DIVERSITY IN THE MANAGEMENT OF INVESTMENTS 2015 ANNUAL PROGRESS REPORT

CALSTRS
HOW WILL YOU SPEND YOUR FUTURE?

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2015 Annual Progress Report

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MISSION

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

VISION

Your Reward – A Secure Retirement

Our Reward – Getting You There

CORE VALUES

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

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

Accountability – We operate with transparency and accept responsibility for our actions.

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

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

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

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

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

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

The Diversity in the Management of Investments report has been submitted as requested by the California State Teachers' Retirement System's Investment Committee. In addition, Senate Bill 294 (Chapter 701, Statutes of 2011), by Senator Curren D. Price, Jr., has multiple requirements in the utilization of emerging investment managers, the majority of whom are people of color due to the changing demographics of the country. The measure requires the development of a 5-year strategic plan, and that an annual report be submitted to the Legislature that would present information regarding progress toward achieving the goals of the plan. CalSTRS has had a board-approved strategic 5-year plan in place since February 2011. The intent of this annual progress report is to provide an update and include information on the progress CalSTRS has made in 2014 concerning DMI and SB 294.

Consistency of Philosophy and Action

CalSTRS seeks to honor the philosophy of inclusion, long reflected in California educators, while maintaining a financially sound retirement system. Diversity in the management of investments is interwoven in the investment business goals and is consistent with the objective of investing to enhance the returns at a prudent level of risk, in accordance with CalSTRS Investment Policies, the California Constitution and the Education Code.

In order to ensure diversity in the management of investments, we must obtain exposure to a wide gamut of investment opportunities and talent. This exposure must be acquired in a comprehensive and strategic manner, under the leadership of the chief investment officer and consistent with the direction

that the CalSTRS Board has given through its core values. Specifically, Diversity in the Management of Investments operates under the CalSTRS core value of:

> **Strength** – We ensure the strength of our system by embracing a diversity of ideas and people.

We keep the CalSTRS Board apprised of our efforts with an annual report written by members of the DMI team representing all of the Investments Branch asset classes.

DMI is accomplished with a diverse investments staff of 113 people that are also multi-ethnic and multi-cultural, with various worldviews and investment perspectives. Part of this strategy includes our involvement in communities of color through organizations that have become strategic partners.

The accomplishments of the Investment Branch in this area reflect the teamwork approach and support of the entire investment staff, including the following featured units.

Investment Operations

Investment Operations' overall goal is to align the services and functions of all asset classes and investment strategies for the successful implementation of the CalSTRS Investment Policy and Management Plan. The unit's core services include (i) cash forecasting and cash movement; (ii) trade processing and cash-security settlement; (iii) position, cash and trade reconciliation; (iv) collateral management; (v) corporate action processing; (vi) operational risk management and compliance; (vii) market openings; (viii) various investment

and SEC surveys; (ix) and portfolio hierarchy and total fund reporting. Most of these processes have been identified as mission critical in the Investment Business Continuity Plan.

Additionally, Investment Operations provides critical cash flow information to investment management to ensure sufficient cash balances are available to pay benefits to our members. They also coordinate and manage strategic business partners such as the global master custodian and facilitate the delivery of services from internal business partners to the Investments Branch.

It is often said that Investment Operations is an integral part of the Investments Branch. Similar to the rest of the Investments Branch, the source of our strength stems from many different ideas and people— a wide range of professionals with diverse backgrounds.

Innovation and Risk

The Innovation and Risk unit was established in 2009 with two primary objectives: 1) the Innovation team researches and incubates strategies that are new to CalSTRS and expected to improve the long-term risk-adjusted return of the total plan; and 2) the Risk team monitors and manages the total plan risk across asset classes. This information not only provides a view to manage the overall plan's exposures but also contributes to discussions on how best to allocate funds going forward.

Up to 2.5 percent of the total plan may be invested in Innovation strategies and each strategy may account for up to 0.5 percent of the total plan. To date, approximately $1 billion has been invested in fourteen funds encompassing discretionary global macro, commodity trading advisors, low volatility

equities, covered calls and risk-based allocation mandates. Strategies are evaluated based on a number of qualitative and quantitative factors. Some of these factors include performance during equity or fixed income draw-downs and volatile periods, correlations to traditional market indices and liquidity. Once a strategy is determined to be potentially beneficial, it is incubated for up to three years with a small allocation of capital to a few managers. Managers are evaluated based on the quality of the team and organization, track record, willingness to share market information and their role in the portfolio, among other considerations. Environmental, social and governance concerns are also taken into account. After the three-year period, staff and the Investment Committee will discuss whether a strategy should become a larger part of the portfolio, studied further or discontinued.

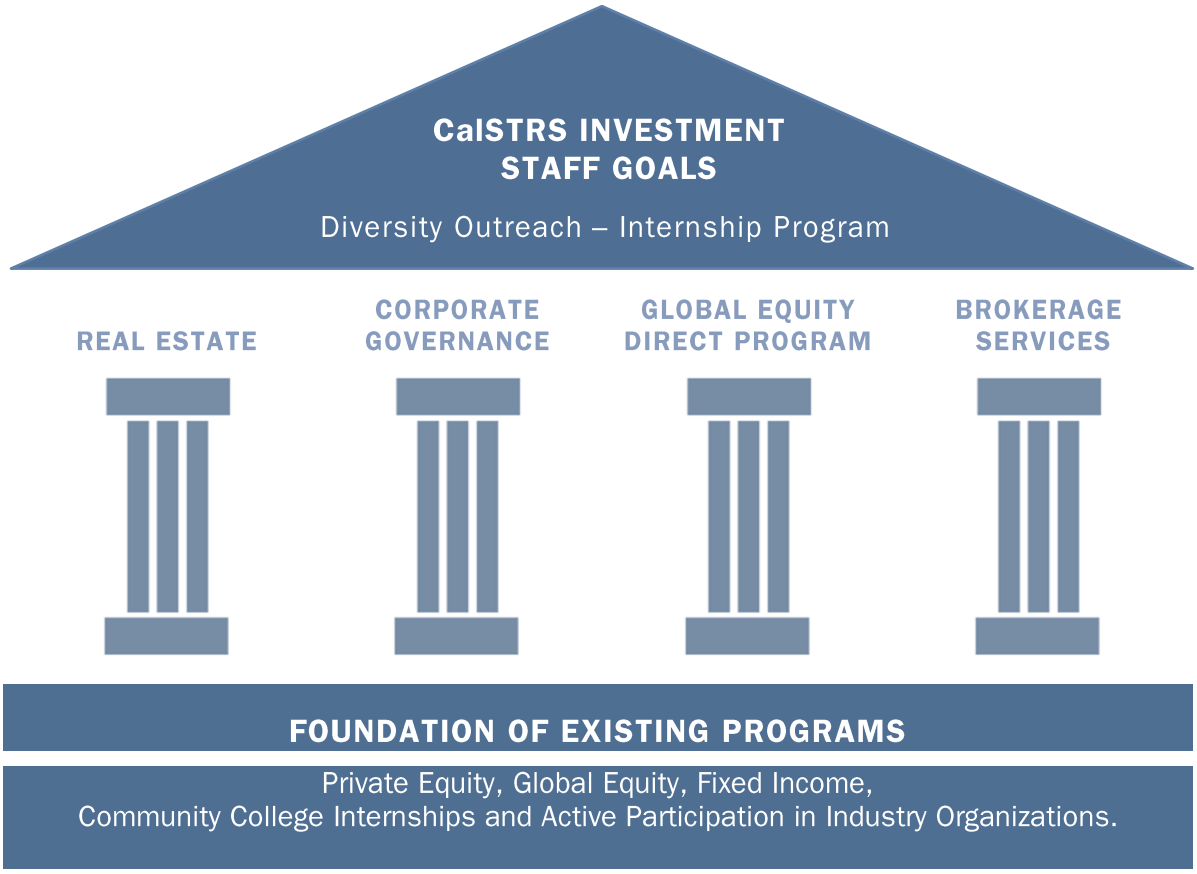
Due to its small allocations, potentially brief investment period and early stage, the Innovation Portfolio does not have a dedicated emerging manager program. However, staff consistently seeks to identify the most competitive and experienced partners to achieve the program's goals.

In 2014, the Innovation and Risk team continued to garner accolades for its cutting-edge research and continuing education efforts. For his work on risk management, Josh Diedesch received the "Rising Star" award from *Institutional Investor*, a publisher of news and analysis for large asset owners, and was featured in *aiCIO* magazine's "40 under 40," a recognition of excellence among up-and-coming professionals employed by large asset owners. A member of Josh's risk team, Matthew Toepel, earned the Chartered Financial Analyst

designation after passing three levels of exams that cover topics such as ethics, quantitative analysis, economics, security analysis and portfolio management. On the Innovation team, Glen Blacet earned the Chartered Alternative Investment Analyst designation, a two-stage exam focused on real assets, hedge funds, private equity, commodities and structured products.

INVESTMENTS STRATEGIC GOALS

The CalSTRS Board approved a strategic plan for implementing the five-year business plan for Diversity in the Management of Investments on February 2013. Investments' DMI efforts for the next five years are depicted below.



Our strategic goals are in three segments:

A. CalSTRS Investment Staff
B. The challenges depicted in the pillars
C. Our foundation of existing programs

A. CalSTRS Investment Staff

We have two goals with respect to Investment Staff.

Goal 1:

Increase the diversity of internal investment staff.

Initiatives

1. Develop a recruitment strategy to attract a diversified workforce reflective of California's growing population.
2. Develop a training process in all asset classes so as to provide a system to hire recent graduates from California universities.
3. Develop training and development programs to retain current staff and attract civil servants from other disciplines.
4. Develop an internship program with local universities.

Measurement

Progress will be measured against the current benchmark. Please refer to Exhibits 2, 3, and 4.

2014 Progress Report

CalSTRS values diversification, not only as a key risk mitigation strategy in the management of the assets within the investment portfolio, but also in terms of the benefits an ethnically and gender-diverse internal investment team can provide in helping us meet our organizational performance objectives. It is because of the value that different backgrounds, experiences and ideas can add to the organization that the number one goal in our Strategic Plan for Diversity in the Management of Investments at CalSTRS is to continue to increase the diversity of internal investment staff.

The initiatives designed to help us meet our goal involve strategies to attract and retain a work force that reflects our educator membership which is predominantly female, and far more ethnically diverse than the institutional investment industry within which CalSTRS might traditionally recruit. In order to maximize

our resources toward this effort, our investment staff has and will continue to team with our human resources staff. Recently, a diversity coordinator was hired within the CalSTRS Human Resources Branch and will work closely with investment staff to develop plans for a more targeted approach to reaching recent graduates from California universities regarding employment opportunities within the Investments Branch.

Exhibits 2, 3 and 4 can be used to measure progress toward meeting our goal of increasing the diversity of internal investment staff at CalSTRS. At 113 in 2014, staff is very close to 108 the previous year. Having said that, our gender diversity remains split at 50 percent female and 50 percent male (see Exhibit 3 for details) and our ethnic diversity shows our continued commitment with 43 percent of our staff being ethnically diverse (see Exhibit 4 for details). Both of these figures compare favorably to our membership profile based upon the Bureau of Labor Statistics for the investment industry. Unfortunately, there are no statistics available for ethnic diversity within the financial industry.

Goal 2:

Increase the awareness of a career in investments at California's high schools and community colleges.

Initiatives

1. Develop an outreach program with professional organizations aimed to attract diversity to the financial space, such as Robert Toigo Foundation, Sponsors for Educational Opportunity (SEO), National Association of Security Professionals (NASP), Association of Asian American Investment Managers (AAAIM) and New America Alliance (NAA).
2. Provide a resource of professional investment staff at the highest levels to speak at events that include professional organizations aimed to attract diversity to the financial space, such as Robert Toigo Foundation, SEO, NAIC, NASP, AAAIM and NAA.

Measurement

Progress will be measured by the number of high school and community college students reached via the new program and/or events.

2015 Progress Report

Since 2004, the CalSTRS Investments Branch has made a comprehensive effort to mentor students from all walks of life, paying particular attention to ensuring the inclusiveness of ethnic and gender diverse students. We continue to reach out to these students through a student intern program in all levels of higher education— for post graduate, undergraduate and community college— through local colleges and universities. The majority of the students involved in the program are from underrepresented groups on Wall Street.

In 2014, the students involved in our programs represented a majority of ethnically diverse students with only 40 percent Caucasian and the rest, 60 percent, of ethnically mixed groups. In addition, 40 percent of our students were female, and 60 percent were male.

One of our proudest accomplishment lies with the success of our internship program. In addition to our long-term traditional student intern program is our chief investment officer shadow program, called the Senator Nell Soto Internship Program, whereby an ethnically diverse student from a non-investment major was selected to work with the CIO over the summer. This year, a college senior, economics major and honor student, Adriana Gutierrez, from California State University, Sacramento, was the CIO's shadow. The Senator Nell Soto Internship Program started in 2011 and will continue each year as the California budget allows.

The 2014 efforts with respect to Initiative 2, where we have provided the resource of professional investment staff at the highest levels, are included in the following newer relationships:

Leaders On Fast Track (LOFT) – CalSTRS is a partner with the Hispanic Heritage Foundation's Leaders On Fast Track Finance initiative. The main objective of the initiative is to ensure that every young Latino interested in working in the financial services industry has at least one Latino to speak to about their relevant area of interest. In addition, they host finance boot camps, leadership trainings, and facilitate internships and jobs in the industry for interested Latinos. LOFT also has an online community where their most active members can connect. (http://loftnetwork.org).

On June 27, LOFT held an investors forum at the Hispanic Heritage Foundation in Washington DC. The target audience was Hispanic trustees of various pension plans across the country. The

educational forum included remarks by SEC Commissioner Luis Aguilar, and involved a discussion of personal experiences and reflections of many Hispanic trustees. Solange F. Brooks, CalSTRS Portfolio Manager in Private Equity, participated in a panel that discussed *"Specialized, Emerging and Diverse Manager Programs"* within public pension funds.

Travis Antoniono, CalSTRS Investment Officer in Corporate Governance will be the CalSTRS Investments' contact for this organization from 2015 on. Investment Officer Antoniono is a member of the CalSTRS Investments Diversity Team.

The Rising Farmworkers Dream – Since 2013, CalSTRS has accepted to be part of The Rising Farmworkers Dream's effort whenever possible. This is a nonprofit organization that aims to leverage the power and resources of the business sector to enable positive social change within the American farm working community. They are a group of business managers, investors, entrepreneurs, political leaders, educators and social advocates who invest in ventures that:

- Focus on improving the social conditions of U.S. farm workers through business initiatives,
- Increase access to human, social and financial capital within the farm working community, and
- Have clear and accountable measures of investment return.

Although 2014 was a quiet year for the organization, CalSTRS has kept in touch with their leaders to remain informed in their efforts. Candace Ronan, CalSTRS Portfolio Manager in Global Equity, will be the official CalSTRS contact from 2015 on. Portfolio Manager Ronan is a member of the CalSTRS Investments Diversity Team.

The 2014 Plan Sponsor & Minority Manager Consortium— In the Spotlight – The Consortium, initiated in 2004, is an annual event sponsored by the California, woman-owned firm of RG & Associates. The event draws 300+ top institutional investors and emerging managers each year. Considered the meeting place for exploring investment opportunities and building relationships, RG & Associates conceived of and launched the event in partnership with key business collaborators, including CalSTRS, CalPERS and New York

Common, among many others. CalSTRS staff has been part of the advisory committee and have been speakers at many of these events over the years. In 2014, Portfolio Managers Solange Brooks, and Candace Ronan, shared duties as part of the advisory committee. In addition, Ms. Ronan was a speaker on a panel discussing emerging managers in Global Equity; and Greg Nyland, CalSTRS Portfolio Manager in Real Estate was in attendance and conducted informational meetings with several emerging managers.

B. The Four Pillars

The four pillars represent some of the toughest challenges in incorporating DMI, diversity in the management of investments, throughout the CalSTRS Portfolio.

Goal 1:

Increase the diversity of external real estate managers who manage CalSTRS funds.

Initiatives

1. Conduct a study and survey the industry with the help of external advisors to establish the location, depth and capacity of diverse real estate managers.
2. Design a program based on the results of the study that encompass best practices to include DIM in CalSTRS Real Estate asset class.
3. Implement and measure results of the new program to increase diverse real estate managers.

Measurement

Initiatives began in 2012. Progress will be measured against the current benchmark. See Exhibit 1 and Exhibit 6.

2015 Progress Report

As part of the CalSTRS Investment Committee's 2012–13 Work Plan to review emerging manager participation within the portfolio, staff retained Altura Capital to complete a study on the real estate emerging manager space and CalSTRS' efforts therein. Altura collaborated with Townsend, the Board's real estate consultant, and staff to complete a report which was issued to the CalSTRS Investment Committee on April 12, 2013.

The *Emerging Manager in Real Estate Report* highlights the efforts of CalSTRS to date and the challenges of participating in that space. The report concluded that CalSTRS has a long-standing role as a leader in participating in the emerging manager space, having invested and committed a significant portion of the Real Estate Program to emerging managers. As the market matures and more participants enter the space, however, improvement can be made.

Future efforts by CalSTRS in the emerging manager space will be focused on encouraging broader participation by all stakeholders.

Following a collaborative review of CalSTRS' efforts in the emerging manager space, the second initiative in the program evaluation process was executed. This phase of the process to increase diversity of real estate managers involved work on an implementation plan for the Real Estate Emerging Manager Program. Staff presented its *Real Estate Emerging Manager Implementation Plan* report to the CalSTRS Investment Committee on November 8, 2013.

In 2014, Real Estate gained a new emerging manager partner and continued its search for possible partner candidates by a sustained participation in outreach efforts in industry conferences. These efforts are nonstop and will continue in 2015.

Goal 2:

Increase the diversity of corporate boards.

Initiatives

1. Implement and market the 3D, Diverse Director Database and survey the industry with the help of external advisors to establish the location, depth and capacity of diverse real estate managers.
2. Assess the diversity of corporate boards by conducting a survey of current women and people of color with the top corporations where CalSTRS has investments.

Measurement

Initiatives began in 2009. Progress will be measured by the number of women and people of color appointed to corporate boards from all sources, including the 3D database.

2015 Progress Report

CalSTRS and CalPERS partnered to create 3D, the first director candidate database where candidates can self-nominate at no cost. This reduces the anecdotal nature of board appointments and broadens the pool of qualified candidates that gets presented to boards when vacancies do occur. It also helps to reduce the homogeneity bias and works against "group think", which was so detrimental to investors in the last financial crash. The 3D database has been fully operational since

September 2012 and now has 793 qualified diverse candidates; many of these candidates already serve on at least one board, so they are proven, quality candidates.

Staff has assessed the addition of new directors added to the companies in the Russell 3000 and the percentage of new women directors as the measure of diversity in the top corporations in the CalSTRS Portfolio. Women are considered a proxy for diversity generally since it is difficult to reliably report/study individuals' ethnicity/race. The table below shows the state of diversity in the Russell Indexes for the last three-year period and does reflect steady improvement.

Our plans for the future include continuing to assess the diversity of corporate boards relative to new directors/new women/diverse directors within CalSTRS Portfolio on an aggregate basis. GMI, a noted Corporate Governance Research vendor and partner with CalSTRS in 3D, performs annual surveys of the Russell 1000, 2000 and 3000 for CalSTRS. The portfolio assessment will be completed at the end of each calendar year.

	Russell 1000 Companies			Russell 2000 Companies			Russell 3000 Companies		
	New Directors	New Women Directors	% of New Women Directors	New Directors	New Women Directors	% of New Women Directors	New Directors	New Women Directors	% of New Women Directors
2012	443	88	20%	649	107	16%	1092	195	18%
2013	725	170	23%	1054	185	18%	1779	355	20%
2014	745	183	25%	956	185	19%	1701	368	22%

Source: GMI Assessment Board Diversity/New Women/Diverse Directors

- CalSTRS began a joint effort with CalPERS in 2014 to engage with 131 California companies regarding the issue of increasing board diversity. CalSTRS total equity holdings of this subset of companies is approximately $660 million. These companies were identified in the 2012–13 report, UC Davis study of *California Women Business Leaders, A Census of Women Directors and Highest-Paid Executives*, as not having any women members on their board of directors. The engagement has been clearly successful as CalSTRS and CalPERS have met with or have garnered responses from 39 of the companies and in addition, 23 of the companies have added at least one woman to their boards of directors this year. Some of the companies that made these appointments include LeapFrog Enterprises, Inc., Nanometrics Incorporated, ServiceNow, Inc., Tesla Motors Incorporated and Thoratec Corporation.
- CalSTRS Corporate Governance team has made further progress in increasing diversity of corporate boards by inspiring other institutions to join the initiative. Anne Sheehan, CalSTRS Director of Corporate Governance, and Aeisha Mastagni, CalSTRS Corporate Governance Investment Officer, have both been proactive by taking the opportunities to advocate diversity of corporate boards while speaking at events such as Barclays Women in Leadership and the Council of Institutional Investors. During these speaking engagements, CalSTRS staff has shared its own initiatives and success while challenging other institutional investors to develop their own initiatives in order to further accomplish the common goal of increasing diversity of corporate boards.
- CalSTRS led The Thirty Percent Coalition's latest initiative calling for companies to seek and place women on their boards of directors. Institutional investors representing more than $3 trillion in assets under management, along with some of the nation's leading women's organizations, sent letters to 100 companies in the Russell 1000 Index that lack women on their boards, urging them to embrace gender diversity.

- We intend to expand our portfolio engagement to include a greater number of public companies and the private asset classes as well. In the long run, long-term investors who own all classes of assets should benefit from taking a universal approach to systemic value enhancing issues such as diversity on corporate boards.
- CalSTRS intends to increase its partnership experience, which is already substantial in this area, as a way of accelerating the pace of increasing diversity on corporate boards. CalSTRS has actively partnered with a number of organizations, including the National Association of Securities Professionals, New America Alliance and The Thirty Percent Coalition.

CalSTRS has been, and continues to be, the leader in the diversity on corporate boards issue, especially as it relates to the enhancement of shareholder value. Anne Sheehan, CalSTRS Director of Corporate Governance, was recently recognized by NACD, National Association of Corporate Directors as one of the top 100 people that most influence corporate governance. This is her fifth time being recognized by NACDs annual top 100 list.

Aeisha Mastagni, CalSTRS Corporate Governance Investment Officer was elected in June 2014 as a board member of ICGN, the International Corporate Governance Network. ICGN is an investor-led organization of governance professionals with their mission to inspire and promote effective standards of corporate governance to advance efficient markets and economies world-wide. Going forward, we will` continue to build on our success, expand the reach of 3D into our private market portfolios and educate our general partners in the private asset classes on the benefits of diversity on boards and in management in companies before they enter the public market.

Lastly, CalSTRS encourages its portfolio companies to use 3D as a resource for board searches and has had at least one company subscribe, as well as one of its investment managers.

Goal 3:

Develop a direct relationship program whereby developing equity managers in the CalSTRS MoM, Manager-of-Managers structure can be hired from the Developing Manager Program to the Core Portfolio.

Initiatives

1. Develop direct relationship program options for consideration.
2. Review options in consideration of state procurement process.
3. With input from manager-of-managers, select most viable option.
4. Implement and measure results of direct relationships with emerging managers and report findings.

Measurement

Initiatives are scheduled to begin in 2013. Progress will be measured against the current benchmark and number of direct emerging manager relationships. See Exhibits 1 and 6.

2015 Progress Report

CalSTRS invests with developing managers to capture alpha potential, to provide more opportunities for newer and smaller firms and to access new talent and future manager capacity. However, as developing managers experience success and the concomitant growth of assets under management, they run the risk of no longer "qualifying" as developing managers and being eliminated from the Developing Manager Program. Along with the incorporation of developing managers into its Global Public Equity Portfolio, CalSTRS' ultimate goal is to allow managers who have performed well in terms of investment performance and overall business operations to move to direct relationships with CalSTRS when there is a need for a specific sub-asset class or investment style in the portfolio. Since the implementation of the DMI Strategic Plan, we have gathered input from our current managers-of-managers and other stakeholders and have developed several direct relationship program options for consideration. With ongoing input from various constituencies, including MOMs, and in respect of the state procurement process, we have selected a Fast-Track" ASP, Alternative Solicitation Process,

and we are in the final stages of implementing it. Once this process is in place, staff will continuously monitor and measure results of direct relationships with developing managers and report findings.

Goal 4:

Global Equity/Fixed Income: Increase the diversity of firms providing brokerage services to CalSTRS.

Initiatives

1. Commission a study of best practices in brokerage trading and how to best increase utilization of women- and minority-owned brokerage services.
2. Adjust our practices based on the results of the study and monitor and measure results.

Measurement

Initiatives are scheduled to begin in 2014–15. Progress will be measured against the current benchmark and the increased utilization of women- and minority-owned brokerage services. See Exhibits 1 and 6.

2015 Progress Report

Initial discussions on the initiatives for this goal have revealed that it is a project that will engage both the Fixed Income and Global Equity asset classes. Research and analysis that will yield recommendations will commence during the fourth quarter, 2015.

C. The Foundation

The foundation for CalSTRS DMI, Diversity in the Management of Investments, strategy consists of the existing programs: the Private Equity Proactive Portfolio, Global Equities Developing Manager Program, Fixed Income direct relationships with diverse managers, local Community College internships and active participation in industry organization.

Goal 1:

Continue DMI efforts in Private Equity Proactive Portfolio and achieve an absolute return of 7.5 percent and/or outperform the private equity benchmark.

Initiatives

Manage, monitor and evaluate side-by-side investments.

Manage, monitor and evaluate the fund-of-funds structure.

Measurement

Progress will be measured against the current benchmark. See Exhibits 1 and 5.

2015 Progress Report

In 2014, the Private Equity Proactive Portfolio was incorporated into the Core Private Equity Portfolio, thus consolidating into one private equity asset class team for CalSTRS. This structure allows for the entire private equity team to have visibility, knowledge and direct contact with the emerging manager space. Direct Private Equity Proactive Portfolio relationships, including funds-of-funds, were distributed among the team to manage. This, in effect, expands the awareness and expertise in this area to all CalSTRS private equity team members. Further, it eliminates the emerging manager program from a "side program" and

into the mainstream private equity world. We believe that CalSTRS is the first institutional investor to make this bold transition that in effect "graduates" not only one manager, but the entire program into the Core Program.

Goal 2:

Continue DMI efforts in the Global Equity Developing Manager Program and exceed the assigned benchmark for the manager.

Initiatives

Manage, monitor, and evaluate the manager-of-manager structure.

Measurement

Progress will be measured against their current benchmark. See Exhibits 1 and 6.

2015 Progress Report

Within the context of CalSTRS Global Public Equity Portfolio, diversification is a key consideration; not only in terms of achieving returns and mitigating risk, but also in terms of benefits that different backgrounds, experiences and ideas bring to the overall performance of the portfolio. Numerous studies indicate that developing managers tend to perform better across asset classes—with similar or less risk than larger, established firms, thereby potentially adding another important facet of diversification to the Global Public Equity Portfolio.

The initiatives designed to help us meet our goal consist of finding and incorporating developing managers into the Global Public Equity pPortfolio. To complement our internal resources and get the most out of our efforts to meet our goals, our investment staff has and will continue to work with MOMs, managers-of-managers, in the developing manager arena. We currently work with six MOMs, encompassing 49 developing managers and $2.55 billion in assets. Of these six MOMs, three are developing firms themselves. These MOMs work closely with investment staff by designing manager portfolios to fulfill various mandates within the overall portfolio and were instrumental in the development of a process for establishing direct relationships with those developing managers that may qualify for mandates outside the Developing Manager Portfolio. We will continue to work with these MOMs to implement our strategy throughout 2015.

Since inception of the developing manager program as of December 31, 2014, one out of six MOM portfolios have beaten their respective benchmarks, while five have underperformed. CalSTRS Global Equity is committed to continued progress toward this goal and will continue to monitor and evaluate these managers.

Goal 3:

Continue active participation in industry organizations.

Initiatives

Attend and participate in the efforts of organizations that focus in diversity in the management of investments. Including, but not limited to:

1. The Robert Toigo Foundation
2. NAIC, The National Association of Investment Companies
3. NASP, The National Association of Securities Professionals
4. NAA, The New American Alliance
5. AAAIM, The Association of Asian American Investment Managers
6. PPI, Pacific Pension Institute

Measurement

Progress will be measured on an annual basis by active participation with the various organizations.

2015 Progress Report

In 2014, CalSTRS has attended and participated in the efforts of several organizations that focus on diversity in the management of investments. Furthermore, members of the DMI team volunteered to rotate responsibility for the various relationships with the organizations.

Some specific highlights include:

- **National Association of Securities Professionals:** NASP is a professional organization whose mission is to serve as a resource for the minority community at large to share information about the securities and investments industry by providing opportunities to share information about the securities markets, including functioning as a repository for

information regarding current trends, facilitating fundamental education seminars and creating networking opportunities.

On March 27, Christopher J. Ailman, CalSTRS Chief Investment Officer, and Portfolio Manager Solange F. Brooks attended and participated in NASP's, Southern California Chapter Fourth Annual Day of Education in Private Equity for Trustees and Investment Staff. Mr. Ailman was the luncheon keynote speaker and Mrs. Brooks participated on a panel discussing the private equity process. The proceeds of this event go to scholarships for students. The Southern California Chapter has identified Crenshaw High School as its local partner.

- **The Association of Asian American Investment Managers:** AAAIM is dedicated to elevating and increasing the visibility of Asian American investment professionals to institutional funds.

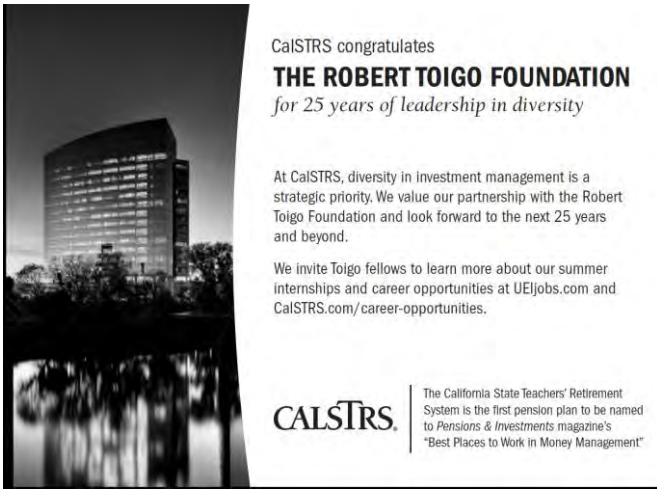
  On September 7 and 8, AAAIM had its National Conference; Christopher J. Ailman, CalSTRS Chief Investment Officer had the opportunity to address the AAAIM membership as a keynote speaker.

- **Robert Toigo Foundation:** On December 11, the Toigo Foundation hosted its annual *Women in Leadership: Groundbreakers, a Toigo Institute Summit*. Groundbreakers provides a unique opportunity for professional women across industries to network, learn from each other's experiences and blaze a path forward. It is the only event in the investments industry that provides such a unique forum for tomorrow's female leaders. The 2014 CalSTRS representatives at the event included: Michelle Cunningham, CalSTRS Deputy Chief Investment Officer, Debra Smith, CalSTRS Chief Operating Investment Officer, June Kim, CalSTRS Director of Global Equity, and Solange Brooks, CalSTRS Portfolio Manager, Private Equity. Portfolio Manager Brooks served as discussion leader in the roundtable discussions on various issues. Since her first year working at CalSTRS in 2004, Solange F. Brooks has been a long-time supporter of the efforts of the Toigo Foundation, serving as a board member of the advisory committee, and

subsequently as chair (2009–2014). She stepped down from those responsibilities in December of 2014, making way for a new generation of investment officers interested in the efforts of the Toigo Foundation. Josh Kawaii-Bogue, CalSTRS Investment Officer, Real Estate, will be the new contact for the foundation. Christopher J. Ailman will continue to be part of the advisory committee.

» The foundation's mission is to change the face of finance by fostering leadership development, educational success and accelerated career opportunities for diverse finance professionals.

» CalSTRS has been associated with the Toigo Foundation for many years – dating back to its early beginning. 2015 was the 25th Anniversary of the organization; CalSTRS offered its public congratulations to the Toigo Foundation for its leadership and multiple diversity efforts.



» **New America Alliance**: NAA is dedicated to advancing economic development of the American Latino Community. The Alliance is organized on the principle that American Latino business leaders have a special responsibility to lead the process of building the forms of capital most crucial to Latino progress – economic capital, political capital, human capital and the practice of philanthropy.

On an annual basis, CalSTRS CEO, CIO and investment staff host a meeting with the NAA President Maria del Pilar Avila and a group of NAA members to chat about the state of both organizations, projects for the year and ways in which they can help each other.

The 2014 meeting was held on April 1 and important matters were discussed and new opportunities were vetted.

Also, CalSTRS CIO and staff attended and participated in the 15th Annual Wall Street Summit, *Building on American Latino Success, to Forge a Stronger America*, on November 18-20. This is NAA's key event which showcased the contribution of American Latinos to the U.S. economy and promoted greater inclusion across sectors. Those attending included Michael Warmerdam, CalSTRS Investment Officer, Infrastructure. CIO Christopher Ailman and Portfolio Manager Solange F. Brooks participated as speakers.

» In 2014 a new partner, Muller & Monroe Asset Management, LLC, was added to our funds-of-funds efforts in private equity that work with emerging managers. M^2, Muller & Monroe, is a unique private equity firm formed in 1999 that actively considers women and minority-owned firms. M^2 focuses on emerging investment management firms that are niche/specialty (new and next generation) managers. Their target investment specifically encompasses 1) serial deal investors, 2) spin-outs, 3) funds backed by wealthy families, 4) regionally-focused funds, 5) industry-focused funds, and 6) other niche funds with an attractive value proposition. M^2 is a strong partner in our efforts to reach the best emerging managers in private equity.

» On September 9, Portfolio Manager Solange Brooks attended a Midwestern networking event for investment managers, middle market entrepreneurs, senior corporate level executives, and professional service provides. The event was sponsored primarily by

BAML CAF , Bank of America Merrill Lynch Capital Access Funds, with the coordination of AAAIM, NAA, NAIC and NASP, thus, leveraging the relationship with all these important organizations and continuing their collaboration in building bridges in order to highlight the talent and potential residing within the U.S. emerging domestic market.

» On July 1, **Invesco Private Capital** held its sixth annual *Tools for Success*© forum in San Francisco. Hosted in conjunction with CalSTRS, Tools for Success` is an annual summit designed to share best practices among new private equity fund managers. The event to focuses on emerging managers and a practical presentation and discussion about tools that can be utilized when raising a private equity fund for the first time. Among topics offered were Investing Insights on Private Equity: The CIO's Perspective; Investing with New & Next Generation Managers – The Good, The Bad and The Unexpected; and Building a "Brand" from Scratch. Margot Wirth, CalSTRS Director, Private Equity participated on a panel discussion and Portfolio Manager Solange F. Brooks was also a speaker at the event. Investment Officer Robert Ross also attended representing CalSTRS Private Equity.

NAIC , The National Association of Investment Companies, founded in 1971, is the industry association for private equity firms that invest in an ethnically diverse marketplace, in what has been identified as the US Emerging Domestic Market. The EDM is one of the fastest-growing sectors of the U.S. private equity investment market. "EDM" is a term used to describe the geography and demography of markets traditionally underserved by the financial services industry. These include markets serving individuals of Asian American, African American, Latino, Native American and other ethnic backgrounds as well the businesses they own and the enterprises that primarily serve their communities. With more than $10 billion in combined capital under management, NAIC member companies invest in privately held businesses that have a high probability of growth and the ability to generate significant returns for investors and shareholders. We have been long-term partners with this association. In 2014, Portfolio Manager Solange F. Brooks, participated as a panel speaker in their 44th Annual Meeting and Convention in California.

INVESTMENTS PERFORMANCE BENCHMARKS

To facilitate the periodic reporting to the CalSTRS Investment Committee and to provide a relative measure to gauge success, custom performance benchmarks are approved by the Investment Committee. The approved custom performance benchmarks are shown below.

Exhibit 1 CalSTRS Portfolio Performance Benchmarks[1]

Total Public Global Equity

(67%) Russell 3000 ex-Tobacco ex-Firearms Index + (33%) MSCI ACWI , All Country World Index, ex-U.S. ex-Tobacco ex-Firearms

U.S. Equity – Russell 3000 Index ex-Tobacco ex-Firearms

Non-U.S. Equity – MSCI ACWI ex-U.S. Index ex-Tobacco ex- Firearms

Total Public Debt

(95%) Barclays Capital U.S. Aggregate ex-Tobacco ex-Firearms + five percent (5%) U.S. High Yield Cash Pay two percent (2%) Issuer Constrained Index ex-Tobacco ex-Firearms

U.S. Core – Barclays Capital U.S. Aggregate Index ex-Tobacco ex-Firearms

U.S. Core Plus Debt– Barclays Capital U.S. Universal Index ex-Tobacco ex-Firearms

High Yield Debt

Barclays Capital U.S. High Yield. Cash Pay ex-Tobacco ex-Firearms two percent (2%) Issuer Constrained Index

Inflation Sensitive

Weighted blend of Global Inflation Protected Linked Securities and CPI+4 percent (quarterly lagged)

Real Estate

Real Estate NCREIF ODCE Value Weighted index Net of fees (quarterly lagged)

Private Equity

SSPEI , State Street Private Equity Index (quarterly lagged)

Absolute Return

90-day Treasury Bills plus 100 basis points, but the overall objective is not as important as each portfolio and sub component respective benchmark.

Blended indices are weighted based upon CalSTRS target allocations to each respective index. Each investments manager, for U.S. and non-U.S. equity, fixed income, and currency hedging has an individualized benchmark designed to measure its performance relative to the objective identified in each manager's respective investment guidelines.

Source: CalSTRS Investment Policy and Management Plan, November 2014

CalSTRS Investment Staff

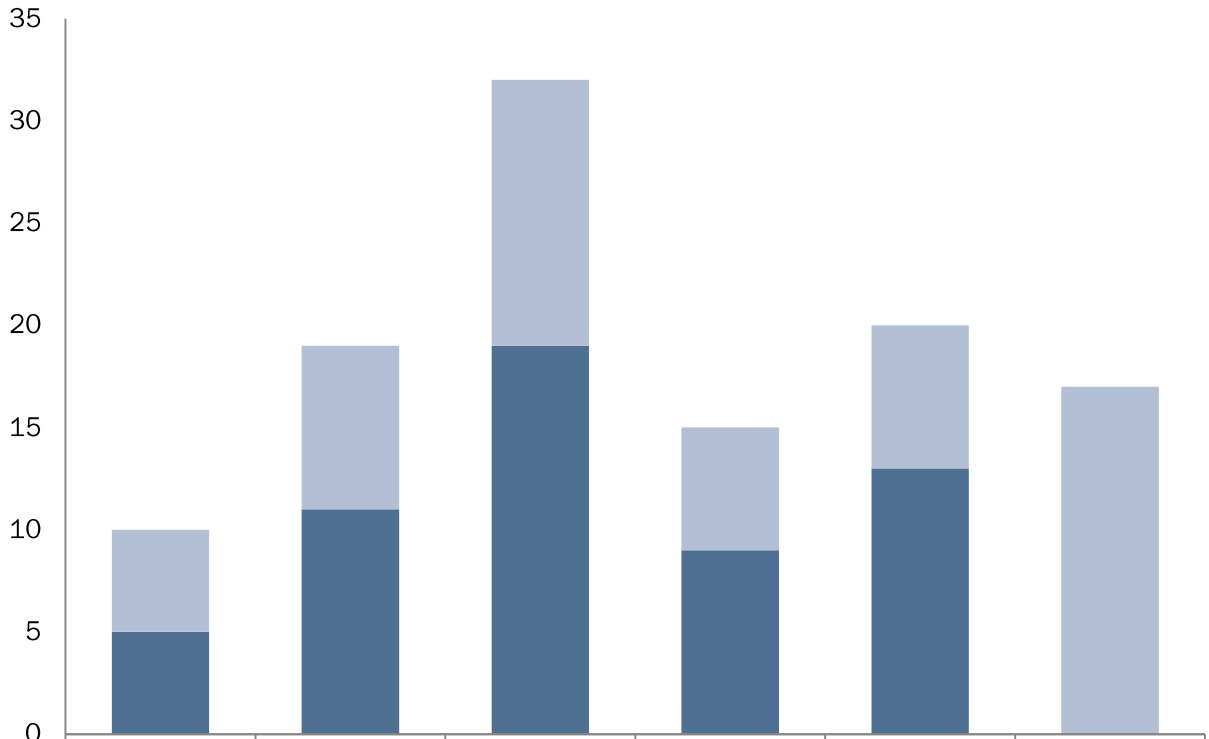
As of December 31, 2014, CalSTRS Investments consists of 113 state civil servants led by the chief investment officer, California State Teachers' Retirement System in the following investment classifications.

Exhibit 2 CalSTRS Investments: A California State Civil Service Workforce

Class Title	Schematic Code	Class Code	Number of Staff
Chief Investment Officer, CalSTRS	JV57	4693	1
Deputy Chief Investment Officer, CalSTRS	JV70	1014	1
Investment Director, CalSTRS	JV58	4694	8
Portfolio Manager, CalSTRS	JV59	4697	19
Investment Operations Director, CalSTRS	JV16	4699	0
Investment Officer III, CalSTRS	JV17	7684	32
Investment Officer II, CalSTRS	JV31	7339	15
Investment Officer I, CalSTRS	JV36	7338	20
Staff Services Manager I	JY15	4800	1
Staff Services Manager I	JY35	5393	1
Staff Services Analyst	JY20	5157	4
Administrative Assistant II	KG30	5358	1
Administrative Assistant I	KG40	5361	7
Executive Assistant	CD40	1728	2
Office Technician	CA46	1139	1
Total Investment Staff			113

Source: CalSTRS personnel data as of December 31, 2014

Exhibit 3 CalSTRS Investments: A Gender Diverse California State Civil Service Workforce



	Investment Director*	Portfolio Manager	Investment Officer III	Investment Officer II	Investment Officer I	Administrative Support**
Female	5	8	13	6	7	17
Male	5	11	19	9	13	0

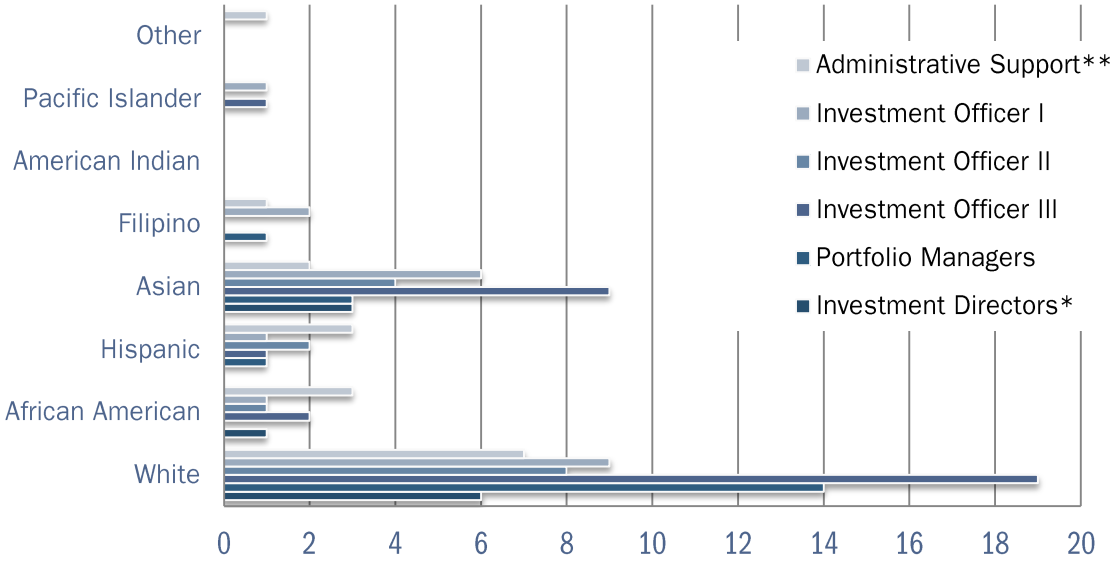
Source: CalSTRS personnel data as of December 31, 2014

* Investment directors consists of the following California State Teachers' Retirement System classifications: Chief Investment Officer, Deputy Chief Investment Officer, Investment Director and Investment Operations Director.

** Administrative support consists of the following classifications: Staff Services Manager I, Associate Governmental Program Analyst, Staff Services Analyst, Administrative Assistant II, Administrative Assistant I, Executive Assistant, and Office Technician.

Exhibit 4

CalSTRS Investments: An Ethnically Diverse California State Civil Service Workforce



	White	African American	Hispanic	Asian	Filipino	American Indian	Pacific Islander	Other
Administrative Support**	7	3	3	2	1	0	0	1
Investment Officer I	9	1	1	6	2	0	1	0
Investment Officer II	8	1	2	4	0	0	0	0
Investment Officer III	19	2	1	9	0	0	1	0
Portfolio Managers	14	0	1	3	1	0	0	0
Investment Directors*	6	1	0	3	0	0	0	0

Source: CalSTRS personnel data as of December 31, 2014

* Investment directors consists of the following California State Teachers' Retirement System classifications: Chief Investment Officer, Deputy Chief Investment Officer, Investment Director and Investment Operations Director.

** Administrative support consists of the following classifications: Staff Services Manager I, Associate Governmental Program Analyst, Staff Services Analyst, Administrative Assistant II, Administrative Assistant I, Executive Assistant, and Office Technician.

Exhibit 5 CalSTRS Investments: Emerging Manager Definitions by Asset Class

	Emerging Definition	Minimum Qualifications
Global Equity Investment Managers	Firm must have $2 billion or less in AUM, assets under management, at initial funding.	Firm must be a legally structured entity with a Corporate Tax Identification Number. Firm must be a RIA, Registered Investment Advisor, or must qualify for exemption from registration.
Private Equity Funds	Firm must be a 1st, 2nd, or 3rd time private equity institutional fund, and raising a fund under $1 billion. Firm must have a maximum of 55 percent non-employee-owned ownership.	Firm must be a legally structured entity with a Corporate Tax Identification Number. Firm must have a private placement memorandum in place.
Fund of Private Equity Funds	Firm must have $3 billion or less in AUM. In addition, the firm must have: a) A maximum of 55 percent non-employee-owned ownership, or b) Be a fund that is specifically focused on emerging private equity funds.	Firm must be a legally structured entity with a Corporate Tax Identification Number. Firm must have a private placement memorandum in place or a similar proposal, in the event of a separate account relationship.

	Emerging Definition	Minimum Qualifications
Real Estate Partnerships	Firm must have $1 BN or less in AUM. Firm must have a maximum of 67 percent non-employee-owned ownership.	Firm must be a legally structured entity with a Corporate Tax Identification Number. Firm must have a private placement memorandum in place, or have similar proposal in the event of a separate account relationship.
REITs	Firm must have $500 million or less in AUM. Firm must have a maximum of 55 percent non-employee-owned ownership.	Firm must be a legally structured entity with a Corporate Tax Identification Number. Firm must be a RIA or must qualify for exemption from registration.
Hedge Funds	Firm must have $1 billion or less in AUM. or have up to one existing institutional investor. Firm must have a maximum of 55 percent non-employee-owned ownership.	Firm must be a legally structured entity with a Corporate Tax Identification Number.
Investment Management Consultant	Firm must have $10 billion or less in assets under consulting/advisement. Firm must have a maximum of 55 percent non-employee-owned ownership.	Firm must be a legally structured entity with a Corporate Tax Identification Number. Firm must be a RIA or must qualify for exemption from registration.

	Emerging Definition	Minimum Qualifications
Investment Research Firms	Firm must have a maximum of 55 percent non-employee-owned ownership.	Firm must be a legally structured entity with a Corporate Tax Identification Number. Firm must be a RIA or must qualify for exemption from registration.
Emerging Manager Program Managers	Firm must have $8 billion or less in AUM. Firm must have a maximum of 55 percent non-employee-owned ownership.	Firm must be a legally structured entity with a Corporate Tax Identification Number. Firm must be a RIA or must qualify for exemption.
Broker-Dealers	Firm must have $25MM or less in annual commissions. Firm must have $50MM or less in Net Equity Capital as defined by the NASD, National Association of Securities Dealers. Firm must have a maximum of 55 percent non-employee-owned ownership.	Firm must be a legally structured entity with a Corporate Tax Identification Number. Firm must be a NASD registered firm.

Source: CalSTRS staff as of December 31, 2014

Advisor

Altura Capital

Chief Investment Officer Christopher J. Ailman has a pool of advisors for use throughout the year, each one specializing in a particular area catering to CalSTRS' specific and unique needs. Of that pool, Altura Capital, headed by Monika Mantilla Garcia, distinguishes itself for being a leader in research and provider of investment solution and advisory services within the emerging and diverse manager space. CalSTRS has a long-standing relationship with Altura Capital, since 2005, and we are excited to support Altura in its quest to deliver ideas and solutions that bring long-term sustainability to the category. In addition, Solange F. Brooks, CalSTRS Portfolio Manager, currently sits in the advisory for Altura Capital. www.alturacap.com.

Global Equity

MARKET VALUE
$103.3 Billion

% OF OVERALL PORTFOLIO (Equities/Total Fund):
54.9%

DEVELOPING MANAGER PROGRAM:
$2.55 Billion Market Value

Represents approximately 10.3% of the total $24.9 Billion Active U.S. Equity Portfolio

Source: My State Street as of December 31, 2014

The Developing Manager Program was established in 2004 to take advantage of a new source of alpha that smaller and newer firms could potentially generate for the portfolio. CalSTRS currently has direct contractual relationships with six manager-of-manager firms, five of which are minority and/or women owned firms. These six manager-of-manager firms have underlying relationships with approximately 49 developing managers: 29 percent, or 14, of which are minority-owned firms; and 20 percent, or 10, are women-owned firms.

Investment Opportunity Review Process

- After identifying a business need for a specific type of product in the portfolio, CalSTRS posts an advertisement of a solicitation on CalSTRS.com.
- Potential managers are given approximately two weeks to enter or update information in a specified database, Staff screens for qualified managers in the defined universe in the database based on the basic qualifications specified in the solicitation advertisement. The initial screen is finalized by selecting the top candidates based on CalSTRS defined criteria.
- Those managers who are identified at this stage are invited to submit due diligence questionnaires to

CalSTRS. Staff reviews the submitted questionnaires and verifies the accuracy of the information.

- Staff then scores all of the submitted proposals, and finalists are selected and invited for an interview at CalSTRS. The top scoring managers after the finalist interviews are subject to due diligence on-site inspections and negotiation of contract terms. Managers who are not selected for an initial funding are placed in the pool and may be funded at a future date based on portfolio needs.

FIXED INCOME

ASSETS UNDER MANAGEMENT[i]
$29.9 Billion Market Value

% OF OVERALL PORTFOLIO (Fixed Income/Total Fund):
15.7%

EMERGING MANAGERS
Assets Under Management:
$517 Million Market Value
Represents approximately 10% of the total externally managed Fixed Income Portfolio

Over 80 percent of CalSTRS Fixed Income Assets are managed internally. With respect to diversity, CalSTRS has a long-standing "open door" policy of using a diverse group of broker/dealers to execute trades, and as a result currently does business with approximately 15 emerging/developing firms, and all of our trades are done in a competitive environment.

CalSTRS Fixed Income does not have a dedicated program to emerging managers; however, our selection process has evolved over time to facilitate the evaluation/consideration of a broad universe of managers, regardless of AUM, into the portfolio based upon quantitative and qualitative factors that are indicative of a successful asset management business partner.

Another aspect of diversity is gender; the Fixed Income Team is comprised of 55 percent females and 45 percent males. Among these employees 50 percent are also classified as minorities.

Investment Opportunity Review Process

» Based on our belief that investment opportunities can appear in both large, small and start-up firms, Fixed Income has established a process and a team of investment professionals to review all new investment opportunities in either fund or separate account form. Each strategy is reviewed for strategic fit, risk and

AUM from Blackrock® as of November 30, 2014.

Percentage of portfolio represents NAV from My State Street as of November 30, 2014.

overall alpha opportunity. All opportunities, encompassing several different strategies, were reviewed and logged into the Opportunities database. Since inception this database has grown to capture over 350 investment opportunities. This process was designed to not only facilitate access to CalSTRS for all managers, but to also serve as a way for us to assess opportunities and market conditions.

PRIVATE EQUITY

MARKET VALUE
$20.6 Billion

% OF OVERALL PORTFOLIO
(Private Equity/Total Fund):
10.8%

EMERGING MANAGERS
Assets Under Management:
$1.9 Billion
Represents approximately 9.2% of the total Domestic Private Equity Portfolio's assets under management

Market Value and AUM figures taken from PrivateEdge® as of November 30, 2014.

Percentage of portfolio represents NAV from My State Street as of December 31, 2014.

The CalSTRS Private Equity Portfolio's current components include limited partnership commitments, side-by-side co-investments and secondary transactions. It is a global portfolio with approximately 78 percent of the portfolio in U.S.-based funds. The portfolio is concentrated with 126 active manager relationships. Selection is biased toward partnerships with experienced and stable management teams, strong track records, appropriately sized funds and high levels of side-by-side general partner commitments. Strong alignment of interests and utmost integrity are requisite.

An element of the Private Equity Program's strategy focuses on investing with new and emerging managers, investing in underserved markets and investing in niche/specialty emerging managers. For first, second or third time institutional private equity funds, CalSTRS has developed a feeder program in cooperation with INVESCO Private Capital. For private equity funds specializing in reaching inner U.S. cities or other underserved markets, CalSTRS has developed a feeder program in cooperation with Bank of America Merrill Lynch. CalSTRS has also partnered with Muller and Monroe Asset Management, LLC, investing in their comingled fund that focuses on emerging investment management firms that are niche/specialty emerging managers, and where women and minority-owned funds are actively considered.

Investment Opportunity Review Process

CalSTRS requires that two independent due diligence tracks and approvals be reached before a direct commitment is made to any fund; one track is by the advisor and the other is CalSTRS staff. Both have to agree or the deal does not get done. Thus, we highly encourage funds to begin with our advisors first— the process is fashioned to be effective and efficient, targeting and making the best use of time. Below are all the advisors to CalSTRS Private Equity:

- U.S. underserved space mandate – Bank of America Merrill Lynch Capital Access Funds. You may send your PPM, private placement memorandum, to Edward Powers at edward.powers@baml.com.
- U.S. new and next generation managers (first, second or third-time funds) – Invesco Private Capital. You may send your PPM to Amit Tiwari at amit_tiwari@invesco.com.
- U.S., Latin American and/or Asian Offering – Cambridge Associates, LLC. You may direct your PPM to: CalSTRSteam@cambridgeassociates.com.
- European and Middle Eastern Offerings – Altius Associates. You may direct your PPM to: jh@altius-associates.co.uk.

CalSTRS is also an investor in one of Muller and Monroe's commingled fund-of-funds vehicle which invests in both emerging managers and niche/specialty private equity

managers nationally. Please contact and/or forward your PPM to Rendel Solomon at rendel.solomon@m2am.com for further information about this vehicle.

REAL ESTATE

ASSETS UNDER MANAGEMENT
$22.7 Billion Market Value

% OF OVERALL PORTFOLIO (Real Estate/Total Fund):
12.9%

U.S. EMERGING MANAGERS
Assets Under Management:
$7 Billion Market Value
Represents approximately 39.3 % of the total $18.6 Billion U.S. only Real Estate Portfolio

AUM from PrivateEdge® as of September 30, 2014.

Percentage of portfolio represents NAV from My State Street as of December 31, 2014.

CalSTRS has been investing with emerging real estate managers since 2001. Approximately 39.3 percent of the current real estate portfolio is invested with emerging managers. Believing there is no single correct method for investing with emerging managers; CalSTRS invests via joint ventures, fund-of funds and managers-of-managers to provide the widest exposure. In 2013, CalSTRS completed a review of how it invests with emerging real estate managers and will implement the review findings now and in the future.

Investment Opportunity Review Process

- Upon determination that an opportunity may be suitable for CalSTRS' investment objectives, staff will decide whether it is appropriate to pursue a direct commitment to the opportunity, or to refer the opportunity to an existing partner funded with CalSTRS equity.
- If an emerging manager has a successful track record and a strong prior background of investing institutional capital, CalSTRS staff may consider a direct investment with that manager. If, however, the emerging manager has yet to garner significant institutional investment experience, staff may refer the firm to one or more of several existing CalSTRS partners, with the aim of funding the emerging manager through the existing

partner until sufficient institutional experience is acquired to merit a direct relationship with CalSTRS.

- CalSTRS Real Estate has also invested in certain funds-of-funds and manager of managers which specifically seek to direct CalSTRS' capital to emerging managers. Staff will continue to seek out such managers going forward.
- It is expected that emerging managers selected by CalSTRS Real Estate and its partners will reflect the rich diversity found within the United States, as such diversity should bring not only varied skills and investment approaches but also broader perspectives into the investment process
- The goal of the Real Estate Program is to invest in and with (small) emerging managers who need capital and infrastructure to grow their businesses to an institutional level. CalSTRS intends to provide a link between institutional capital and local, emerging managers, including minority and woman-owned firms to create a diversified, risk-controlled, multi-manager investment portfolio.

INFRASTRUCTURE

ASSETS UNDER MANAGEMENT
$1.3 Billion Market Value

% OF OVERALL PORTFOLIO (Inflation Sensitive[1]/ Total Fund):
0.7%

Infrastructure is component of CalSTRS Investments Inflation Sensitive asset class initially adopted by the Board in 2008 to primarily provide improved diversification to the overall CalSTRS Investment Portfolio. Infrastructure investments generally include a relatively stable return stream, have a higher correlation to inflation than equity or fixed income investments and provide a hedge against long-term liabilities and inflation. Dedicated staff was allocated to the Infrastructure Unit in 2010, and the first infrastructure investment was approved by the Board in the second quarter of 2011.

The CalSTRS Infrastructure Program has received recognition as a global institutional investor from PEI Infrastructure Investor, a leading financial media publication group. In the past year, the diverse infrastructure team has grown to five investment professionals, and is now overseen by the recently appointed director of CalSTRS Inflation Sensitive asset class. As of December 31, 2014, committed capital for infrastructure investments had grown to $1.3 billion ($200 million committed during 2014).

[1] Inflation Sensitive includes Infrastructure and the Global Linkers Portfolio

Investment Opportunity Review Process

As with other asset classes, the CalSTRS Infrastructure Program seeks to employ and retain experienced investment managers that possess superior selection and management ability with respect to the targeted investment category. Investment managers are evaluated for selection based on criteria which includes the following:

- The suitability of the organization's investment strategy with respect to CalSTRS' Infrastructure policy, investment guidelines and objectives, and portfolio needs.
- The quality, stability, integrity and experience of the management team.
- The ability and willingness of the firm to dedicate sufficient resources and personnel to optimally manage CalSTRS' investments.
- The reasonableness of investment terms and conditions, including provisions to align interests of management and CalSTRS.
- The appropriateness of management controls and reporting systems.
- The manager's commitment to responsible contracting policies and workplace diversity, as well as their consideration of ESG, environmental, social, and governance issues.

- The financial strength of the investment manager.
- The scope and quality of services provided.

The need for investments in infrastructure is a global phenomenon and draws investment managers on worldwide scale. Domestically, CalSTRS CIO participated in the *Build America Infrastructure Investment Summit* at the White House. It is clear that infrastructure investment demand from private capital sources is strong, and as the relatively young infrastructure portfolio expands it can be expected it will further attract and include exceptional managers with diverse teams.

The Infrastructure Unit is open to meeting with managers of infrastructure assets and reviewing potential opportunities that are suitable and meet the needs of the portfolio. Investment managers specializing in infrastructure assets can request a meeting and submit proposals at the following email address: Infra-Investments@CalSTRS.com.

CalSTRS Resources

WEB

CalSTRS.com
Click *Contact Us* to email

myCalSTRS.com

403bCompare.com

Pension2.com

STAY CONNECTED

CALL

800-228-5453
7 a.m. to 6 p.m.
Monday through Friday

888-394-2060
CalSTRS Pension2®
Personal Wealth Plan

855-844-2468 (toll free)
Pension Abuse Reporting Hotline

WRITE

CalSTRS
P.O. Box 15275
Sacramento, CA
95851-0275

VISIT

Member Services
100 Waterfront Place
West Sacramento, CA 95605

Find your nearest
CalSTRS office at
CalSTRS.com/localoffices

FAX

916-414-5040

CALSTRS