



*CalSTRS is the third-largest public pension fund in the United States, with a market value of \$133 billion as of September 30, 2005. It provides retirement, disability and survivor benefits to California's public school educators from kindergarten through community college, serving more than 750,000 members and their families.*

*In securing the financial future and sustaining the trust of California's educators, CalSTRS must maintain a rock-solid investment program with a disciplined investment philosophy and partnerships with investment professionals to attain the best possible return for our members.*

*Opportunities abound for those partners who can meet the challenge.*

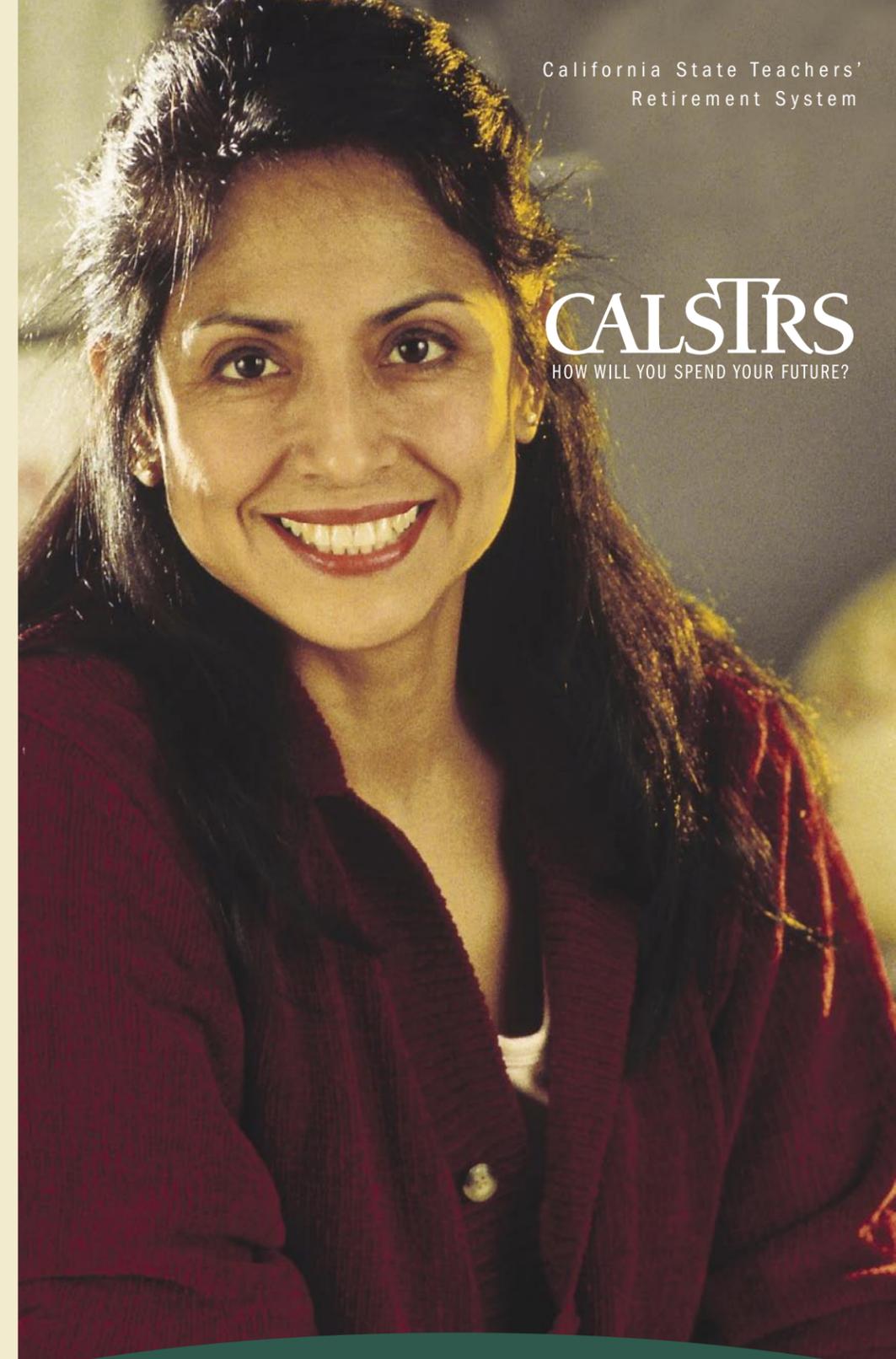
**CALSTRS**  
HOW WILL YOU SPEND YOUR FUTURE?

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California State Teachers'  
Retirement System

**CALSTRS**  
HOW WILL YOU SPEND YOUR FUTURE?



**CalSTRS Partnerships**

STRENGTH BY EMBRACING A DIVERSITY  
OF IDEAS AND PEOPLE

## Access to CalSTRS Capital

### Alternative Investment Program

The primary focus of the Alternative Investments Program is to provide enhanced investment returns over those available in the public market. These partnerships are realized through three avenues.

### Core Relationships

In core partnerships CalSTRS commits larger investment amounts with a limited number of top-tier managers. These investment relationships are in private equity partnerships, co-investment and secondary interest arrangements. Since this is the higher risk investment with the potential higher return, the selection process is arduous and disciplined. CalSTRS investment officers review approximately 600+ opportunities per year, and select a handful of funds for core relationships.

### CalSTRS/Banc of America Capital Access Fund

This program consists of a fund-of-funds manager who invests in other private equity funds whose managers have solid track records in private equity investments, substantial experience in the industries they focus on and the ability to add value to the companies in which they invest. The program targets funds investing in companies that provide goods and services to underserved markets, employ ethnic minorities and women, or have management and ownership by ethnic minorities and women. The manager seeks to invest up to 20 percent of the total private capital that has been raised, or between \$5 million and \$15 million, in a transaction. The manager avoids funds with less than \$30 million in total private capital. Their asset allocation includes venture, growth, mezzanine and buyout investments.

### New and Next Generation Manager Program

This fund reflects the opportunity for investments in New and Next Generation Private Equity Managers. For various reasons, an upcoming generation of senior investors at many funds may seek to develop their own funds as they outgrow their current roles at their existing general partnerships. From this pool of experienced private equity investments professionals is expected to come a new generation of successful private equity investment partnerships. The opportunity set for investing in private equity managers is expected to exist in all of the domestic private equity sub-asset classes: buyout, equity expansion, debt related and venture capital.

### Real Estate Program

The real estate portfolio is diversified as to property type and geographic location. The largest component of the direct property sector is in office space. The largest weighting is in the western region of the United States, with nearly one third of the \$5 billion portfolio located in California and a full 10 percent located in the urban and rural underserved parts of the state.

In its Real Estate Program, CalSTRS has many partners, including advisors for directly held real estate assets, fund managers and joint venture and co-investment partners. The CalSTRS partners are experts in their niche strategies and they select developers based on extensive knowledge of their niche markets. The Real Estate Program and its partners seek out the most attractive deals and partner up with the strongest leaders in real estate to maximize returns for the fund.

## Partners in Managing Capital

### External Investment Management

#### Investment Management Firms

CalSTRS selects external investment management firms to manage portions of the domestic and international equity portfolio. The CalSTRS portfolio includes both active and passive styles of investment and utilizes firms that employ talented, disciplined and experienced professionals who generate the highest possible risk-adjusted returns to add value to the portfolio.

Opportunities to be part of this superior, select group are selected through the governmental Request for Proposal process. New managers are selected as the need arises. CalSTRS retains the same managers until there is a need to change for reasons involving performance, management change, lack of conviction, or any other valid business reason that would negatively affect CalSTRS investments.

#### Developing Manager Program

The active domestic portfolio is complemented by the Developing Manager Program. Uncovering opportunities by including smaller developing firms underscores CalSTRS philosophy of achieving consistent results. CalSTRS contracts with three fund-of-funds managers, FIS Funds Management, Inc.; Northern Trust Global Advisors; and Frank Russell Trust Company. These firms construct, manage and monitor portfolios comprised of developing managers. "Developing manager" is any investment management firm with less than \$2 billion under management.

#### Broker Dealers

In its Fixed Income and Internal Equity Programs, CalSTRS conducts hundreds of trades as part of normal business. The process to select new brokers is open, unbiased and aimed at making the best choices possible to ensure the protection of the fund. It is a rigorous, yet reasonable process.

#### Credit Enhancement

CalSTRS supports capital improvement, economic development and affordable housing for cities and counties by underwriting letters and lines of credit for municipal bonds; thus, lowering the borrowing costs of municipalities. Also, CalSTRS enhances the credit of industrial development bonds indirectly through other banks. CalSTRS is the first pension plan to offer a credit enhancement program on a wide-reaching scale.

### For more information, contact:

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*Diverse and experienced firms are part of the CalSTRS team that work together to secure the financial future of California's educators.*

