sudan.	In 2013, China Railway Group was identified as "Review" for potentially having ties to Sudan. In 2014, CalSTRS moved China Railway Group to "Monitor" status.	16,765,118	\$12,149,576
2 Elisa Oyj (Finland)	Comptel Oyj, a subsidiary of Elisa Oyj, reportedly has agreements with Sudan Telecom Company, a restricted company.	In 2013, Elisa Oyj was identified as "Review" for potentially having ties to Sudan. In 2014, CalSTRS moved Elisa Oyj to "Monitor" status.	179,364	\$5,214,447

	Company Name (Domicile)	Summary of Ties to Sudan	Summary of Changes From 2013	Shares Held by CalSTRS 11/28/2014	Market Value (\$) of Shares Held by CalSTRS 11/28/2014
3	Glencore Plc (Switzerland)	Glencore 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 Plc was designated as "Review" and was subsequently moved to "Monitor" after meeting with the company. CalSTRS has maintained a "Monitor" status in 2014.	<u>Stock</u> 17,700,033 <u>Bonds</u> \$13,928,000	<u>Stock</u> \$88,812,144 <u>Bonds</u> \$14,235,785
4	Kawasaki Kisen Kaisha Ltd. (Japan)	Kawasaki Kisen Kaisha lists Port Sudan in its service network.	In 2013, Kawasaki Kisen Kaisha was identified as "Review" for potentially having ties to Sudan. In 2014, CalSTRS moved Kawasaki Kisen Kaisha to "Monitor" status.	680,341	\$1,782,753
5	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. CalSTRS has maintained a "Monitor" status in 2014.	1,595,600	\$17,495,661

9 Companies Removed					
	Company Name (Domicile)	Summary of Ties to Sudan	Summary of Changes From 2013	Shares Held by CalSTRS 11/28/2014	Market Value (\$) of Shares Held by CalSTRS 11/28/2014
1	BYD Co Ltd. (China)	BYD Co. Ltd. reportedly manufactures automobiles in Sudan.	In 2014, BYD Co. Ltd. was identified as "Review" for potentially having ties to Sudan. CalSTRS subsequently removed BYD Co. Ltd. after the company confirmed it has no ties to Sudan.	22,500	\$136,509

Company Name (Domicile)	Summary of Ties to Sudan	Summary of Changes From 2013	Shares Held by CalSTRS 11/28/2014	Market Value (\$) of Shares Held by CalSTRS 11/28/2014
2 China Cosco Holdings (China)	China Cosco Holdings reportedly provides shipping support for containers entering and departing Sudanese ports.	In 2014, China Cosco Holdings was identified as "Review" for potentially having ties to Sudan. The company was subsequently removed after CalSTRS sold all investment relating to the company. CalSTRS will reinitiate engagement if new investments are made.	0	\$0
3 China Shipping Container (China)	China Shipping Container reportedly provides shipping support in Port Sudan.	In 2014, China Shipping Container was identified as "Review" for potentially having ties to Sudan. The company was subsequently removed after CalSTRS sold all investment relating to the company. CalSTRS will reinitiate engagement if new investments are made.	0	\$0
4 Hitachi Construction Machine (Japan)	Hitachi Construction Machine reportedly sells heavy machinery in Sudan.	In 2014, Hitachi Construction Machine was identified as "Review" for potentially having ties to Sudan. The company was subsequently removed after confirming it was not involved in restricted activities.	131,520	\$2,839,063
5 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. During 2011-2013, CalSTRS maintained a "Monitor" designation, as the company purchased Sudanese oil through international traders. JX Holdings has systematically and substantially reduced its purchases of Sudanese oil in cooperation with U.S. and Japanese authorities. CalSTRS has determined to remove JX Holdings in 2014 as it has worked with U.S. and Japanese authorities to take substantial action.	5,886,516	\$21,902,393

Company Name (Domicile)	Summary of Ties to Sudan	Summary of Changes From 2013	Shares Held by CalSTRS 11/28/2014	Market Value (\$) of Shares Held by CalSTRS 11/28/2014
6 Nexan SA (France)	Nexan SA was identified as supplying cables to Sudan. After meeting with the company, CalSTRS determined the company does not have any substantive ties to the country and has appropriate controls to prevent sanction violations.	In 2014, Nexan SA was identified as "Review" for potentially having ties to Sudan. After meeting with the company, CalSTRS determined to remove the company for not having substantive ties to Sudan and having appropriate controls to prevent sanction violations.	20,711	\$680,082
7 PT Pertamina (Indonesia)	PT Pertamina reportedly has interest in an oilfield in Sudan.	In 2014, PT Pertamina was identified as "Review" for potentially having ties to Sudan. PT Pertamina was subsequently removed from the "Review" list after confirming that its board determined to fully relinquish its interest to oilfields in Sudan and to wind down its activities in the country.	0	\$0
8 ThyssenKrupp AG (Germany)	ThyssenKrupp reportedly sells equipment in Sudan.	In 2014, ThyssenKrupp was identified as "Review" for potentially having ties to Sudan. The company was subsequently removed after confirming it has no employees in Sudan and minimal revenue generated through its elevator business, which is not a restricted activity.	<u>Stock</u> 633,914 <u>Bonds</u> \$482,000	<u>Stock</u> \$16,812,966 <u>Bonds</u> \$634,054
9 World Fuel Services Inc. (USA)	World Fuel Services Inc. was identified as potentially providing flight support related to Sudan.	In 2014, World Fuel Services Inc. was identified as "Review" for potentially having ties to Sudan. World Fuel Services Inc. was subsequently removed from the list after confirming it has no ties to Sudan and has appropriate controls to prevent sanction violations.	211,410	\$9,572,645

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

9 Companies Divested and Restricted					
Company Name (Domicile)	Summary of Ties to Iran	Summary of Changes From 2013	Shares Held by CalSTRS 11/28/2014	Market Value (\$) of Shares Held by CalSTRS 11/28/2014	
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. CalSTRS has maintained the "Restricted" designation in 2014.	0	\$0	
2 China Oilfield Services (China)	In 2014, CalSTRS purchased shares of China Oilfield Services, which was identified by CalSTRS service providers as having ties to Iran.	In 2014, China Oilfield Services was identified as "Review" for potentially having ties to Iran. The company's activities in Iran were confirmed in CNOOC's 20-F Filing, which stated, "China Oilfield Services Limited (COSL), one of our non-controlled affiliates, continued to provide certain drilling and other related services in Iran in relation to subcontracting agreements entered into in 2009, as it did in 2012." In December 2014, CalSTRS designated China Oilfield Services as "Restricted" and initiated the divestment process.	0*	\$0*	*Value as of 12/12/14
			*Position as of 12/12/14		

Company Name (Domicile)	Summary of Ties to Iran	Summary of Changes From 2013	Shares Held by CalSTRS 11/28/2014	Market Value (\$) of Shares Held by CalSTRS 11/28/2014
3 CNOOC (China)	<p>According to CNOOC's most recent 20-F Filing, the company cites in its risk section the potential for U.S. sanctions related to its affiliates' operations in Iran and Sudan.</p> <p>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.</p>	<p>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 2014.</p>	0	\$0
4 Daelim Industrial Co. Ltd. (South Korea)	<p>In June 2009, Daelim Industrial Co. Ltd. won a contract to build pipelines for an LNG storage facility in Iran. CalSTRS research providers show Daelim Industrial Co. Ltd. continues to be involved in several natural gas related projects in Iran.</p>	<p>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 2014.</p>	0	\$0
5 Kunlun Energy Co. and Sinopec, a linked company (China)	<p>Kunlun Energy Co.'s parent, Sinopec, is linked to Iran through oil exploration contracts and interests, refining and commercialization of gas processing products.</p>	<p>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."</p>	0	\$0
6 MISC Bhd. (Malaysia)	<p>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.</p>	<p>In 2009, CalSTRS designated MISC Bhd. as "Restricted." CalSTRS has maintained the company's "Restricted" designation in 2014.</p>	0	\$0

	Company Name (Domicile)	Summary of Ties to Iran	Summary of Changes From 2013	Shares Held by CalSTRS 11/28/2014	Market Value (\$) of Shares Held by CalSTRS 11/28/2014
7	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. In 2013, it was reported that the company was no longer involved in the development of oilfields in Iran. However, through a subsidiary it remains a large purchaser of Iranian crude.	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 2014.	0	\$0
8	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. Additionally PetroChina is reportedly continuing work to develop the Azadegan Field in Iran.	In 2009, CalSTRS designated PetroChina as "Restricted." CalSTRS has maintained the "Restricted" designation in 2014.	0	\$0
9	Petronas (Malaysia)	Petronas has interest in multiple gas fields in Iran that are in the production phase. Additionally, in 2010, the company reportedly ceased supplying refined products to Iran. However, the company stated it is due to Iran's lack of demand and has not pledged to cease activities in the country. In February 2013, Petronas withdrew from South Pars Phase 11 and is in the cost recovery phase of Phases 2 and 3.	In 2009, CalSTRS designated Petronas as "Restricted." While the company's apparent withdrawal from Iran is promising, Petronas remains "Restricted" under Sudan sanctions. CalSTRS has maintained the company's "Restricted" designation in 2014.	0	\$0

14 Companies Under Review						
Company Name (Domicile)	Summary of Ties to Iran	Summary of Changes From 2013	Shares Held by CalSTRS 11/28/2014	Market Value (\$) of Shares Held by CalSTRS 11/28/2014		
1	In 2014, Clariant AG was identified in news reports as being part of a joint venture that sold products to Iran without government approval.	In 2014, CalSTRS identified Clariant AG as potentially having ties to Iran and began the review process.	276,023	\$5,013,391		
2	In 2014, Doosan Corp. was identified by CalSTRS service providers as being a supplier of automotive products to companies in Iran.	In 2014, CalSTRS identified Doosan Corp. as potentially having ties to Iran and began the review process.	9,371	\$976,895		
3	In 2014, Gemalto NV was identified by CalSTRS service providers as providing digital security products to Iran.	In 2014, CalSTRS identified Gemalto NV as potentially having ties to Iran and began the review process.	85,212	\$7,257,600		
4	In 2014, Glencore Plc reported that the company sold approximately \$163 million dollars of products to Iran.	In 2014, CalSTRS identified Glencore Plc as potentially having ties to Iran and began the review process.	Stock 17,700,033 Bonds \$13,928,000	Stock \$88,812,144 Bonds \$14,235,785		
5	In 2014, Hitachi Zosen Corp. was identified by CalSTRS service providers as selling products to Iran.	In 2014, CalSTRS identified Hitachi Zosen Corp. as potentially having ties to Iran and began the review process.	114,600	\$620,869		
6	In 2014, Holcim Ltd. was identified as having equity interest in an Iranian cement company.	In 2014, CalSTRS identified Holcim Ltd. as potentially having ties to Iran and began the review process.	302,184	\$22,377,611		
7	In 2014, Isuzu Motors Ltd. was identified as having sold products through an entity possibly associated with the Iran Revolutionary Guard, a sanctioned entity.	In 2014, CalSTRS identified Isuzu Motors Ltd. as potentially having ties to Iran and began the review process.	636,100	\$8,301,967		

	Company Name (Domicile)	Summary of Ties to Iran	Summary of Changes From 2013	Shares Held by CalSTRS 11/28/2014	Market Value (\$) of Shares Held by CalSTRS 11/28/2014
8	Kamigumi Co. Ltd. (Japan)	In 2014, Kamigumi Co. Ltd. was identified by CalSTRS service providers as being a supplier of logistic services in Iran.	In 2014, CalSTRS identified Kamigumi Co. Ltd. as potentially having ties to Iran and began the review process.	274,424	\$2,476,371
9	Larsen & Tourbo Ltd. (India)	In 2014, Larsen & Tourbo Ltd. was identified by CalSTRS as proving products to Iran.	In 2014, CalSTRS identified Larsen & Tourbo Ltd. as potentially having ties to Iran and began the review process.	273,025	\$7,212,691
10	Legrand SA (France)	In 2014, Legrand SA was identified by CalSTRS service providers as having a majority owned subsidiary operating in Iran.	In 2014, CalSTRS identified Legrand SA as potentially having ties to Iran and began the review process.	517,591	\$27,207,161
11	Lukoil OAO (Russia)	In 2009, Lukoil OAO confirmed to CalSTRS that they did not have any business in Iran. However, the company does have a 10 percent stake in the Shah Deniz field operated by BP, which has Iran as a partner. The Shah Deniz field operates under exemptions to the Iran sanctions.	In 2014, CalSTRS determined to re-evaluate Lukoil OAO and its sanction controls and relations with the National Iranian Oil Company (NIOC) relating to the Shah Deniz Field.	621,234	\$28,645,363
12	Mediobanca SPA (Italy)	In 2014, Mediobanca SPA was identified as possibly having banking relationships with state-owned Iranian banks.	In 2014, CalSTRS identified Mediobanca SPA as potentially having ties to Iran and began the review process.	680,881	\$6,111,504
13	Toyota Tsusho Corp. (Japan)	In 2014, Toyota Tsusho Corp. was identified by CalSTRS service providers as having a wholly-owned trade business in Iran.	In 2014, CalSTRS identified Toyota Tsusho Corp. as potentially having ties to Iran and began the review process.	251,713	\$5,959,587
14	Woori Finance Holdings Co. (South Korea)	In 2014, Woori Finance Holdings Co. was identified as providing import-export financing services to facilitate trade with Iran.	In 2014, CalSTRS identified Woori Finance Holdings Co. as potentially having ties to Iran and began the review process.	223,947	\$2,162,763

6 Companies Being Monitored

	Company Name (Domicile)	Summary of Ties to Iran	Summary of Changes From 2013	Shares Held by CalSTRS 11/28/2014	Market Value (\$) of Shares Held by CalSTRS 11/28/2014
1	Gazprom (Russia)	<p>In July 2008, Gazprom signed an MOU with the NIOC, which expired in July 2010. Additionally, Gazprom Neft, a subsidiary of Gazprom, signed an MOU with the NIOC providing for joint exploration of oil fields in Iran. In 2014, the company reported that Iran had suspended cost recovery payments related to South Pars 2 and 3.</p>	<p>In 2009, CalSTRS designated Gazprom as "Review." In 2010, CalSTRS designated Gazprom as "Monitor" after confirming the company has no current investments in the country. In 2011, CalSTRS maintained Gazprom as "Monitor" as the GAO stated they have insufficient information on the company's activities. CalSTRS has maintained Gazprom as "Monitor" due to the Russian government's reported interest in developing a deal with Iran. In 2014, due to U.S. sanctions on Gazprom Bank, a Gazprom subsidiary, CalSTRS has determined to minimize its exposure to the company by restricting managers from making new purchases in Gazprom securities.</p>	ADR (USA) 9,415,561	ADR (USA) \$54,821,693
2	Mazda Motor Corp. (Japan)	<p>In 2014, Mazda Motor Corp. was identified as having sold products through an entity possibly associated with the Iran Revolutionary Guard, a sanctioned entity.</p>	<p>In 2014, CalSTRS identified Mazda Motor Corp. as potentially having ties to Iran and began the review process. The company has reported that it has suspended its business with its Iranian distributor, with the exception of the supply of repair parts. CalSTRS is attempting to confirm the company has taken substantial action and has appropriate sanction compliance controls.</p>	1,535,000	\$39,647,323

Company Name (Domicile)	Summary of Ties to Iran	Summary of Changes From 2013	Shares Held by CalSTRS 11/28/2014	Market Value (\$) of Shares Held by CalSTRS 11/28/2014
3 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. In 2014, CalSTRS designated Mitsubishi Chemical Holding Corp. as "Monitor" while reviewing the company's sanction controls.	1,642,970	\$8,372,323
4 Siam Cement (Thailand)	Siam Cement holds a 38 percent stake in a HDPE petrochemical plant in Iran. HDPE is a raw material used in the production of consumer products such as shopping bags.	In 2012, CalSTRS identified Siam Cement as potentially having ties to Iran and began the review process. In 2013, CalSTRS designated Siam as "Monitor." CalSTRS has maintained the "Monitor" status in 2014	Stock 1,469,500 ADRs 89,800	Stock \$21,123,923 ADRs \$1,290,866
5 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 it has oil-testing relations in Iran within the limits of U.S. sanctions. CalSTRS moved the company to "Monitor" status to ensure the company does not exceed U.S. sanction limits.	23,870	\$51,778,204
6 ZTE Corp. (China)	In 2014, ZTE Corp. was identified by CalSTRS as possibly having business ties with the Iranian government.	In 2014, CalSTRS identified ZTE Corp. as potentially having ties to Iran and began the review process. The company subsequently responded that it did not believe it had any ties to Iran but was going to do a more thorough investigation. CalSTRS has designated the company as "Monitor" while awaiting the result of the company's investigation.	2,491,400	\$5,962,654

42 Companies Removed in 2014					
	Company Name (Domicile)	Summary of Ties to Iran	Summary of Changes From 2013	Shares Held by CalSTRS 11/28/2014	Market Value (\$) of Shares Held by CalSTRS 11/28/2014
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. In 2014, CalSTRS removed Abengoa SA after confirming it has withdrawn from Iran.	<p>Stock 19,690</p> <p>B Shares 660,839</p> <p>Bonds \$2,154,000</p>	<p>Stock \$56,457</p> <p>B Shares \$1,681,447</p> <p>Bonds \$1,919,244</p>
2	AF AB (Sweden)	AF AB's Chzech subsidiary does consulting for the Maah Taab power plant project in Iran. The Maah Taab plant is a conventional thermal power facility and is privately owned.	In 2013, CalSTRS identified AF AB as potentially having ties to Iran and began the review process. In 2014, CalSTRS removed AF AB as it does not meet the criteria for divestment and maintains appropriate controls to prevent sanction violations.	107,553	\$1,723,444
3	Alfa Laval AB (Sweden)	Alfa Laval AB was identified by CalSTRS' service providers as providing energy related products in Iran. The company has substantially reduced operations but maintains an office in Tehran. In a call with CalSTRS, the company confirmed its office in Iran only provides service to existing machinery and does so without any product or financial support from outside of Iran.	In 2013, CalSTRS identified Alfa Laval AB as potentially having ties to Iran and began the review process. In 2014, CalSTRS removed Alfa Laval AB from the Iran list after the company confirmed it has substantially reduced its activities in Iran and maintains appropriate sanction controls.	305,054	\$6,083,126

	Company Name (Domicile)	Summary of Ties to Iran	Summary of Changes From 2013	Shares Held by CalSTRS 11/28/2014	Market Value (\$) of Shares Held by CalSTRS 11/28/2014
4	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. In 2014, CalSTRS removed Atlas Copco AB from the Iran list after meeting with the company and confirming it does not have business that would violate sanctions and maintains appropriate controls to prevent sanction violations.	<u>Class A</u> 635,406 <u>Class B</u> 372,980	<u>Class A</u> \$18,357,179 <u>Class B</u> \$9,928,558
5	Banco de Sabadell (Spain)	In 2013, 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. In 2014, CalSTRS removed Banco de Sabadell from the review list after confirming the company does not have business with Iran and has appropriate sanction controls.	3,510,893	\$9,983,603
6	Barclays PLC (United Kingdom)	In 2014, Barclays PLC, was identified by CalSTRS' service providers as possibly providing financial services to Iran.	In 2014, CalSTRS identified Barclays PLC as potentially having ties to Iran and began the review process. The company was subsequently removed after confirming it does not have business with Iran and has appropriate sanction controls.	<u>Stock</u> 28,223,078 <u>Bonds</u> \$425,630,000	<u>Stock</u> \$108,353,275 <u>Bonds</u> \$428,261,969

Company Name (Domicile)	Summary of Ties to Iran	Summary of Changes From 2013	Shares Held by CalSTRS 11/28/2014	Market Value (\$) of Shares Held by CalSTRS 11/28/2014
7 BASF (Germany)	As of July 2014, BASF had operations in Iran through two Tehran-based subsidiaries. The Construction Chemicals Company has suspended operations but is difficult to close because of sanction rules. The Polyurethane Systems Company has been dramatically reduced because of sanctions. The limited amounts of plastics produced by BASF are for use in the automotive industry, and the company's compliance gives them visibility of the end customers.	In 2014, CalSTRS identified BASF as potentially having ties to Iran and began the review process. The company was subsequently removed after confirming it has curtailed its involvement in Iran and maintains appropriate sanction controls.	<u>Stock</u> 1,244,534 <u>ADR</u> 11,769	<u>Stock</u> \$113,274,858 <u>ADR</u> \$1,065,506
8 BNP Paribas (France)	In 2014, BNP Paribas was fined \$9 billion by U.S. regulators relating to transactions prior to 2009.	In 2014, CalSTRS identified BNP Paribas as potentially having ties to Iran and began the review process. The company was subsequently removed after confirming the company no longer has business with Iran and has appropriate sanction controls.	<u>Stock</u> 2,213,144 <u>Bonds</u> \$32,110,000	<u>Stock</u> \$142,294,831 <u>Bonds</u> \$34,794,018
9 BP PLC (United Kingdom)	BP PLC has two projects outside of Iran that included Iranian partners. The Shah Deniz Field has exemptions to U.S. and U.K. sanctions. The Rhum Field in the North Sea has been granted an exception by the Office of Foreign Assets Control (OFAC) at the request of the British government as it is seen as a vital asset to diversify the U.K.'s energy supplies. The Rhum Field will operate with NIOC as a non-operating partner. The NIOC profits will be placed in an escrow account managed by the U.K. government and released when sanctions are lifted	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 BP PLC analyzed the potential for sanctions on its project with Iran. In 2014, CalSTRS removed BP PLC from the Iran list after confirming its projects with Iran do not violate sanctions, and the company maintains appropriate sanction controls.	<u>Stock</u> 25,605,074 <u>ADR</u> 14,000 <u>Bonds</u> \$225,455,000	<u>Stock</u> \$168,495,324 <u>ADR</u> \$550,480 <u>Bonds</u> \$228,165,187

	Company Name (Domicile)	Summary of Ties to Iran	Summary of Changes From 2013	Shares Held by CalSTRS 11/28/2014	Market Value (\$) of Shares Held by CalSTRS 11/28/2014
10	China Communications Construction Corp. (China)	China Communication Construction Corp. was identified as having a subsidiary that contracted with NIOC for the construction of oil drilling rigs and floating cranes.	In 2014, CalSTRS identified China Communications Construction Corp. as potentially having ties to Iran. The company was subsequently removed after CalSTRS liquidated all of its holdings in the company. If CalSTRS makes new purchases of China Communication Construction Corp., the review process will be re-initiated.	0	\$0
11	China Cosco Holdings Co. Ltd. (China)	China Cosco Holdings Co. Ltd. was identified as possibly providing transportation services to and from Iran.	In 2014, CalSTRS identified China Cosco Holdings Co. Ltd. as potentially having ties to Iran. The company was subsequently removed after CalSTRS liquidated all of its holdings in the company. If CalSTRS makes new purchases of China Cosco Holdings Co. Ltd., the review process will be re-initiated.	0	\$0
12	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. In 2014, CalSTRS removed China Shipping Container Lines after CalSTRS liquidated all of its holdings in the company. If CalSTRS makes new purchases of China Shipping Container Lines, the review process will be re-initiated.	0	\$0

Attachment I

	Company Name (Domicile)	Summary of Ties to Iran	Summary of Changes From 2013	Shares Held by CalSTRS 11/28/2014	Market Value (\$) of Shares Held by CalSTRS 11/28/2014
13	Cosmo Oil Co. Ltd. (Japan)	Cosmo Oil Co. Ltd. was identified as potentially purchasing Iranian crude oil.	In 2014, CalSTRS identified Cosmo Oil Co. Ltd. as potentially having ties to Iran and began the review process. The company was subsequently removed after confirming that it has significantly reduced its crude oil purchases and works with regulators to ensure compliance with sanctions.	466,498	\$640,681
14	Cummins (USA)	In 2014, Cummins was identified as possibly selling equipment in Iran.	In 2014, CalSTRS identified Cummins as potentially having ties to Iran and began the review process. The company was subsequently removed after confirming the company does not have business ties to Iran and has appropriate sanction controls.	626,361	\$91,210,689
15	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 2014, CalSTRS removed Danske Bank after confirming the company has appropriate compliance controls.	8766,696	\$21,836,970

Company Name (Domicile)	Summary of Ties to Iran	Summary of Changes From 2013	Shares Held by CalSTRS 11/28/2014	Market Value (\$) of Shares Held by CalSTRS 11/28/2014
16 Doosan Infracore Co. Ltd. (South Korea)	In 2014, Doosan Infracore Co. Ltd. was identified by CalSTRS' service providers as a subsidiary of Doosan Corp., which is under review for possibly supplying automotive products to companies in Iran.	In 2014, CalSTRS identified Doosan Infracore Co. Ltd. as potentially having ties to Iran. The company was subsequently removed after CalSTRS liquidated its holdings in the company. Doosan Corp. remains as a CalSTRS holding and is under "Review."	0	\$0
17 Exmar NV (Belgium)	Exmar NV was identified by CalSTRS' service providers as having a contract to build LNG tankers for Iran. In 2014, CalSTRS met with company executives who confirmed the company's Iranian subsidiary (which was formed prior to sanctions being implemented) had been dissolved. Furthermore, the company clarified it does not have a contract to build LNG tankers. Exmar NV had only signed a letter of intent (LOI) to help the Iranians build tankers. No action was or is planned to be taken on the LOI because of sanctions being implemented.	In 2014, CalSTRS identified Exmar NV as potentially having ties to Iran and began the review process. The company was subsequently removed after confirming the company does not have business with Iran and has appropriate sanction controls.	25,804	\$330,049
18 Furukawa Co. (Japan)	As of August 2014, Furukawa Co. through its subsidiary, Furukawa Rock Drill, sold breaker, crushers and pneumatic tools in Iran through Nasr Machine International, a third party distributor based in Tehran.	In 2014, CalSTRS identified Furukawa Co. as potentially having ties to Iran and began the review process. The company was subsequently removed after confirming its transactions with Iran did not involve any sanctioned products and have been cleared by the Japanese authorities. Furthermore, the company stated it has not made any sales to Iran in 2014.	285,000	\$518,684

Attachment I

Company Name (Domicile)	Summary of Ties to Iran	Summary of Changes From 2013	Shares Held by CalSTRS 11/28/2014	Market Value (\$) of Shares Held by CalSTRS 11/28/2014
19 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. In 2014, CalSTRS removed Georg Fischer AG from the Iran list after confirming products provided to Iran could not be used in the oil and gas industries.	7,053	\$4,329,891
20 Gail Ltd. (India)	In 2012, Gail Ltd. was identified as possibly having ownership interests and agreements with Iran's state-owned petrochemical industry. In 2014, Gail Ltd. confirmed that they were one of the companies nominated by the government of India to offtake the Indian portion of the proposed Iran-Pakistan-India pipeline, but no final agreement has been reached. Furthermore, the 2005 contract to purchase LNG has never become effective.	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." In 2014, CalSTRS removed Gail Ltd. from the "Monitor" list after liquidating its holdings in the company. If CalSTRS makes new purchases of Gail Ltd. securities, a review process for transactions relating to the Iran-Pakistan-India pipeline will be re-initiated.	<u>Stock</u> 0	<u>Stock</u> \$0

	Company Name (Domicile)	Summary of Ties to Iran	Summary of Changes From 2013	Shares Held by CalSTRS 11/28/2014	Market Value (\$) of Shares Held by CalSTRS 11/28/2014
21	Heidelberg Druckmaschinen (Germany)	Heidelberg Druckmaschinen was identified as possibly having ties to Iran through an independent distributor. In 2014, CalSTRS met with the company and confirmed it may sell industrial printing presses in Iran through an independent distributor only if the transaction is compliant with E.U. sanctions. The company is not involved in oil and gas production and does not do business with the government of Iran.	In 2014, CalSTRS identified Heidelberg Druckmaschinen as potentially having ties to Iran and began the review process. Heidelberg Druckmaschinen was subsequently removed from the "Review" list after CalSTRS staff met with representatives of the company and confirmed it is not involved in sanctioned activities and has appropriate sanction controls.	190,230	\$516,039
22	Hyundai Heavy Industries (South Korea)	Hyundai Heavy Industries was identified as having a subsidiary that was potentially purchasing Iranian oil.	In 2014, CalSTRS identified Hyundai Heavy Industries as potentially having ties to Iran and began the review process. The company was subsequently removed from the Iran list after confirming the company has substantially cut its purchases of Iranian crude to comply with sanctions.	0	\$0
23	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 analyzing the company's compliance controls. In 2014, CalSTRS removed Intesa SanPaolo after confirming the company has appropriate sanction controls.	<u>Stock</u> 18,954,058 <u>Preferred Stock</u> 825,199 <u>Bonds</u> \$14,760,000	<u>Stock</u> \$58,552,834 <u>Proffered Stock</u> \$2,226,180 <u>Bonds</u> \$15,136,129

Attachment I

	Company Name (Domicile)	Summary of Ties to Iran	Summary of Changes From 2013	Shares Held by CalSTRS 11/28/2014	Market Value (\$) of Shares Held by CalSTRS 11/28/2014
24	John Wood Group Plc (United Kingdom)	In 2014, the John Wood Group Plc was identified as possibly doing business in the Iranian oil and gas sector.	In 2014, CalSTRS identified the John Wood Group Plc as potentially having ties to Iran and began the review process. The company was subsequently removed from the "Review" list after confirming it had completely exited Iran in 2012.	486,421	\$4,505,810
25	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. In 2014, CalSTRS determined to remove JX Holdings as it continues to reduce purchases of Iranian crude and works with regulators to remain compliant with sanctions.	5,886,516	\$21,902,393
26	Kobe Steel Ltd. (Japan)	In 2014, Kobe Steel Ltd. was identified as possibly providing products to Iran.	In 2014, CalSTRS identified Kobe Steel Ltd. as potentially having ties to Iran and began the review process. The company was subsequently removed from the Iran list after CalSTRS' service providers determined it does not have ties to Iran.	3,735,612	\$5,948,778

Company Name (Domicile)	Summary of Ties to Iran	Summary of Changes From 2013	Shares Held by CalSTRS 11/28/2014	Market Value (\$) of Shares Held by CalSTRS 11/28/2014
27 KOC Holding (Turkey)	KOC Holding was identified as the parent of Turkiye Petrol Rafine, which purchases Iranian crude oil.	In 2014, CalSTRS identified KOC Holding as potentially having ties to Iran and began the review process. The company was subsequently removed from the Iran list after removing their subsidiary (see 40: Tupras Turkiye Petrol Rafine) from the list.	7,408,817	\$41,770,878
28 LG Corp. (South Korea)	LG Corp. was identified as possibly marketing and selling products in Iran.	In 2014, CalSTRS identified LG Corp. as potentially having ties to Iran and began the review process. The company was subsequently removed from the Iran list after the company confirmed it no longer sells products in Iran.	31,370	\$1,843,212
29 Lloyds Banking Group (United Kingdom)	In 2014, Lloyds Banking Group was identified by CalSTRS' service providers as possibly providing financial services to Iran.	In 2014, CalSTRS identified Lloyds Banking Group as potentially having ties to Iran and began the review process. The company was removed from the "Review" list after confirming it did not have business with Iran and had appropriate sanction controls.	Stock 147,635,780 Bonds \$12,620,000	Stock \$185,773,291 Bonds \$13,406,437
30 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. In 2014, Malayan Banking Bhd. was removed from the "Review" list after confirming it does not have business with Iran and has appropriate sanction controls.	3,668,087	\$18,648,959

		Summary of Ties to Iran	Summary of Changes From 2013	Shares Held by CalSTRS 11/28/2014	Market Value (\$) of Shares Held by CalSTRS 11/28/2014
31	MOL Hungarian Oil and Gas (Hungary)	MOL Hungarian Oil and Gas was mistakenly identified as having ties to Iran.	In 2014, MOL Hungarian Oil and Gas was added to and subsequently removed from the Iran list after being mistakenly identified as having ties to Iran.	18,626	\$901,987
32	Nexan SA (France)	Nexan SA was identified by CalSTRS' service providers as having ties to Iran. In 2014, CalSTRS met with Nexan SA executives who confirmed the company does not have any business with Iran (except possible warranty obligations) and is not seeking new business from the country. The company could approve purchases, if asked, for non-sanctioned items clearly intended for civilian use.	In 2014, CalSTRS identified Nexan SA as potentially having ties to Iran and began the review process. The company was subsequently removed from the Iran list after confirming it has curtailed business with Iran and has appropriate sanction controls.	20,711	\$680,082
33	Osram Licht (Germany)	Osram Licht had two joint venture (JV) companies in Iran. One is a distributor and the other a production unit. The distribution company is dormant but cannot be dissolved because the JV partner will not consent to the dissolution. Osram Licht owns 20 percent of the production company (which is being diluted down to 5 percent through an equity offering by the JV). Osram Licht does not contribute to the operations or funding of the JV but cannot exit since the partners will not take on Osram Licht's interest (even though it offered to give the interest to them at no cost). It should also be noted that the JV maintains the ability to market the JV as a partnership with Osram Licht (despite Osram Licht's objections) because it is legally a member of the JV. Furthermore, Osram Licht has no sales or involvement in Iran, but there is significant amount of counterfeit product in the country, which it believes is coming in from China.	In 2014, CalSTRS identified Osram Licht as potentially having ties to Iran and began the review process. The company was subsequently removed from the Iran list after confirming it has curtailed business ties with Iran and has appropriate sanction controls.	90,181	\$3,754,965

	Company Name (Domicile)	Summary of Ties to Iran	Summary of Changes From 2013	Shares Held by CalSTRS 11/28/2014	Market Value (\$) of Shares Held by CalSTRS 11/28/2014
34	Royal Bank of Scotland Group (United Kingdom)	In 2014, Royal Bank of Scotland Group was identified as possibly having banking relationships with state-owned Iranian banks.	In 2014, CalSTRS identified Royal Bank of Scotland Group as potentially having ties to Iran and began the review process. The company was subsequently removed after confirming it has no ties to Iran and has appropriate sanction controls.	2,375,079	\$14,703,159
35	Sandvik AB (Sweden)	In 2014, Sandvik AB was identified as selling cutting, tooling and homemaking goods in Iran through a third party agent.	In 2014, CalSTRS identified Sandvik AB as potentially having ties to Iran and began the review process. The company was subsequently removed from the Iran list after confirming it does not have business with Iran and has appropriate sanction controls.	1,195,969	\$12,548,389
36	Showa Shell Sekiyo KK (Japan)	Showa Shell Sekiyo KK was identified as potentially purchasing Iranian oil.	In 2014, CalSTRS identified Showa Shell Sekiyo KK as potentially having ties to Iran and began the review process. The company was subsequently removed after confirming that it has significantly reduced its crude oil purchases and works with regulators to ensure compliance with sanctions.	298,811	\$2,489,987
37	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. In 2014, CalSTRS sold all holdings of State Bank of India prior to completing the review process. If CalSTRS again purchases shares of State Bank of India, it will restart the engagement process.	0	\$0

Company Name (Domicile)	Summary of Ties to Iran	Summary of Changes From 2013	Shares Held by CaSTRS 11/28/2014	Market Value (\$) of Shares Held by CaSTRS 11/28/2014
38 Sumitomo Mitsui Financial (Japan)	Sumitomo Mitsui Financial was identified as having banking relationships with state-owned Iranian banks. The company does limited transactions with Iranian banks to provide settlement for customer trade with Iran mainly due to oil, which are allowed by OFAC. The company had issued performance bonds that supported activities in Iran. The bonds have matured and have not been renewed.	In 2012, CaSTRS identified Sumitomo Mitsui Financial as potentially having ties to Iran and began the review process. In 2013, CaSTRS designated Sumitomo Mitsui Financial as "Monitor" while analyzing the company's compliance controls. In 2014, CaSTRS removed Sumitomo Mitsui Financial after confirming its transactions are allowed under OFAC, and it has appropriate sanction controls.	<u>Stock</u> 3,585,124 <u>Bonds</u> \$527,230,000	<u>Stock</u> \$135,176,559 <u>Bonds</u> \$528,075,080
39 Tenaris SA (Luxembourg)	In 2014, Tenaris SA was identified as having agreements to potentially provide oilfield services in Iran.	In 2014, CaSTRS identified Tenaris SA as potentially having ties to Iran and began the review process. The company was subsequently removed from the Iran "Review" list after confirming it does not have and will not accept business from Iran and has appropriate sanction controls.	469,995	\$7,792,724
40 Tupras Turkiye Petrol Rafine (Turkey)	Tupras Turkiye Petrol Rafine was identified as potentially purchasing Iranian oil.	In 2014, CaSTRS identified Tupras Turkiye Petrol Rafine as potentially having ties to Iran and began the review process. The company was subsequently removed from the Iran sanctions list after confirming its oil purchases were done under an OFAC exemption and significantly reducing its Iranian oil imports.	961,948	\$21,737,222

	Company Name (Domicile)	Summary of Ties to Iran	Summary of Changes From 2013	Shares Held by CalSTRS 11/28/2014	Market Value (\$) of Shares Held by CalSTRS 11/28/2014
41	Turkiye Halk Bankasi (Turkey)	Turkiye Halk Bankasi is identified as the bank for Turkish purchases of Iranian oil. These purchases are done under OFAC and agreed exemptions.	In 2014, CalSTRS identified Turkiye Halk Bankasi as potentially having ties to Iran and began the review process. The company was subsequently removed after confirming its transactions are allowed under OFAC and having appropriate sanction controls.	1,793,214	\$12,779,208
42	World Fuel Services Inc. (USA)	World Fuel Services Inc. was identified as potentially providing flight support related to Iran.	In 2014, CalSTRS identified World Fuel Services Inc. as potentially having ties to Iran and began the review process. World Fuel Services Inc. was subsequently removed from the list after confirming it has no ties to Iran and has appropriate sanction controls.	211,410	\$9,572,645



California State Teachers'
Retirement System
Investments
100 Waterfront Place, MS-04
West Sacramento, CA 95605
FAX (916) 414-7533

September 19, 2014

Sir Christopher Gent
Chairman of the Board
GlaxoSmithKline PLC
980 Great West Road
Brentford, Middlesex

TW8 9GS
United Kingdom

Dear Sir Gent,

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 over 100 years ago and is the largest educator-only pension fund in the world. CalSTRS serves the investment and retirement interests of over 868,000 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 August 31, 2014, the CalSTRS portfolio was valued at over **\$188 billion** with approximately **\$109 billion** of the fund's assets invested in the public equity markets, on both a domestic and an international basis. CalSTRS currently holds \$169,862,405 worth of GlaxoSmithKline PLC securities in our portfolio.

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

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

Attachment J
Sir Christopher Gent
9/19/2014
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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