



June 4, 2003

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Mr. Jonathan Katz  
Secretary, Securities and Exchange Commission  
450 Fifth Street N.W.  
Washington, DC 20549

Dear Secretary Katz:  
RE: File No. S7-10-03

This letter is sent on behalf of the California State Teachers' Retirement System's (CalSTRS) members. CalSTRS supports the Commission's decision to conduct a comprehensive review of the rules under Section 14 of the Securities and Exchange Act of 1934 with an eye towards detailing the process that will permit shareholder-nominated director candidates to appear in the corporate proxy statement and as a ballot choice on the corporate proxy card. As you are aware, CalSTRS is a public pension fund, established for the benefit of California's public school teachers over 90 years ago. CalSTRS has assets of approximately \$94 billion; \$37 billion of this amount is invested in the domestic equity market. These assets represent the retirement plan for approximately 687,000 participants. The long-term nature of CalSTRS' liabilities has made us keenly interested in efforts to restore investor confidence in the capital markets.

CalSTRS believes that the enactment of the Sarbanes-Oxley Act of 2002 was an important milestone for investors, but we also recognize that there remains a great deal of work to do in the area of corporate governance and that the solutions lie not only in this legislation, but in the rules that govern shareholder access to the proxy process as well. This process dictates who will serve on the boards of directors of the companies that we hold in our portfolio. Unless shareholders are prepared to conduct expensive campaigns outside of the corporate proxy process, they have no meaningful way to participate in the nomination and election of directors to the boards of companies owned by them. This review and our support of it, does not and should not relate to a specific director or nominee; this review must address the process for director nominations.

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

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CalSTRS has participated in several securities litigation cases as a result of the tremendous losses in our portfolio; we have noticed many of these fallen companies had compliant boards when the apparent fraud occurred. We have come to believe that shareholders need an effective process that allows them to participate in the director nomination process without taking on a contest for control. We are not interested in turning over control of companies to any party without receiving a premium for giving up such control; we are talking about a process that would allow shareholders holding a meaningful percentage of the outstanding shares, the right to representation on the Board. A director nominee and the nominating shareholder should provide all of the disclosure that is required of the board of directors' nominees under the Commission's proxy rules. The nominating shareholder and the director candidate should comply with all of the Commission's rules regarding communication with shareholders if they decide to contact shareholders by any means other than the corporation's proxy statement.

CalSTRS believes that it is time for both the Commission and corporations to pursue a more inclusive approach to shareholders' involvement in the governance practices that may affect the value of their holdings. We realize that such a process must be carefully considered and that, it is in our best interest, as shareholders, that careful review is done. However, the refusal to even include the issue on proxy statements and ballots for consideration by shareholders is not a review; it is a barrier. Allowing the one director candidate nominated by shareholders to be included on the corporation's materials does not mean that the candidate will be elected. Over the last few years, many shareholders have come to realize that votes cast for and against directors are their most important votes in the proxy process. In order for shareholders to fulfill this responsibility, shareholders must have the right to both, nominate and elect directors. Shareholders should not be forced to spend the extraordinary sums required to finance a proxy fight in order to have one director nominee in the corporation's materials. After-all, shareholders are ultimately the ones who pay for the preparation and dissemination of these materials by the corporations; it is right that one chair at the table should be open to them. CalSTRS urges the Commission to use its current review of the rules governing director nominations and elections to grant shareholders meaningful access to the proxy process.

I would be pleased to discuss this matter with you.

Sincerely,

JACK EHNES  
Chief Executive Officer