TEACHERS' RETIREMENT BOARD

INVESTMENT COMMITTEE

SUBJECT: Receive Private Equity – Semi-annual Performance Report, Period Ending March 31, 2012

ITEM NUMBER: 7

CONSENT: _____

ATTACHMENT(S): 1

ACTION: ____

DATE OF MEETING: September 7, 2012 / 45 min

INFORMATION: X

PRESENTER(S): Mike Moy, Pension Consulting Alliance

POLICY

This item is governed by the CalSTRS Private Equity Investment Policy, (Board Policy Manual, Section 1000, Pg. I-1).

HISTORY OF THE ITEM

On a semi-annual basis, in September and April, the Private Equity consultant reviews the performance report of the Private Equity portfolio. This report is critical to the monitoring and oversight responsibility of the Investment Committee.

PURPOSE

Due to the specialized nature of the private equity asset class, the Investment Committee has retained a specialty consultant and receives a specialized performance report on the asset class. Additionally, due to the partnership structure of the investments and delays in reporting timelines, this report is lagged one quarter to the total fund report. While the report includes one-year returns, as a long-term investor, coupled with the long-term nature of the asset class, the Investment Committee is encouraged to focus on the three-, five- and ten-year results because they are less volatile and more indicative of the long-term performance trend of the underlying portfolio. One-year results are less meaningful in an asset class where the typical holding period for a portfolio company is four to five years.

- Mike Moy of Pension Consulting Alliance, the Investment Committee's private equity consultant, will present an oral report highlighting key issues across the CalSTRS Private Equity Portfolio (Portfolio).
- The Portfolio data in the report is prepared by State Street Bank's PrivateEdge Group with input from Pension Consulting Alliance; it is fully customizable to meet Investment Committee needs.
- Mr. Moy will use this opportunity to alert the Committee of any areas of concern, needed policy revisions, or issues that warrant further review.

RECOMMENDATION

Staff recommends that, upon the oral report from Mr. Mike Moy, the Investment Committee receive the report for the record.

Attachment 1
Investment Committee - Item 7
September 7, 2012

California State Teachers' Retirement System (CalSTRS)
Private Equity Program

Semiannual Report

(As of March 31, 2012)

Open Session
September 2012

INV285

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1.0 Executive Summary

Private equity is a long-term asset class with performance results influenced by various factors. This report concentrates on several key exposures that contribute to performance results, including sector, geography and vintage year. In addition, this report highlights broad industry trends that may affect performance results going forward.

1.1 Performance Overview

From inception in 1988 through March 31, 2012, the Private Equity Program (PEP) has earned a net internal rate of return (IRR) of 13.8% and currently comprises 309 active investments across 117 firms. **The PEP portfolio has outperformed CalSTRS' customized benchmark by 210 basis points since inception** and has also exceeded the customized benchmark returns since inception. The variance of comparing PEP performance to both a public and a private equity based benchmark are highlighted in this period's results. In particular, the latest three-year period was initiated in the depths of the economic crisis when valuations were at their lowest and private equity markets have since failed to keep pace with the appreciation of the public equity markets as the PEP trailed the customized benchmark over the latest quarter, one-year, three-year, and five-year periods. Market dynamics and the benchmark change in mid-2008 contributed to the increased dispersion of returns between the PEP and benchmark for the three-year period compared to the five-year period. Over the longer ten-year and since inception periods, the PEP has performed in line with or slightly above return expectations for the private equity asset class.

Private Equity Program

Performance Against Benchmarks

As of March 31, 2012

	Quarter	1-year	3-year	5-year	10-Year	Since Inception
CalSTRS PEP	6.4%	7.2%	17.2%	5.3%	11.4%	13.8%
Custom Benchmark*	13.6%	10.0%	27.4%	7.3%	9.6%	11.7%
Private Equity Industry Benchmark**	6.6%	8.9%	19.1%	7.9%	10.3%	12.3%
Excess Returns						
v. Custom Benchmark	*-7.2%*	*-2.8%*	*-10.2%*	*-2.0%*	*1.8%*	*2.1%*
v. Private Equity Industry Benchmark	*-0.2%*	*-1.7%*	*-1.9%*	*-2.6%*	*1.1%*	*1.5%*

* CalSTRS custom benchmark, maintained by PrivateEdge, is the return of the Russell 3000 Index + 300 basis points (from and since July 1, 2008); previous periods for the PEP index consists of the 90-day Treasury Bill rate for contributions less than three years old and the Russell 3000 Index + 500 basis points.

**Utilizing State Street Private Equity Fund Index (Total)

Source: PrivateEdge, PCA analysis

The second program benchmark, referred to as the Private Equity Industry Benchmark, is based on State Street PrivateEdge data and includes over 1,900 partnerships. The PEP has outperformed this benchmark by 150 basis points since inception and by 110 basis points over the latest 10-year period, but it has underperformed over all other periods presented. Strong since-inception results for the European buyout, venture capital, expansion capital and mezzanine sectors have contributed to longer-term outperformance, while underperformance of the buyout sector, distressed debt and venture capital has dampened results over the latest year.

Given the long-term nature of the private equity asset class, combined with an effort to incorporate the more current portfolio construction and economic environment, this section emphasizes the most recent five-year performance period. Primary portfolio considerations include:

- **Buyouts represent 71% of the PEP's market value as of March 31, 2012.** The PEP's exposure to U.S. buyouts posted a five-year return of 4.5% and underperformed its private market industry benchmark by 370 basis points, while European buyouts led its industry benchmark by 60 basis points with a return of 6.3%. Of the $16.6 billion buyout portfolio, approximately 69% of market value is categorized as U.S. buyouts, with the remaining 31% categorized as international (mostly European). Significant exposure (63% of the PEP buyout market value) to the relatively weak performance of the mega buyout segment (fund sizes of $5 billion and greater) has detracted from results during the latest five-year period despite stronger absolute returns over the recent three-year period. Improved future performance will be dependent on a relatively strong public equity market along with robust merger and acquisition activity.
- Distressed debt, representing 13% of the PEP's market value, has increased in size due to commitment activity to this sector in 2007, which opportunistically positioned the portfolio. However, the five-year return underperformed its benchmark by 220 basis points as **the majority of the PEP's commitments to the distressed sector were in funding mode early in the period and commenced before the severity of the financial crisis was fully understood.** PCA believes that the continued economic uncertainty, particularly in Europe and the United States, will potentially lead to additional opportunities in the distressed debt space. However, only 17% of PEP's distressed debt commitments remain unfunded. The degree to which the current portfolio would benefit from such market dislocations is uncertain.
- Venture capital and mezzanine each trailed their respective private market industry benchmarks over the latest five-year period by 340 and 450 basis points, respectively, while expansion capital exceeded its sub-asset class benchmark by 200 basis points.
- **Approximately 56% of the PEP's commitments were made during the 2005-to-2008 time period.** As of March 31, 2012, these commitments represent 78% of the PEP's market value. As a result, the investments from this four-year period are currently primary drivers of PEP results, and the ultimate results will not be known for several years. However, two of these vintage years are performing below median as of March 31, 2012, with two placing in the second quartile and two placing in the third quartile of the State Street PrivateEdge benchmark.

1.2 Industry Trends

- **Fundraising activity in the first half of 2012 was on pace to exceed the levels raised in 2011.** Buyouts continue to represent the largest proportion of capital raised domestically, and in a reversal of a recent short-term trend, fundraising targeting European investments exceeded those targeting Asia. The market has become bifurcated, resulting in the most attractive funds being quickly over-subscribed, with the remainder continuing to struggle in an otherwise challenging environment.

- **U.S. buyout deal volume exhibited an increase in the second quarter of 2012**, but remains at relatively low levels. The low buyout transaction volume is due to multiple factors, including market volatility, concerns over U.S. and European economic stability, and availability of leverage.

- **Risk levels appeared to moderate slightly in the leveraged buyout market during the first half of 2012**. Purchase price multiples and debt multiples decreased from 2011 levels, resulting in more equity required to complete transactions. Average purchase price multiples through the first half of 2012 were slightly below the ten-year average of 8.2x. The gap between purchase price multiples for large and middle-market leverage buyout (LBO) transactions narrowed in the second quarter of 2012.

- **Venture capital investment activity increased in the second quarter of 2012,** but is on pace to trail the investment levels exhibited in 2011. Approximately $13.0 billion had been invested across 1,707 companies in the first half of 2012, compared to $14.7 billion invested across 1,942 companies in the first six months of 2011.

- **Exit activity for venture capital investments increased in the second quarter of 2012.** The number of merger and acquisition (M&A) transactions increased in the second quarter, but was still below average quarterly activity over the last year. The initial public offering (IPO) market exhibited a spike in quarterly activity due to Facebook. However, it is uncertain how the negative reaction to the logistics of Facebook's IPO will impact future activity.

- **The outlook for distressed debt investment strategies is mixed.** Debt pricing has rebounded (according to the Leveraged Loan Index produced by the Loan Syndications and Trading Association), minimizing the near-term opportunity set for trading strategies. However, the continued concerns regarding the economic environment may again tighten lending standards, which may in turn improve the opportunity set for debt-for-control transactions.

- **The future impact of European capital markets volatility on the PE Program is not known**. PCA continues to actively monitor the situation.

2.0 CalSTRS' Private Equity Portfolio Performance

This section contains an overview of the performance of the PEP, with a detailed analysis by vintage year, asset class, investment vehicle and geography, based on data provided by State Street PrivateEdge. CalSTRS' investments are classified into categories by sub-asset class, investment vehicle and geography. For example, an Italian buyout investment will be classified as "buyout" in the asset-class classification, "fund investment" for the investment-vehicle classification and "international" for the geographical classification. In line with the CalSTRS' classification system for investments, this performance analysis will examine the portfolio from several different perspectives: vintage year performance, asset class, investment vehicle, geography, fund investment concentration and industry diversification.

2.1 Portfolio Overview

Over the last six-month period, the PEP drew down $1.5 billion of contributions, received $1.6 billion in distributions and had a market value of $23.4 billion as of March 31, 2012, up from $21.3 billion six months ago. The total value of the private equity portfolio, which includes the market value plus distributions, was $49.3 billion as of March 31, 2012, representing a $3.7 billion increase since September 30, 2011.

Summary of Investments

As of March 31, 2012

$ Millions

	Number of Investments[1]	Capital Committed[2]	Capital Contributed[3]	Capital Distributed	Market Value	Total Value
Mar. 31, 2012	309	$42,716.4	$34,554.2	$25,915.8	$23,390.1	$49,306.0
Sep. 30, 2011	301	41,527.0	33,016.5	24,335.0	21,264.8	45,599.9
Six-Month Change	8	1,189.4	1,537.7	1,580.8	2,125.3	3,706.1

1. Number of Investments represents only active investments, including co-investments.
2. Includes the impact of exchange rates for international partnerships.
3. Includes capital contributed for management fees called outside of CalSTRS' capital commitment.

Source: PrivateEdge, PCA analysis

2.2 Detailed Performance Analysis

CalSTRS has set long-term targets and percentage ranges based on total exposure (defined as market value plus unfunded commitments) for the PEP for its investments in different sub-asset classes. As of March 31, 2012, **CalSTRS' actual investments were in line with the current ranges** set by the Investment Committee.

Actual vs. Target Allocation by Investment Category

As of March 31, 2012
$ Millions

Investment Category	Market Value*	Percent of PEP Market Value	Unfunded Commitments**	Total Exposure	Percent of PEP Exposure	CalSTRS Target	CalSTRS' Long-Term Target Range
Buyout	16,595	70.9%	4,813	21,408	68.9%	70%	50-85%
Venture Capital	1,409	6.0%	352	1,760	5.7%	5%	5-15%
Expansion Capital	2,091	8.9%	1,454	3,546	11.4%	10%	5-15%
Distressed Debt	2,983	12.8%	790	3,773	12.1%	15%	5-20%
Mezzanine	312	1.3%	280	593	1.9%		

* Market value is actual as of March 31, 2012 and is based upon the actual strategy of the partnership; secondaries and international are included in buyouts; co-investments are based on company investment strategy.
** The table includes all commitments made through the end of the reporting month.

Source: PrivateEdge, PCA

- Buyouts continue to represent the greatest total exposure at 68.9% of the PEP, same as of September 30, 2011.
- Given the material exposure to buyouts, future performance improvements may be dependent upon a relatively strong public equity market combined with robust merger and acquisition activity.
- Allocation to venture capital is nearing the low end of the target range.

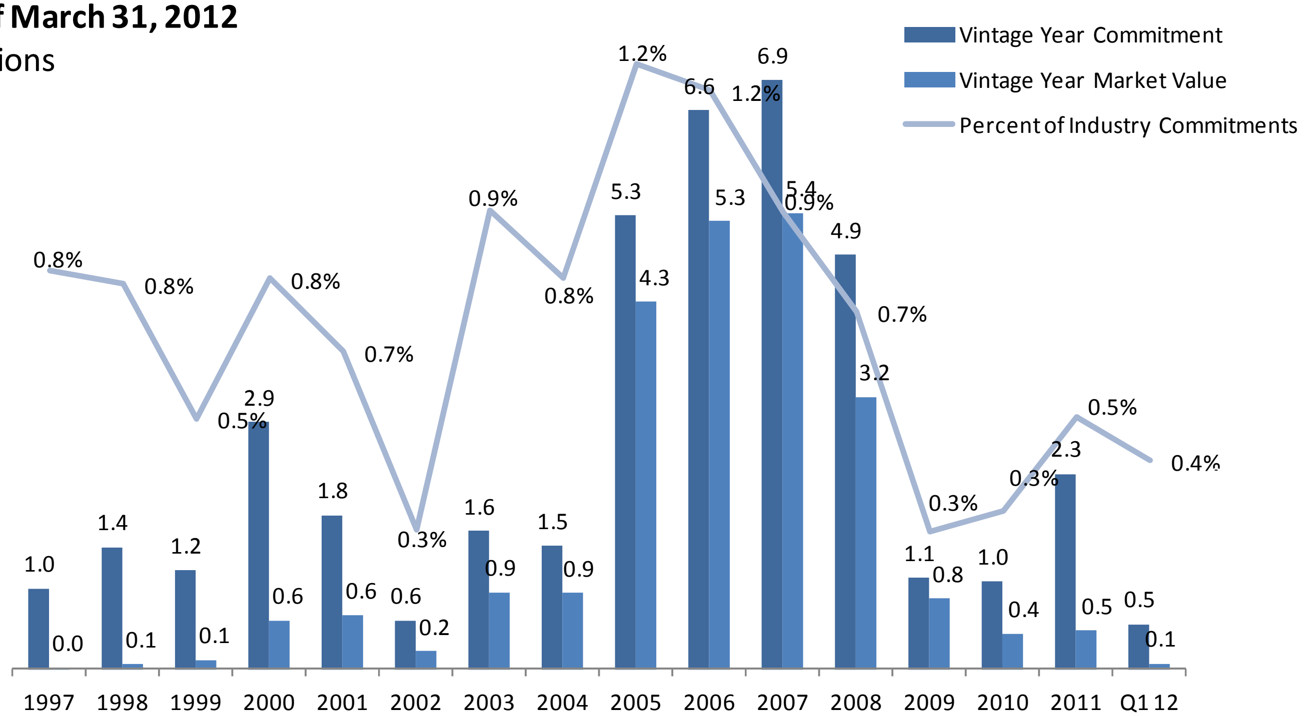
2.3 Annual Commitment Activity

Given the self-liquidating nature of the private equity asset class, continued commitment activity is required to reach and maintain target allocation levels. As the CalSTRS' total portfolio grew through the mid-2000s, so did the annual commitment activity for the PEP, reaching a peak of $6.9 billion in 2007. CalSTRS committed significant amounts of capital from 2005 to 2008, with this time period encompassing approximately 58% of committed capital and 78% of the PEP's market value as of March 31, 2012. The investments from this four-year period are currently primary drivers of PEP results. PEP annual commitment levels have represented approximately 0.7% of industry commitments levels on average, ranging from 0.3% to 1.2%.

PEP Annual Commitment Activity and Market Value

As of March 31, 2012

$ Billions

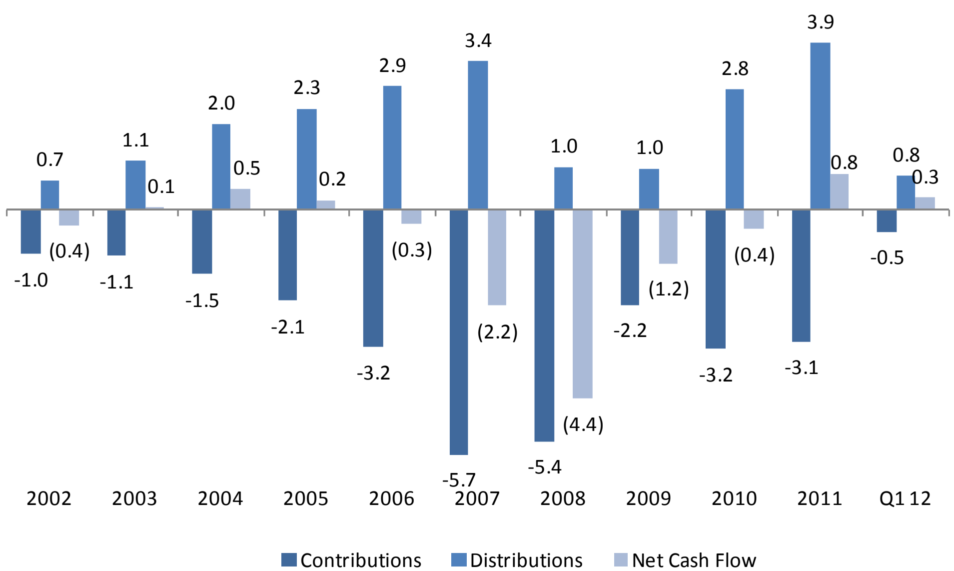


Source: PrivateEdge, Thomson Reuters, PCA Analysis

2.4 Annual Cash Flows

The PEP's aggregate cash flows have been impacted by broad market dynamics. Contribution activity was at its highest in 2007 and 2008, due to significant investment activity, influenced by readily available debt and material liquidity events. However, the increased contribution and distribution activity in 2010 and 2011 is expected to reduce the influence on performance of the material capital deployed in the 2007/2008 vintages.

PEP Annual Cash Flows
As of March 31, 2012
$ Billions



Source: PrivateEdge, PCA Analysis

- From 2007 through 2010, the PEP's net cash flow was negative (with capital contributions exceeding distributions received).
- Distribution activity increased in 2010 and 2011, with a high of $3.9 billion returned last year.
- The PEP was cash flow positive in 2011 and the first three months of 2012.
- In general, institutional investors have experienced an improvement in net cash flow in their private equity programs with increases in realizations of more mature holdings.

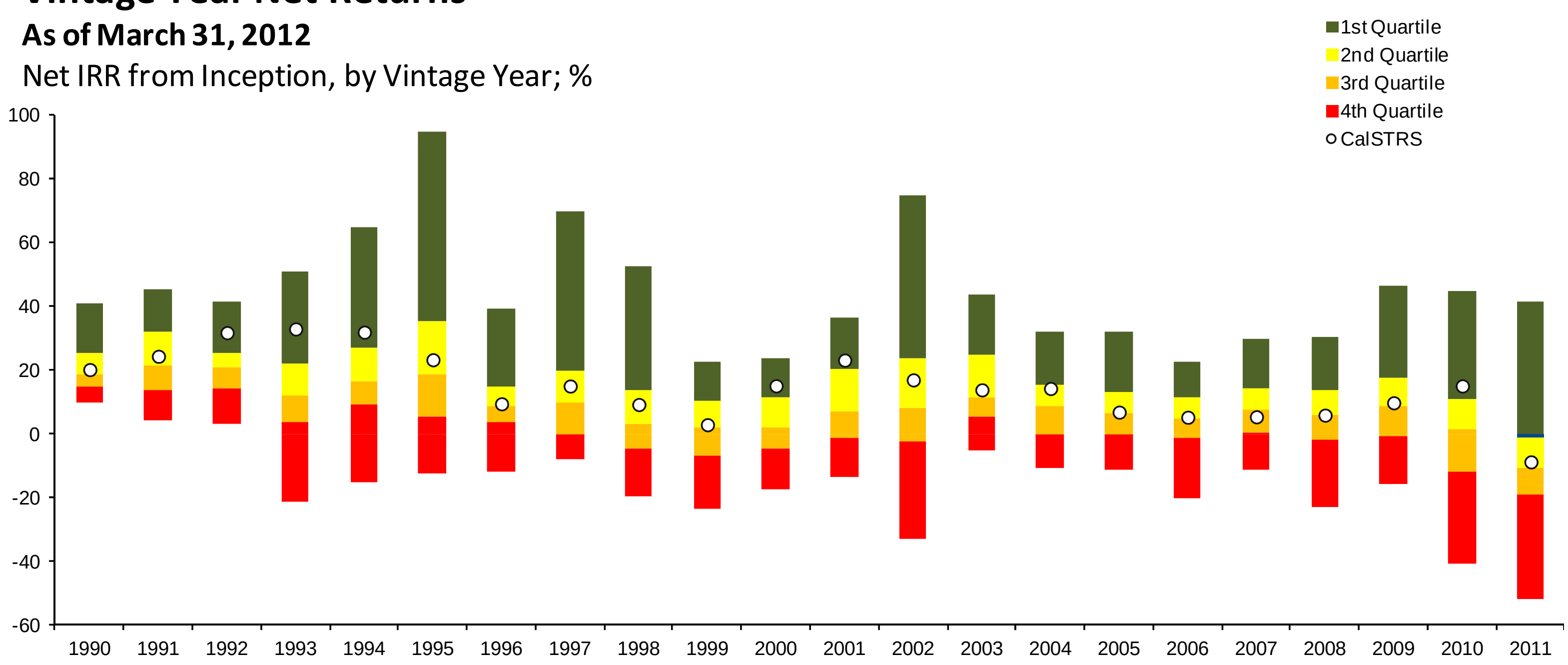
2.5 Vintage Year Performance

Investments made by the PEP since 1990 have outperformed the industry median vintage year returns in 20 of 22 years analyzed. Underperformance relative to the median has occurred in the 2007 and 2008 vintage years, which are less-mature vintages that have exhibited volatile performance results. However, these two vintage years represent $11.8 billion of commitments and $8.9 billion of market value (approximately 37% of the PEP's aggregate market value) and therefore impact portfolio results. In six vintage years (27% of the vintage years), the PEP has placed in the top quartile of the State Street PrivateEdge benchmark.

Vintage Year Net Returns*

As of March 31, 2012

Net IRR from Inception, by Vintage Year; %



* Benchmark quartile rankings provided by State Street PrivateEdge. Vintage year funds are defined as the return of all funds with the same year of inception.
Source: PrivateEdge

- Given the significant amount of unrealized value in the 2007 to 2008 vintage years, relative performance results may improve as underlying investments appreciate and are realized (as with the 2005 and 2009 vintage years that improved from third quartile to second quartile over the past six months).

2.6 Sub-Asset Class Performance

CalSTRS' sub-asset classes provided mixed performance results versus their respective private market industry benchmarks (as represented by the State Street Private Equity Indices) as of March 31, 2012. This section of the report focuses on the most recent five-year period to reflect the long-term nature of the private equity asset class while also incorporating the more current portfolio construction and economic environment.

Sub-Asset Class Performance

As of March 31, 2012

Net IRR; %

Sub-Asset Class		1-year	3-year	5-year	10-Year	Since Inception
U.S Buyout	CalSTRS	6.7%	17.2%	4.5%	11.9%	11.9%
	SSPE Index: U.S. Buyout	11.6%	19.4%	8.2%	11.4%	13.1%
International Buyout	CalSTRS	7.0%	22.5%	6.3%	18.0%	15.8%
	SSPE Index: Europe Buyout	3.8%	17.8%	5.7%	12.0%	13.8%
Venture Capital	CalSTRS	10.3%	11.2%	5.3%	7.5%	17.3%
	SSPE Index: Venture Capital	14.1%	14.9%	8.7%	6.2%	10.4%
Expansion Capital	CalSTRS	15.4%	17.3%	10.5%	11.7%	21.8%
	SSPE: Domestic Private Equity	11.1%	19.6%	8.5%	10.3%	12.5%
Mezzanine	CalSTRS	11.4%	7.0%	6.0%	11.6%	13.2%
	SSPE Index: Mezzanine	6.5%	24.1%	10.5%	8.5%	10.6%
Distressed Debt	CalSTRS	2.5%	20.7%	6.8%	8.8%	8.9%
	SSPE Index: Distressed	2.9%	25.5%	9.0%	10.9%	12.4%

Source: Private Edge

- U.S. buyout (the largest sub-asset class in the program) underperformed its sub-asset benchmark over all periods evaluated except for the 10-year period, while international buyout led its sub-asset class benchmark over all periods examined.
- Expansion capital outperformed relative to its sub-asset class benchmark over most periods, while venture capital underperformed and mezzanine posted mixed results relative to their respective sub-asset class benchmarks.
- Distressed debt underperformed its sub-asset class benchmark over all periods evaluated.

Over the latest five-year period, the U.S. buyout segment of the PEP portfolio posted a return of 4.5% and trailed its industry benchmark by 370 basis points. Partnership selection and emphasizing mega buyouts (which have underperformed other transaction sizes according to the State Street Private Equity Index) have dampened results. Given the size of the CalSTRS' portfolio, it is expected that the PEP would be an active participant in the large end of the buyout market to efficiently deploy capital. International buyouts posted a 6.3% return over the latest five-year period and outperformed its industry benchmark by 60 basis points.

Distressed debt posted a 6.8% return over the latest five-year period and trailed its private market industry benchmark by 220 basis points. Partnership selection and commitment timing have dampened returns, as material amount of the distressed debt commitments were funded prior to the economic crisis. The smaller exposures to venture capital and mezzanine each trailed their respective industry benchmarks over the latest five-year period by 340 and 450 basis points, respectively, while expansion capital exceeded its benchmark by 200 basis points.

2.7 Investment Vehicle Performance

Fund investments, at 94%, make up the bulk of the PEP's market value and have largely driven its returns. At 6%, the proportion of the portfolio in co-investments (direct private equity investments made alongside a general partner in a specific transaction, usually on better economic terms than through the limited partner structure), remains the same as six months ago.

While CalSTRS' funds have achieved a net since-inception IRR of 13.9%, the smaller, younger co-investment portfolio has returned 6.8% since inception (the co-investment program has a different inception point than the partnership program).

Performance by Investment Vehicle

As of March 31, 2012

Net IRR; %

Investment Vehicle	1-year	3-year	5-year	10-Year	Since Inception*
LP/Fund Investments	7.5%	17.4%	5.5%	11.3%	13.9%
Co-Investments	1.6%	13.0%	2.0%	9.0%	6.8%

* LP/Fund Investment Program year of inception is 1988; Co-Investment Program year of inception is 1996.

Source: PrivateEdge

- The co-investment program has also exhibited a greater volatility of returns over the periods presented (i.e. ranging from 1.6% for the one-year period, up to 13.0% for the three-year period).
- Co-investment activity in the 2007/2008 time frame exhibited an increase in the deployment of capital, and average transaction size, while experiencing aggregate losses to date.

2.8 Geographic Performance

CalSTRS' private equity investments are predominantly in U.S.-based funds, with 25% of the portfolio in international (mainly European) funds.

Since inception, the U.S. portfolio has returned 13.1%, outperforming its industry benchmark by 60 basis points. However, CalSTRS' U.S. portfolio has underperformed the State Street PrivateEdge benchmark returns over the latest one-year, three-year, five-year and ten-year periods. Significant exposure to mega buyout funds has dampened relative results for the U.S. portfolio. The international portfolio has returned 15.2% since inception, outperforming the industry benchmark by 200 basis points, and outperformed over all other periods evaluated.[1]

Geographic Performance
As of March 31, 2012
Net IRR; %

Investment Vehicle		1-year	3-year	5-year	10-Year	Since Inception
United States	CalSTRS	7.2%	15.9%	4.9%	9.9%	13.1%
	SSPE: Domestic	11.1%	19.6%	8.5%	10.3%	12.5%
International	CalSTRS	7.0%	21.2%	6.2%	17.2%	15.2%
	SSPE: International (Europe)	3.4%	17.2%	5.7%	11.4%	13.2%

Source: PrivateEdge

1. Currency exposure for the non–U.S.-dollar denominated portion of the PEP is managed at the overall portfolio level by the Fixed Income Group at CalSTRS.

2.9 Manager Concentration

The PEP's five largest buyout relationships represent 43% of the total exposure to buyouts in the PEP as of March 31, 2012, down from 45% six months ago as these firms distributed approximately $271 million over the last six months. These five relationships currently represent 30% of the total PEP exposure, down from the 31% exposure in September 2011.

Largest Buyout Relationships
As of September 30, 2011
$ Millions

General Partner	Number of Investments	Market Value	Unfunded	Total Exposure
Blackstone Group*	10	1,820	993	2,813
TPG Capital**	10	1,483	735	2,218
First Reserve	3	1,095	379	1,474
CVC Capital Partners	6	1,086	341	1,427
Permira	3	892	193	1,086

* Includes investment in GSO Capital Solutions, GSO Capital Opportunities Fund and GSO Capital Opportunities Fund II
** Includes investment in NewBridge Asia IV and TPG Asia V.
Source: PrivateEdge, PCA analysis

CalSTRS' five largest venture capital managers account for 65% of total venture exposure, in line with six months ago. The PEP's concentration of venture capital relationships has increased from a low of 48% in 2005, with CalSTRS maintaining larger relationships with select venture capital firms. Overall, the five largest venture capital managers represent 4% of the total PEP exposure.

Largest Venture Capital Relationships
As of March 31, 2012
$ Millions

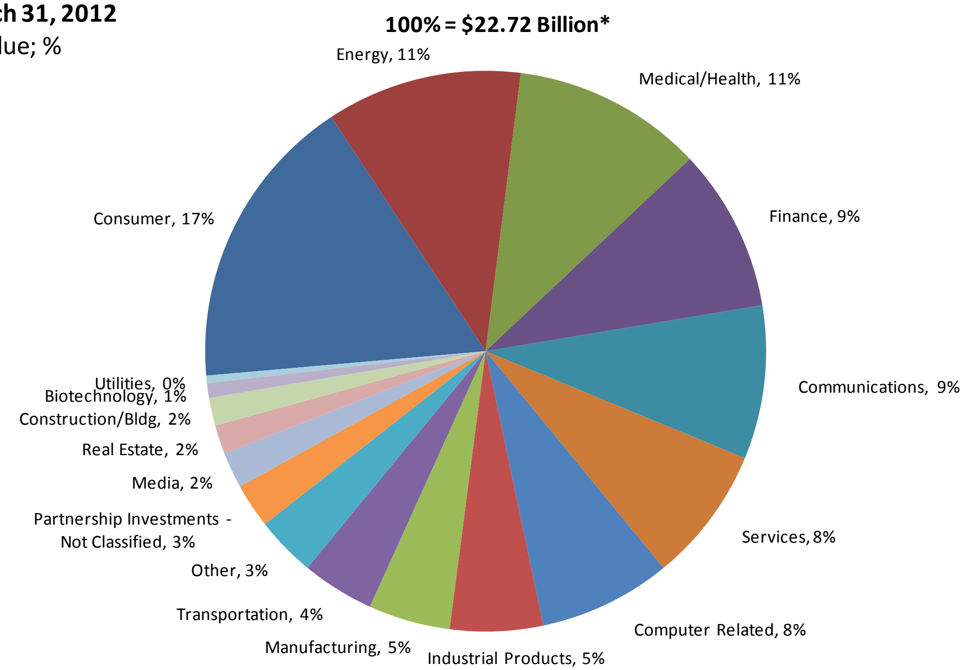
General Partner	Number of Investments	Market Value	Unfunded	Total Exposure
New Enterprise Associates	9	$384	$49	$433
Technology Crossover Ventures	3	236	51	287
VantagePoint Venture Partners	4	148	32	180
JMI Equity	3	116	33	149
Nautic Partners	2	86	8	94

Source: PrivateEdge, PCA analysis

2.10 Industry Diversification

It is also important to examine the PEP's exposure to different industries through its underlying portfolio companies. This perspective provides CalSTRS with another tool to assess whether a particular partnership and its investment strategy fits into CalSTRS' private equity portfolio. Based on market value, CalSTRS' portfolio is diversified among a variety of industries, with the largest exposures in the portfolio to the consumer, energy, medical/health, finance and communications industries, each representing approximately 9% to 17% of the portfolio. Together, these five sectors account for approximately 58% of the portfolio. The Russell 3000 Index, with slightly different classifications, has similar exposures, with the five largest sectors being information technology (18%), financial services (17%), consumer discretionary (14%), producer durables (11%), and healthcare (11%).

Portfolio Investments by Industry
As of March 31, 2012
Market Value; %



*Includes only market value of portfolio holdings, and does not include cash, other assets, expense or liability; includes co-investments.

Source: PrivateEdge, PCA Analysis

- CalSTRS' small allocation to venture capital In addition to classification differences, in addition to classification differences, is believed to be contributing to the lower exposure to information technology.

2.11 Proactive Portfolio

The Proactive Portfolio is a framework for selecting private equity investments in an opportunistic and disciplined manner. The program includes: the Urban and Rural Program, the New and Next Generation Manager Program, other innovative strategies, emerging spaces, underserved markets, and California investments. The program's investment policy has laid a framework for direct, side-by-side investments with funds that have already been approved through the funds of funds managed by Bank of America Merrill Lynch (CalSTRS/BAML Funds) and INVESCO (the New and Next Generation Manager Funds). The investments in the Proactive Portfolio are as follows:

Proactive Portfolio
As of March 31, 2012
$ Millions

Investment	Vintage Year	Market Segment	Commitment	Unfunded	Market Value	Total Value	IRR
CalSTRS/B of A Capital Access Partners	2003	Equity Expansion	75.0	17.2	40.4	52.9	(2.2)
Nogales Investors Fund I, LP	2003	Equity Expansion	25.0	0.5	5.1	15.7	(16.0)
Yucaipa Corporate Initiative Fund	2003	Buyout	150.0	19.7	79.7	86.5	(5.5)
Total 2003 Generation			**250.0**	**37.4**	**125.2**	**155.1**	**(5.5)**
CalSTRS New&Next Generation Manager Fund	2005	Equity Expansion	105.6	34.7	82.7	87.4	6.1
Total 2005 Generation			**105.6**	**34.7**	**82.7**	**87.4**	**6.1**
Acon-Bastion Partners II, L.P.	2006	Buyout	40.0	6.0	50.0	56.6	16.6
CalSTRS/B of A Capital Access Fund III	2006	Equity Expansion	200.0	81.3	114.4	118.5	(0.1)
Craton Equity Investors I, L.P.	2006	Venture Capital	30.0	2.2	24.1	24.2	(6.0)
ICV Partners II, L.P.	2006	Equity Expansion	25.0	6.1	15.2	24.7	8.9
Nogales Investors Fund II, L.P.	2006	Equity Expansion	30.0	19.7	10.6	10.6	1.1
Palladium Equity Partners III, L.P.	2006	Buyout	90.0	18.8	84.4	110.3	16.3
Total 2006 Generation			**415.0**	**134.1**	**298.7**	**344.8**	**8.4**
Syndicated Communications Vent. Part. V	2007	Venture Capital	20.0	3.0	9.6	9.8	(20.2)
Total 2007 Generation			**20.0**	**3.0**	**9.6**	**9.8**	**(20.2)**
CalSTRS New&Next Gen. Manager Fund II	2008	Equity Expansion	216.9	141.4	80.0	80.0	3.6
Total 2008 Generation			**216.9**	**141.4**	**80.0**	**80.0**	3.6
Yucaipa Corporate Initiatives Fund II LP	2009	Buyout	50.0	18.5	16.2	16.2	(41.3)
Total 2009 Generation			**50.0**	**18.5**	**16.2**	**16.2**	(41.3)
CalSTRS/BOA/ML Cap Access LLC Fund IV	2010	Buyout	200.0	187.8	9.5	9.5	(41.7)
Total 2010 Generation			**200.0**	**187.8**	**9.5**	**9.5**	(41.7)
ACON Equity Partners III LP	2011	Buyout	70.0	70.0	0.0	0.0	N/A
Total 2011 Generation			**70.0**	**70.0**	**0.0**	**0.0**	N/A
CalSTRS Proactive Total			**1,327.6**	**626.9**	**622.0**	**702.7**	**(0.1)**

Source: PrivateEdge

As of March 31, 2012, CalSTRS had committed $1.3 billion within the Proactive Portfolio across direct, side-by-side investments and funds-of-funds vehicles, with approximately 53% of the commitments having been invested. The net since-inception IRR for the Proactive Portfolio is (0.1%) as of March 31, 2012, up from (1.1%) at September 30, 2011. Almost two thirds of the Proactive Portfolio is committed to funds-of-funds whose structural J-curve is more elongated than a direct fund. This, combined with market volatility, a lack of investment exits and manager specific issues, contributes to the Proactive Portfolio's underperformance. Staff has advised PCA that they are working closely with all of the general partners in the Proactive Portfolio.

During the last year, the Director of Private Equity has become responsible for overseeing the Proactive Portfolio and the due diligence and authorization of new/renewal commitments to qualified managers. Previously, those responsibilities were discharged by the Chief Investment Officer.

3.0 Review of New Activity

The PEP has evolved into one of the largest actively managed U.S. private equity programs, with 14 (one current vacancy) private equity professionals (not including two professionals dedicated to the Proactive Portfolio) leading investments across many sub-asset classes of private equity. CalSTRS is further supported by investment advisors and independent fiduciaries for selected areas of the portfolio. This section examines current advisors, policy changes and recent portfolio activity.

Current advisors. The table below lists the current advisors and their respective roles.

Role of Advisors

Role	Advisor
Advisor to the Board	PCA
Advisor to staff on U.S., Canada, Asia and Latin America	Cambridge Associates
Advisor to staff on European, Middle East and Africa	Altius Associates
Investment and Performance reporting/Book of Record	PrivateEdge Group
Independent fiduciaries for co-investment and secondary partnerships	Valuation Research Corporation Houlihan Lokey Howard & Zukin
Independent fiduciaries for Proactive Portfolio investments	Bank of America Merrill Lynch Invesco
Legal advisors	Proskauer Rose LLP Nixon Peabody LLP Sheppard, Mullin, Richter & Hampton LLP

Source: CalSTRS

Policy changes. In June of 2012, the Private Equity Investment Policy was changed to allow CalSTRS' staff to invest in separately managed accounts under delegation of authority within certain restricted circumstances. Separately managed accounts are intended to enable large private equity investors to obtain betters terms and conditions than smaller investors. In addition, separately managed accounts may in certain instances enable staff to create customized strategies to address particular portfolio construction issues and/or take advantage of specific investment opportunities (particularly if a general partner is a multi-strategy asset manager).

3.1 Recent Portfolio Commitments

During the fourth quarter of 2011 and first quarter of 2012, the CalSTRS private equity staff made 13 new commitments.

New Commitments
October 1, 2011, to March 31, 2012

Partnership	Commitment	Investment Category	Closing Date
Blackstone Eagle Prin Tran Ptns	$36,000,000	Co-Investment	10/27/2011
Wing Holdings I, LLC	$40,000,000	Co-Investment	11/22/2011
PAG Asia I LP	$125,000,000	Buyout	12/1/2011
EnCap Energy Capital VIII Co-Investors	$50,000,000	Equity Expansion	12/2/2011
Hony Capital Fund V, L.P.	$75,000,000	Equity Expansion	12/12/2011
Oaktree European Principal Fund III L.P.	$75,000,000	Distressed Debt	12/13/2011
ACON Equity Partners III LP	$70,000,000	Buyout	12/15/2011
TPG Opportunities Partners II, L.P.	$35,438,698	Distressed Debt	12/20/2011
Thoma Bravo Fund X, L.P.	$100,000,000	Buyout	2/24/2012
Centerbridge Special Credit Partners II, L.P.	$250,000,000	Distressed Debt	3/1/2012
Gores Small Capitalization Partners, L.P.	$30,000,000	Buyout	3/2/2012
Mid-Con Co-Invest	$55,000,000	Co-Investment	3/26/2012
Coller International Partners VI, L.P.	$100,000,000	Buyout	3/29/2012

Source: PrivateEdge

Subsequent to March 31, 2012, CalSTRS made three new commitments.

New Commitments

April 1, 2012, to June 30, 2012

Partnership	Commitment	Investment Category	Closing Date
Calstrs New & Next Generation Manager Fund II	$250,000,000	Equity Expansion	4/2/2012
Strategic Investors Fund V-B, L.P.	$36,608,824	Venture Capital	4/12/2012
New Enterprise Associates 14, LP	$175,000,000	Venture Capital	5/4/2012

Source: PrivateEdge

4.0 Private Equity Market Environment

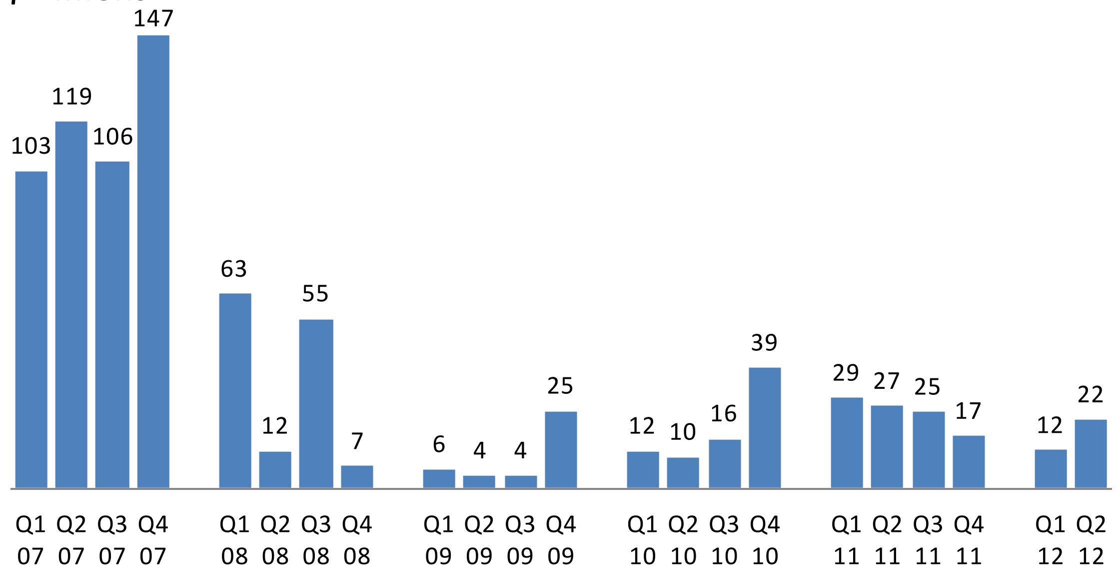
This section outlines some of the significant current industry dynamics affecting private equity returns in the U.S., Europe and Asia, including deal flow and fundraising in the buyout and venture capital markets, and reviews major industry developments.

4.1 U.S. Buyout Market Trends

Buyout deals. U.S. buyout deal volume exhibited an increase in activity in Q2 2012, transacting $22.2 billion in value, up from $12.2 billion in Q1 2012. However, the first half of 2012 is on pace to lag transaction activity of 2011.

Disclosed U.S. Quarterly Leveraged Buyout Deal Value*

$ Billions

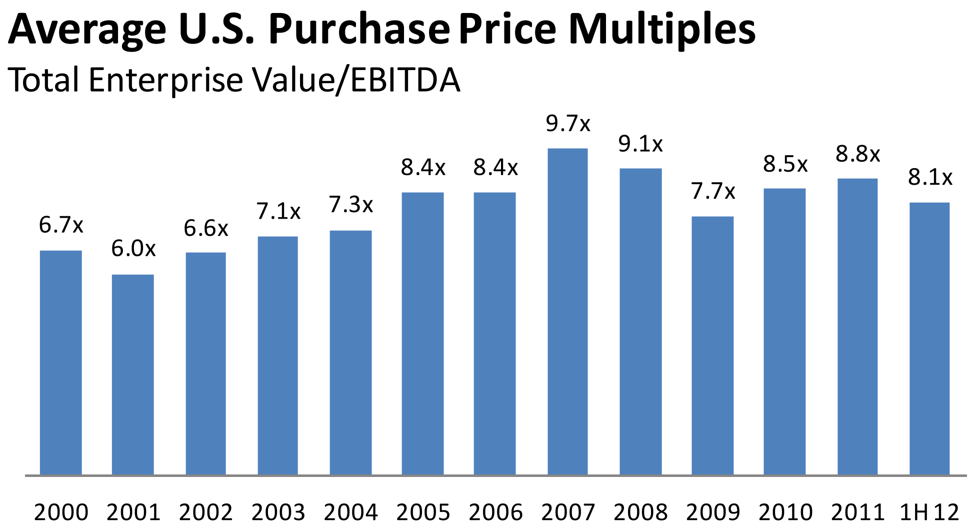


* Total deal size (both equity and debt)

Source: *Thomson Reuters Buyouts*

- Buyout investment activity declined throughout 2011 and remained low in the first half of 2012, due in large part, to remaining uncertainty about the economy, increased competition from strategic buyers, and the potential impact of impending financial regulations.

Purchase price multiples (as represented by total enterprise value divided by earnings before interest, taxes, depreciation and amortization, or EBITDA) declined in the first half of 2012.



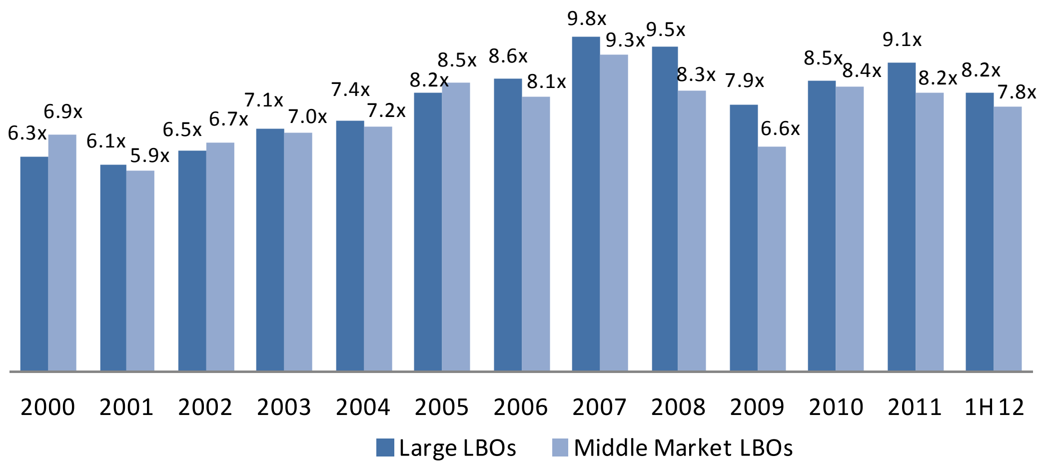
Source: S&P LCD

- Purchase price multiples have exhibited volatility over the past several years.
- The 8.1x purchase price multiple for 1H 2012 is below the 10-year average for the industry (8.2x).
- The influence on ultimate performance of industry valuations at purchase is not absolute but is commonly a material component. Purchases during the 2007/2008 time frame suggest a higher valuation environment for investment transactions.

In general, purchase price multiples for larger transactions (EBITDAs >$50 million and represented by the dark blue bars below) have historically been higher than the purchase price multiples exhibited in the smaller and middle market (EBITDAs <$50 million and represented by the light blue bars below). Given the expected focus on commitments to smaller/middle market opportunities over the near term, there could be additional competition for deals going forward that could influence the purchase price multiple in the smaller end of the market.

Average U.S. Purchase Price Multiples: Large vs. Middle Market

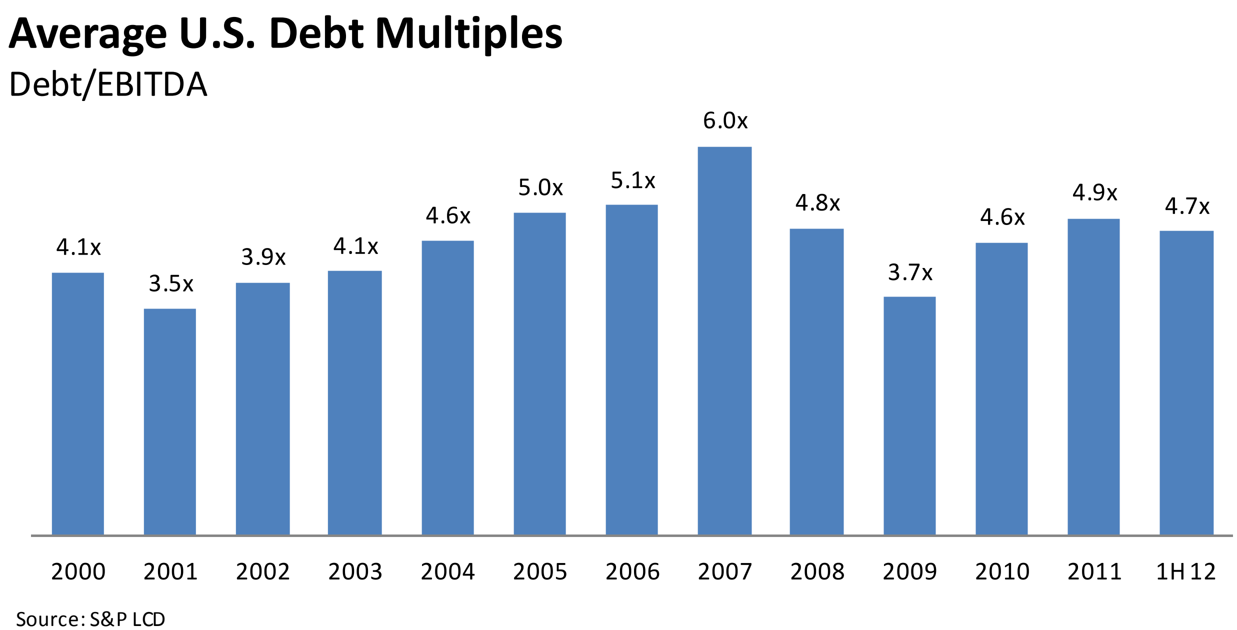
Total Enterprise Value/EBITDA



*"Large" defined as issuers with EBITDA >$50M, "Middle Market" as issuers with EBITDA <$50M.
Source: S&P LCD

- The gap between large buyout transactions and middle-market transactions narrowed in the second quarter of 2012.

The average debt multiple has followed a similar pattern as the purchase price multiple, declining from recent peaks in 2007 and 2011, declining in the first half of 2012.



- The decline in average debt multiple from its peak resulted in an increase in the average equity component of a transaction to 46% in 2009 from 31% in 2007.
- The dynamics of 2008 and 2009 resulted in more conservative capital structures for transactions completed.

The sizes of the top 10 deals year-to-date in 2012, representing $21 billion in value, continue to be dramatically less than those seen from 2006 to 2008. The top 10 deals completed during 2007 represented $237 billion in value, compared to only $30 billion in 2010 and $33.9 billion in 2011. **CalSTRS' PEP has exposure to six of the of the ten largest U.S. sponsored buyout deals in the first half of 2012.**

Top 10 U.S. Sponsored Buyout Deals* YTD in 2012

Closed	Company Name	Industry	Sponsor	Deal Type	Deal Size $ Millions
Q2 2012	EP Energy Corp.	Energy and Power	Apollo Global Management, Riverstone Holdings, Access Industries Inc	Carve-out/Platform	7,150
Q2 2012	TransUnion Corp	High Technology	Advent International Corp., GS Capital Partners	Platform Investment / Sponsor-to-Sponsor	3,178
Q2 2012	Misys PLC	High Technology	Vista Equity Partners	Platform Investment / Take Private	2,032
Q1 2012	SunGuard Higher Education	High Technology	Hellman & Friedman	Add-on to Datatel Inc./Carve-out	1,775
Q1 2012	Genesys Telecommunications Laboratories Inc.	High Technology	Permira Advisers, Technology Crossover Ventures	Carve-out/Platform	1,500
Q1 2012	Taminco	Materials	Apollo Global Management	Platform Investment / Sponsor-to-Sponsor	1,435
Q2 2012	Thomson Reuters Corp- Healthcare Business	High Technology	Veritas Capital Partners	Carve-out/Platform	1,250
Q1 2012	Capital Safety Group Ltd	Consumer Staples	KKR & Co	Platform Investment / Sponsor-to-Sponsor	1,120
Q1 2012	Blue Coat Systems Inc.	High Technology	Thoma Bravo, Teachers Private Capital of Canada	Platform Investment / Take Private	955
Q2 2012	AT&T Inc-Yellowpages.com	High Technology	Cerberus Capital Management	Carve-out/Platform	950

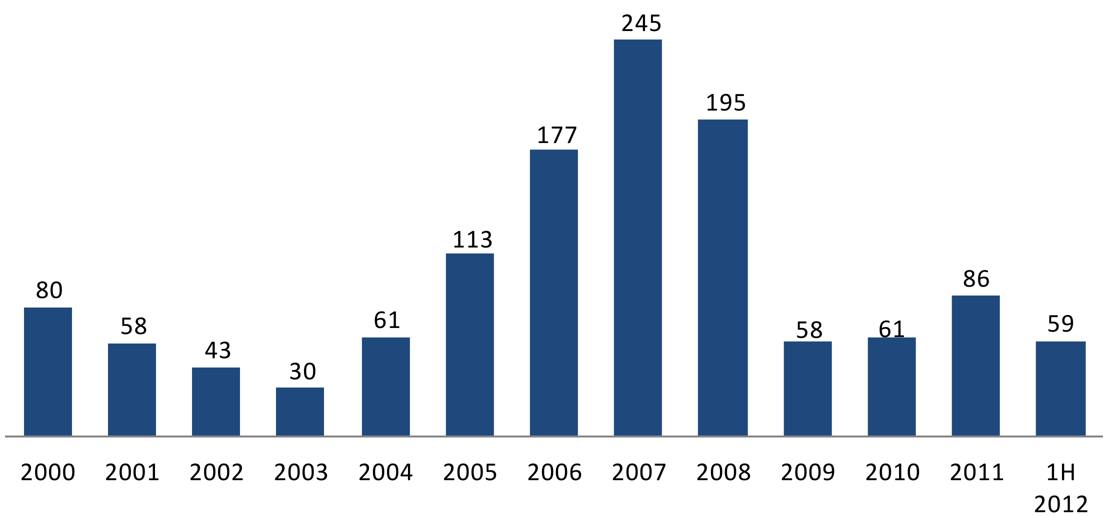
* Closed deals; deal size includes equity and debt.

Source: *Thompson Reuters Buyouts*

- Each of the top 10 transactions in 2007 exceeded $8 billion in disclosed value, the largest valued at $44.3 billion. In contrast, only one transaction in the first half of 2012 exceeded $4 billion in transaction value.

Buyout fundraising. Fundraising activity for the first half of 2012 is on pace to exceed last year's level, with $59 billion raised to date.

U.S. Buyout Fundraising
$ Billions



Source: *Private Equity Analyst*

- Buyouts continue to represent the largest proportion of capital raised domestically.
- The market has become bifurcated, resulting in the most attractive funds being quickly over-subscribed, with the remainder continuing to struggle in an otherwise challenging environment.
- Target fund sizes, in general, have been at or below prior fund sizes.
- Commitments raised in the first half 2012 are on pace to exceed amounts raised in 2005.

The participation of mega firms (defined as those raising funds of $6 billion or more) continues to be well below the peak years, but returning. Three firms raising capital in 2012 have achieved $6 billion or more in commitments.

Largest U.S. Buyout Funds Raising Capital YTD in 2012

$ Millions

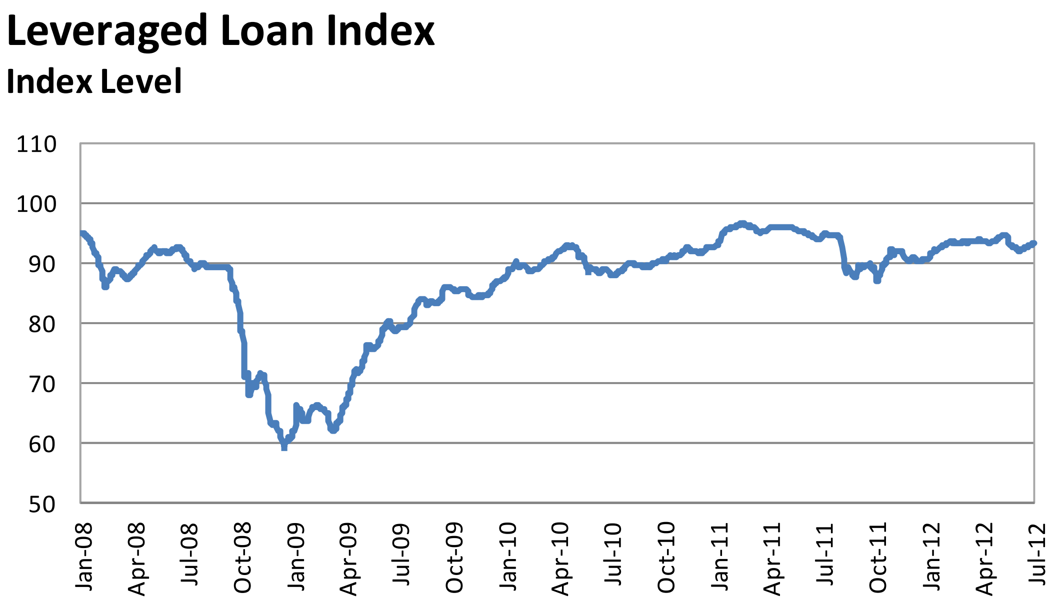
Fund	Firm	Target	Raised*	Raised YTD 2012
Blackstone Capital Partners VI	Blackstone Group	$15,000	$ 16,000	$ 1,300
Green Equity Partners VI	Leonard Green & Partners	5,000	6,250	2,250
KKR North American XI Fund	Kohlberg Kravis Roberts & Co.	8,000	6,000	2,000
Warburg Pincus Private Equity XI	Warburg Pincus	12,000	5,100	5,100
Providence Equity Partners VII	Providence Equity Partners	N/A	4,500	4,500
Mount Kellett Capital Partners II	Mount Kellett Capital Management	N/A	4,000	3,268
Vista Equity Partners Fund IV	Vista Equity Partners	2,500	3,500	700
Natural Gas Partners X	Natural Gas Partners	4,000	3,441	789
American Securites Partners VI	American Securities	3,500	3,640	769
Ares Corporate Opportunities Fund IV	Ares Management	4,700	3,233	3,233

* Represents aggregate commitments raised, which may include prior calendar year

Source: *Private Equity Analyst*

- CalSTRS has interest (representing $322 million of commitments) in one of the top 10 largest funds raising capital year to date in 2012, highlighted in grey above.
- Given CalSTRS' significant asset size, it is difficult to commit a meaningful amount of capital to an investment opportunity without representing the vast majority of limited partner capital, unless the potential fund is raising a large amount. PCA believes that CalSTRS expects to continue to participate in larger partnerships.

Distressed debt. The outlook for distressed debt investment strategies is mixed. Interest in the leveraged loan market pushed the price of leveraged loans back towards par after lows seen in 2009, easing the opportunity set for trading strategies. However, pricing volatility over the past couple of years has provided trading opportunities.



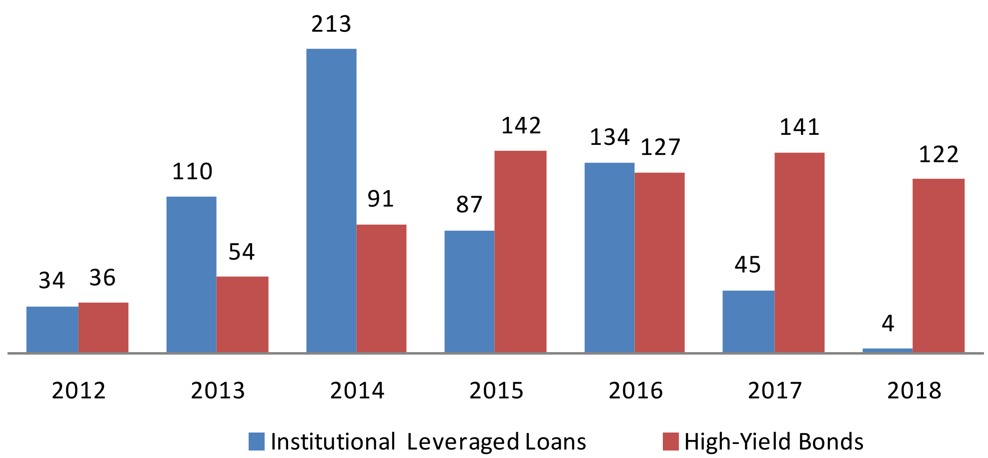
Source: Loan Syndications and Trading Association (LSTA)

- Approximately 52% of CalSTRS commitments to the distressed debt segment have a vintage year of 2007 or 2008. The distressed debt portfolio includes a variety of strategies, and managers invested capital at differing paces, but material investment activity occurred prior to the pricing drop in late 2008/early 2009.

The opportunity set for debt-for-control strategies remains unclear. There appears to be an attractive pending opportunity set, since the magnitude of debt that was "amended and extended" during the crisis resulted in a significant volume of debt issues that are maturing over the next several years. With the uncertain economic environment and changing availability of debt, the opportunity set for debt-for-control transactions may be positioned to grow.

U.S. High-Yield and Leveraged Loan Maturities

$ Billions



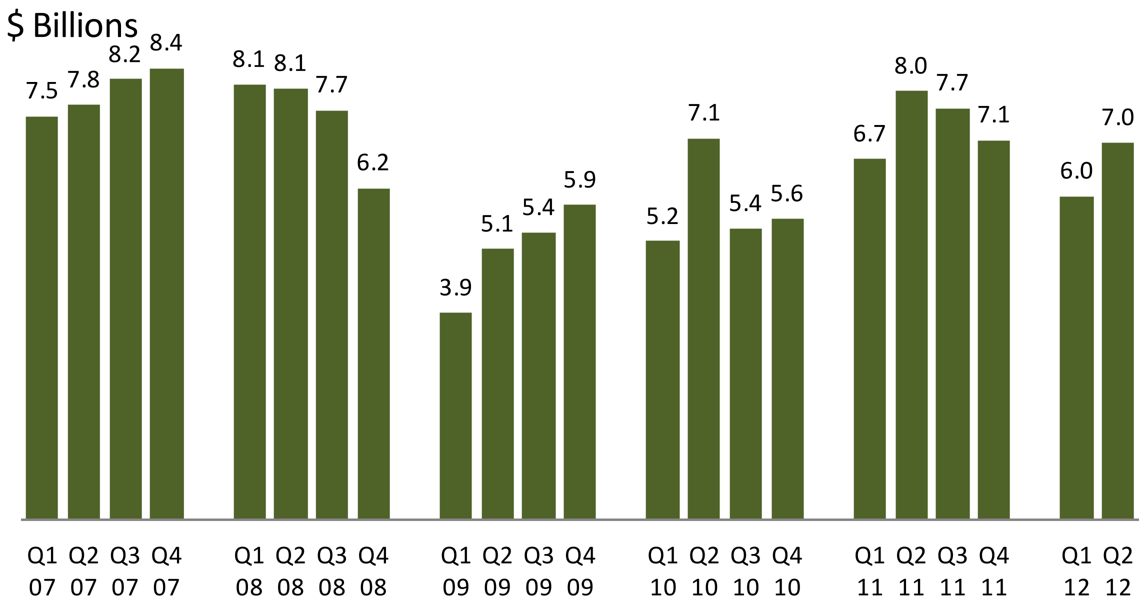
Source: Credit Suisse, Cerberus

4.2 U.S. Venture Capital Trends

Several favorable dynamics in the industry suggest potential for attractive long-term results going forward, including reduced commitment to venture capital; ability for entrepreneurs to create new companies at a lower cost due to ongoing technological enhancements; embedded value within existing venture capital portfolios that have yet to be realized; and an improving exit environment. However, given the smaller transaction and fund sizes, it is difficult for large institutional investors such as CalSTRS to make significant commitments to the venture capital sector.

Venture capital deals. Venture capital investment activity increased throughout 2009, 2010 and 2011. Activity in the first half of 2012 is slightly down from last year, investing $13.0 billion across 1,707 companies.

Quarterly U.S. Venture Capital Deal Volume*



* Only includes equity portion of deal value.
Source: Thomson Reuters

- Q2 2012 activity invested $7.0 billion across 898 deals (average transaction size of $7.8 million), with seed and early-stage transactions accounting for 53% of the deal volume, while expansion-stage deals represented 26%, followed by later-stage transactions at 21%.

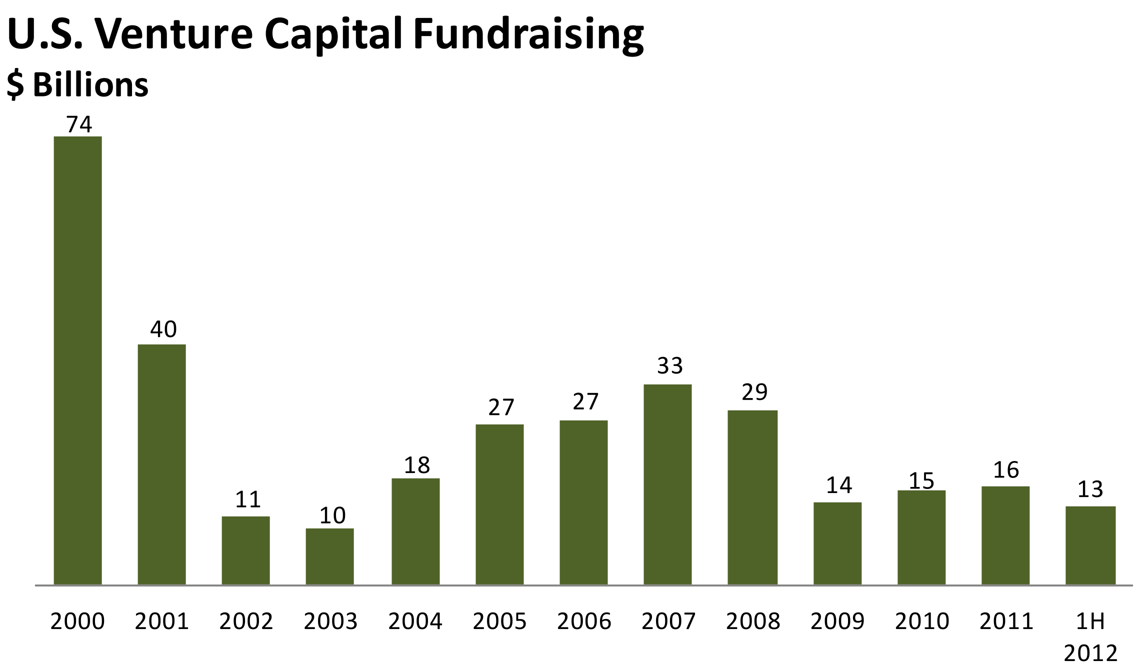
The software industry received the highest level of funding for all industries in the first half of 2012, with $4.0 billion invested, followed by industrial/energy at $1.7 billion and biotechnology at $1.5 billion. The table below lists the largest venture capital deals during the first six months of 2012. **CalSTRS' PEP has exposure to one of the ten largest venture capital deals in the first half of 2012.**

Top 10 U.S. Venture Capital Deals YTD in 2012

Company Name	Industry	Firm Name(s)	Estimated Round Total $ Millions
GitHub, Inc.	WebServer Software	Andreessen Horowitz, SV Angel	100
Pinterest, Inc.	Internet Publishing	Andreessen Horowitz, FirstMark Capital, 2 undisclosed firms	66
SolarCity Corporation	Photovoltaic Solar	DBL Investors, JF Shea Co., Silver Lake, Valor Equity Partners, undisclosed firm	50
Instagram, Inc.	Multimedia Software	Greylock Partners, Sequoia Capital, Thrive Capital Partners	40
TrialPay, Inc.	Internet Publishing	Atomico Ventures, Battery Ventures, Draper Fisher Jurvetson, Duff Ackerman & Goodrich, Greylock Partners, Index Ventures, QuestMark Partners, T. Rowe Price Threshold Partnerships, Visa	37
OvaScience, Inc.	Biotechnology	Cycad Group, General Catalyst Partners, Hunt BioVentures, Longwood Founders Management, RA Capital Management, 2 undisclosed firms	37
SpiderCloud Wireless, Inc.	Wireless Telecommunications	Charles River Ventures, Matrix Partners, Opus Capital, Shasta Ventures Management	35
Violin Memory, Inc.	Computer Storage	Highland Capital Partners, Juniper Networks, SAP Ventures, Toshiba Corporation	32
Marin Software, Inc.	Software Publishers	Benchmark Capital, Crosslink Capital, Duff Ackerman & Goodrich, SAP Ventures, Temasek Holdings, Triangle Peak Partners	30
VeraCode, Inc.	Security/Firewalls, Encryption	Atlas Venture, Meritech Capital Partners, .406 Ventures, StarVest Partners	30

Source: Thomson Reuters

Venture capital fundraising. Venture investors continue to take a measured approach to the industry in the post–"dot-com" era. Venture capital fundraising activities have exhibited very slight increases since 2009. Venture capital commitments through the first half of 2012 are on pace to approximate fundraising levels achieved in the 2005/2006 time period, still well below the 2000/2001 time period.



Source: *Private Equity Analyst*

- Many industry participants view the continued low level of fundraising as a positive dynamic because less capital is expected to compete for attractive venture deals and fewer "me too" firms will compete for market share.

Venture capital fundraising is being led by a select few firms. The top ten funds raising capital year to date in 2012 represented 68% of aggregate venture capital commitments raised. CalSTRS has made one commitment to the top 10 largest venture capital funds raising capital year to date in 2012, highlighted in grey below.

Largest Venture Capital Funds Raising Capital YTD in 2012

$ Millions

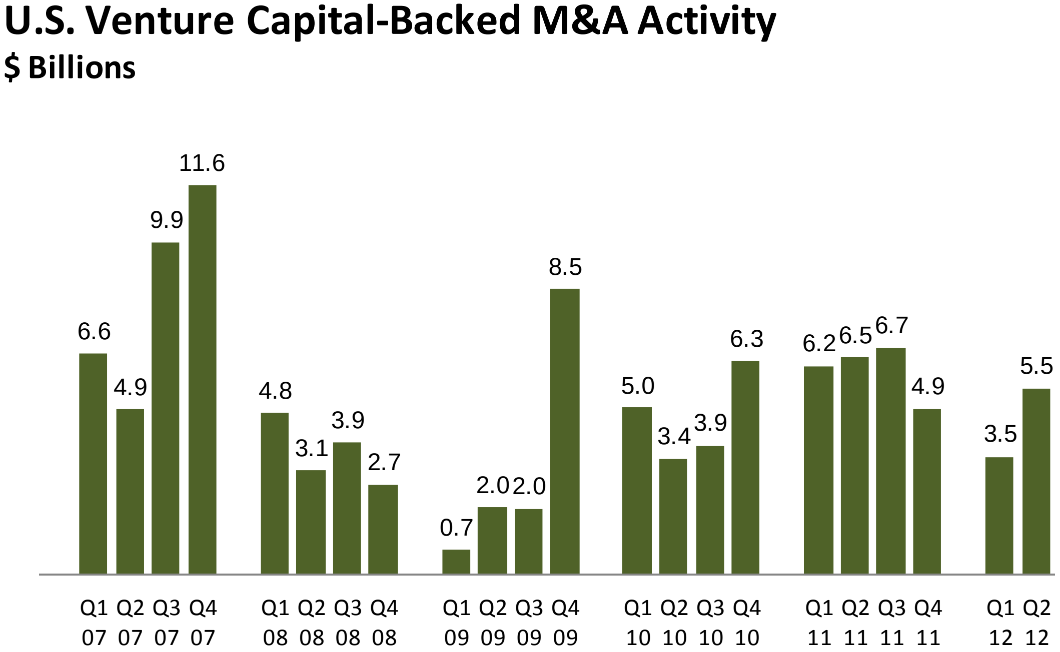
Fund	Firm	Target	Raised*	Raised YTD 2012
New Enterprise Associates XIV	New Enterprise Associates	$ 2,300	$ 2,080	$ 2,080
Andreessen Horowitz Fund III	Andreessen Horowitz	900	1,500	1,500
Tiger Global Private Investment Partners VII	Tiger Global Management	N/A	1,490	1,490
Institutional Venture Partners XIV	Institutional Venture Partners	750	1,000	1,000
Lightspeed Venture Partners IX	Lightspeed Venture Partners	675	675	675
Bain Capital Venture Fund 2012	Bain Capital Ventures	N/A	601	601
Canaan IX	Canaan Partners	550	600	600
Kleiner Perkins Caufield & Byers XV	Kleiner Perkins Caufield & Byers	N/A	525	525
Mithril Capital Management Fund I	Mithril Capital Management	N/A	402	402

* Represents aggregate commitments raised, which may include prior calendar year.

Source: *Private Equity Analyst*

According to *Private Equity Analyst*, 26 multi-stage firms raised the greatest amount of venture capital commitment in the first half of 2012, at $7.7 billion. An additional 43 early-stage funds raised $3.1 billion in capital commitments, while 12 late-stage firms collected $2.1 billion.

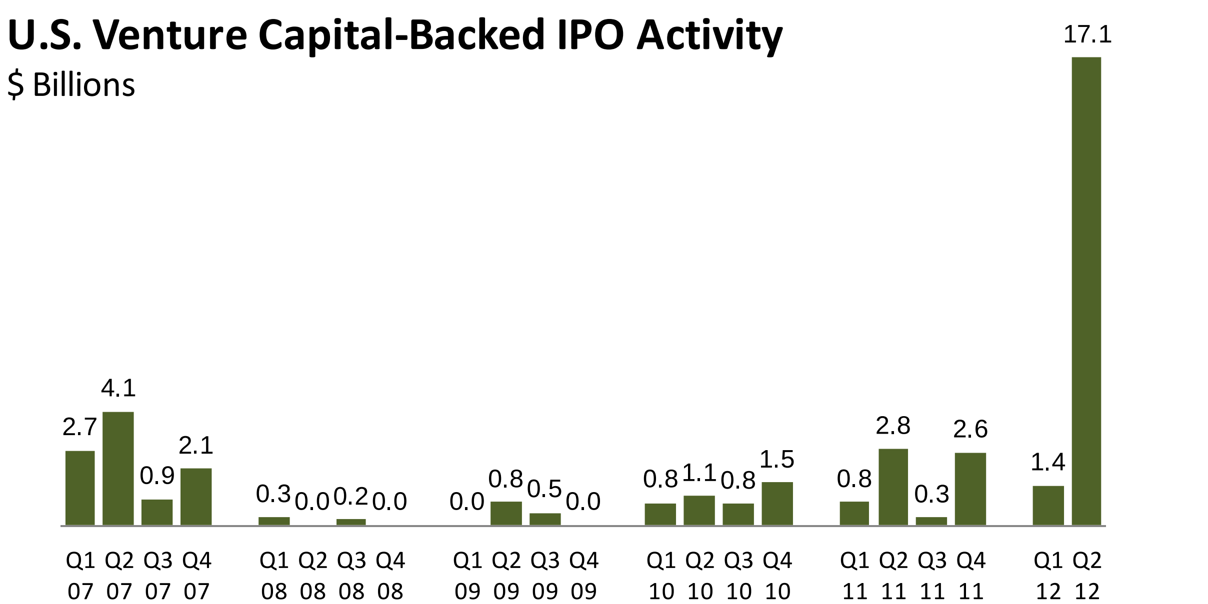
Exit opportunities. Exit opportunities for venture-backed companies are showing signs of increased activity, but have exhibited volatility over the past several quarters



Source: Thomson Reuters

- In 2011, 489 venture-backed M&A transactions, representing $24.3 billion in disclosed value were completed, well above the $18.6 billion in disclosed value invested across 501 transactions in 2010.
- The first two quarters of 2012 exhibited more volatility in transaction value, ranging from $3.5 billion in the first quarter to $5.5 in the second quarter. Annualizing the first half 2012 activity, the full year 2012 M&A activity is projected to lag 2011.

IPO activity, led by Facebook, exhibited a spike in the second quarter of 2012 raising $17.1 billion in capital. It is uncertain if the negative reaction to the logistics of the Facebook IPO will dampen activity going forward.



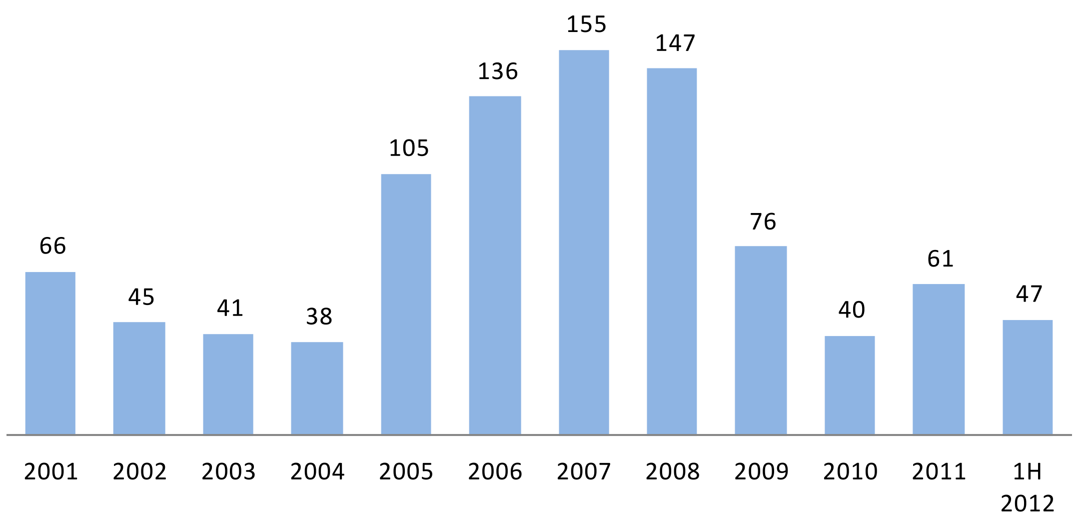
Source: Thomson Reuters

- In aggregate, 40 venture-backed companies went public in 2011, raising $6.5 billion. This compares favorably to the $4.4 billion raised in 2010 across 46 venture-backed IPOs.
- IPO activity continues to increase since recent lows seen in 2008.
- Given the delay of venture exits due to the economic environment, many industry participants claim there is significant value embedded in existing venture capital portfolios that are ready for attractive exits.

4.3 European Private Equity Trends

Fundraising. European fundraising in 2011 exceeded 2010 levels, reversing a trend of year-over-year declines since 2007. In the first half of 2012, $47 billion of commitments were raised which is on pace to exceed the aggregate annual amount raised in 2011. However, these levels continue to be well below the record level of $155 billion achieved in 2007.

European Private Equity Fundraising
$ Billions



Source: Thomson Reuters

CalSTRS invested in two (highlighted in grey below) of the top 10 largest European funds raising capital year-to-date in 2012.

Largest European Funds Raising Capital YTD in 2012

$ Millions

Fund	Firm	Target	Raised *	Raised YTD 2012
BC European Capital IX	BC Partners Ltd.	$ 7,685	$ 9,026	$ 264
Apax Europe VIII	Apax Partners	13,352	5,728	5,728
AXA Secondary Fund V	AXA Investment Managers	3,500	5,000	2,000
Coller International Partners VI	Coller Capital	5,000	4,000	5,000
The Fifth Cinven Fund	Cinven	7,139	3,972	3,973
Capital International Private Equity Fund VI	Capital International	2,500	3,000	1,219
Lion Capital Fund III	Lion Capital	2,501	2,074	280
Equistone European Fund IV	Equistone Partners Europe	2,066	1,351	666
Investindustrial V	Investindustrial Advisors	1,712	1,340	666
Industri Kapital 2011 Fund	IK Investment Partners	2,494	1,332	1,332

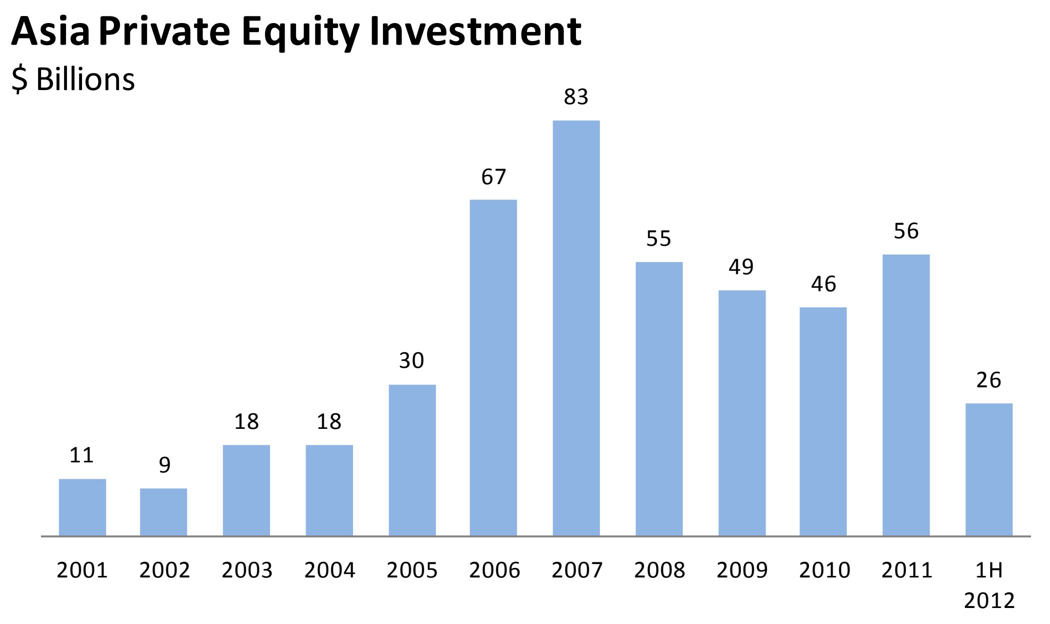
* Represents aggregate commitments raised, which may include prior calendar year.

Source: *Private Equity Analyst*

4.4 Asian Private Equity Trends

The rapid ascent of private equity in Asia (defined as the Asia-Pacific countries plus India) peaked in 2007, with pacing for fundraising and investment activity declining in 2008 and 2009, in line with global trends. Interest in Asia has since declined from its peak but is believed to continue to have significant potential for outpaced returns for private equity investors over the longer-term. Projected growth in these economies is driven primarily by large populations and ongoing government liberalization in the Asian markets.

Deals. Asian deal flow reversed a trend of annual declines last year, transacting $56 billion in 2011 up from $46 billion in 2010. In the first half of 2012, investment pace is near last year's level.

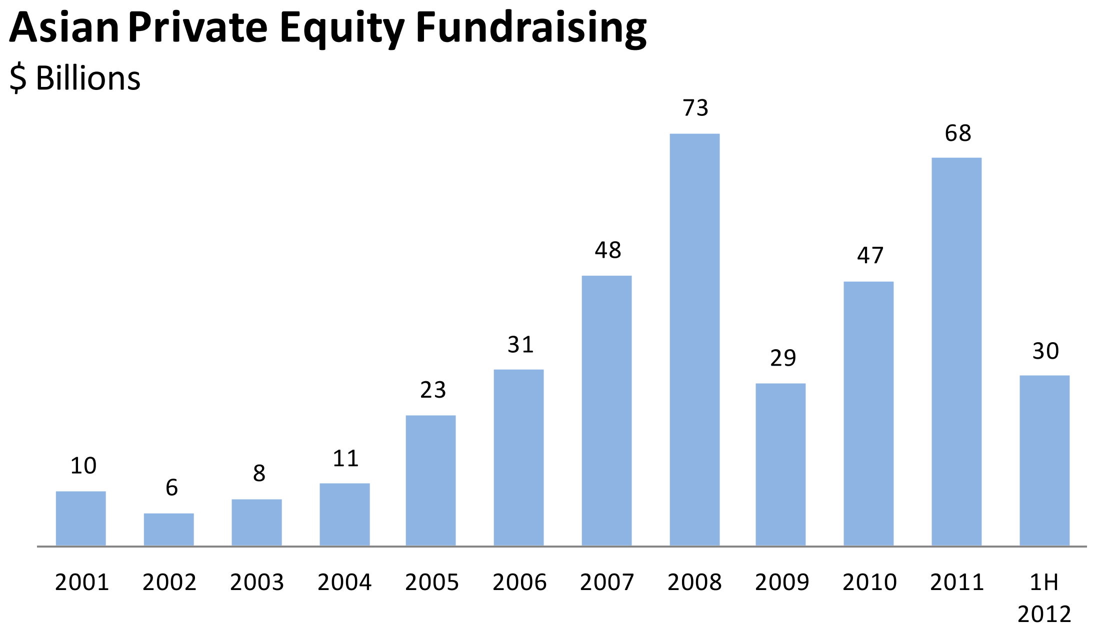


Source: *Asian Venture Capital Journal*

- In 1H 2012, $26 billion of capital was invested in Asia. China accounted for 39% of the activity, followed by Australia at 18%, India at 13%, and Japan at 10%.[2]

2. *Asian Venture Capital Journal (AVCJ).*

Fundraising. Fundraising activity increased year-over-year since 2009, raising $68 billion in 2011. However, fund raising for the first half of 2012, at $30 billion, is on pace to trail last year's level.



Source: Thomson Reuters

Appendix 1

California State Teachers' Retirement System
Alternative Investment
IRRs by FOF (Excludes Co-Investments
For Period 01 Jan 1900 To 31 Mar 2012

8/3/2012

Description	Capital Committed	Capital Contributed	Capital Distributed	Ending market value	Annualized ROR
Excludes Co Investments and Private Liquidation					
Limited Partnership by FOF-Weighted Age					
Total	**38,521,723,753.94**	**30,725,783,132.26**	**21,039,189,215.65**	**21,985,934,869.16**	**12.35**
Acon-Bastion	110,000,000.00	33,974,793.00	6,541,242.00	50,009,149.00	16.61
Advent CEE	103,646,859.39	57,103,952.02	0.00	36,225,988.12	(25.73)
Advent International	275,286,707.18	203,374,918.98	11,381,986.00	240,932,360.30	12.43
Affinity Equity Partners	150,000,000.00	105,850,809.34	35,674,677.77	102,499,318.00	11.04
Alchemy Plan	258,985,732.44	258,154,612.44	156,127,959.47	101,678,187.53	(0.05)
Alchemy SO	80,329,252.19	59,646,405.83	26,038,419.63	43,342,479.39	4.75
Alta Communications	85,000,000.00	81,700,000.00	39,198,733.00	21,743,326.00	(5.36)
Alta Partners	20,000,000.00	20,000,000.00	45,540,989.12	237,553.00	24.54
Angelo Gordon & Co	348,167,750.00	344,917,748.00	123,715,082.00	294,657,538.00	9.17
Apax Europe	956,435,149.60	918,481,705.76	547,286,734.74	716,032,137.91	13.64
Apax U.S.	100,000,000.00	98,422,784.00	131,749,983.00	26,448,799.00	11.79
Apollo Management	600,000,000.00	445,148,127.62	85,562,548.39	552,206,765.00	11.89
ARCH Venture Partners	30,000,000.00	28,800,000.01	1,215,258.00	41,605,164.00	9.27
AtriA Capital Partners	41,958,201.12	26,512,627.69	0.00	18,875,169.15	(9.50)
Austin Ventures	37,000,000.00	37,000,000.00	40,253,255.71	3,617,385.00	5.94
Avenue Capital Partners	250,000,000.00	250,000,000.00	308,350,668.00	23,329,062.00	11.25
Bain Capital	600,000,000.00	460,000,000.00	73,466,828.00	419,829,586.00	2.55
Bain Capital Asia	25,000,000.00	23,187,500.00	5,716,134.00	19,733,421.00	4.53
BC Partners	1,217,113,867.54	924,560,732.71	1,023,622,634.24	526,444,374.90	18.71
BCI Partners	25,000,000.00	25,000,021.49	15,212,872.61	1,929,802.00	(5.44)
Blackstone Group	2,965,173,000.00	2,396,425,786.45	1,536,834,317.21	1,723,397,070.00	11.00
BlueRun	55,011,236.00	43,767,640.03	13,995,880.02	40,438,810.00	6.93
Boston Ventures	90,000,000.00	86,872,281.01	93,621,709.58	7,523,456.00	2.85
BS Private Equity	42,454,426.50	38,048,978.81	17,821,035.89	18,761,599.11	(1.00)

California State Teachers' Retirement System
Alternative Investment
IRRs by FOF (Excludes Co-Investments
For Period 01 Jan 1900 To 31 Mar 2012

8/3/2012

Description	Capital Committed	Capital Contributed	Capital Distributed	Ending market value	Annualized ROR
CalSTRS Bank of America Capital Access	475,000,000.00	188,772,616.66	16,533,976.25	164,284,508.36	(1.67)
Carlyle Europe	525,610,330.82	406,268,953.57	18,203,360.27	383,850,053.27	(0.43)
Carlyle Group	600,000,000.00	419,087,414.00	137,633,344.00	443,480,446.00	10.72
CarVal Investors	196,000,000.00	186,200,000.00	49,681,889.69	169,730,060.00	3.61
Centerbridge Capital	875,000,000.00	453,877,947.13	88,668,720.00	564,735,200.00	18.07
Cerberus	751,410,000.00	625,538,490.03	166,233,647.55	657,254,649.00	7.72
CGW Southeast Partners	40,000,000.00	34,831,657.85	52,536,992.79	1,617,842.00	8.44
Charterhouse UK	136,918,845.85	117,984,548.19	3,223,328.35	103,586,160.98	(2.25)
Clayton, Dublier, and Rice	100,000,000.00	91,260,942.00	30,727,698.00	105,274,137.00	8.75
Clearstone Venture Partners	35,000,000.00	32,200,000.00	374,944.67	38,961,100.00	4.12
Coller International Partners	100,000,000.00	0.00	0.00	0.00	N/A
Cortec Group	148,641,176.00	79,318,601.00	58,079,271.00	69,771,752.00	16.27
Craton Equity Partners	30,000,000.00	27,787,605.00	76,424.00	24,145,072.00	(6.04)
CVC Capital Partners	1,879,938,654.57	1,567,299,381.09	1,593,164,256.18	1,169,033,650.72	20.31
CVC Capital Partners Asia Pacific	300,000,000.00	206,896,872.85	54,821,832.61	126,002,931.00	(4.12)
DCM	15,000,000.00	14,250,000.00	6,820,148.63	12,771,031.00	6.47
ECI	16,034,658.46	5,968,831.14	0.00	4,954,539.21	(16.41)
EnCap Energy Capital	650,000,000.00	393,372,983.67	280,051,411.05	378,028,141.59	27.20
Energy Capital Partners	320,000,000.00	253,126,189.00	89,488,495.00	162,416,359.00	(0.27)
Energy Spectrum	125,000,000.00	60,682,891.78	60,387,167.20	32,227,964.00	14.39
First Reserve	1,800,000,000.00	1,547,596,408.00	510,400,942.23	1,370,678,053.00	7.91
Fondinvest	29,615,682.44	28,300,547.66	46,792,621.85	8,819,148.75	24.39
Fortress	200,000,000.00	141,579,102.72	100,943.23	172,383,791.00	18.37
FountainVest	50,000,000.00	27,192,719.33	576,830.00	31,319,622.00	9.26
Francisco Partners	75,000,000.00	12,750,000.00	0.00	11,977,059.00	(7.27)
Frazier Healthcare	47,473,830.00	46,168,299.50	30,499,927.18	29,060,035.00	8.45
Freeman Spogli & Co.	182,500,000.00	163,243,600.00	215,142,131.33	87,653,618.00	13.88
Genstar	70,000,000.00	61,261,396.52	0.00	72,975,837.00	6.38

California State Teachers' Retirement System
Alternative Investment
IRRs by FOF (Excludes Co-Investments
For Period 01 Jan 1900 To 31 Mar 2012

8/3/2012

Description	Capital Committed	Capital Contributed	Capital Distributed	Ending market value	Annualized ROR
GGV Capital	60,000,000.00	11,999,999.99	0.00	11,479,246.00	(11.01)
Giza	32,400,000.00	26,164,000.00	3,150,302.00	15,723,680.00	(9.98)
Gores Capital Partners	130,000,000.00	83,293,136.59	51,046,869.90	60,052,124.00	11.48
GSO	600,000,000.00	301,435,046.00	60,843,743.00	311,823,385.00	16.05
GTCR	75,000,000.00	75,000,000.00	145,848,760.65	1,094,370.00	17.82
Hellman & Friedman Capital Partners	400,000,000.00	298,838,452.00	205,782,731.00	256,246,931.00	16.02
Hg Renewable	128,105,937.19	72,284,341.94	6,588,365.71	65,464,385.02	(0.18)
Hony Capital	125,000,000.00	46,161,485.97	0.00	49,893,401.00	5.79
Huntsman Gay Capital	100,000,000.00	83,855,878.49	16,367,679.38	81,127,530.00	10.39
ICV Capital Partners	25,000,000.00	18,912,923.49	9,547,945.67	15,171,058.00	8.86
Innocal	15,000,000.00	14,721,104.00	4,163,979.00	3,649,932.00	(14.48)
Institutional Venture Partners	50,000,000.00	47,500,000.00	24,371,475.00	86,789,610.00	38.93
Interwest Partners	130,000,000.00	122,000,000.00	72,122,981.58	58,983,717.33	2.26
Invesco	322,593,416.00	146,477,163.00	4,654,972.00	162,704,078.00	5.37
Investitori Associati	34,312,453.89	31,110,519.49	5,606,550.54	10,010,508.44	(17.57)
Irving Place Capital	175,000,000.00	125,790,856.47	0.00	129,921,178.41	0.92
JMI Equity	130,000,000.00	96,885,000.00	40,351,507.00	115,536,449.00	20.05
KKR & Co.	724,963,852.00	679,802,009.00	721,352,984.00	273,727,682.35	11.03
M/C Venture Partners	75,000,000.00	74,597,584.00	106,343,795.00	13,623,476.00	8.45
Madison Dearborn Partners	600,000,000.00	602,705,685.35	821,831,912.72	149,327,935.00	10.31
MatlinPatterson	250,000,000.00	201,888,628.68	89,511,366.81	123,738,380.00	1.73
Media Communications	30,000,000.00	28,500,000.00	45,244,892.00	0.00	9.96
Mezzanine Lending Associates	50,000,000.00	39,982,987.29	139,410,315.03	249,748.00	16.35
Nautic	229,500,000.00	221,483,630.28	326,905,631.66	86,425,771.07	13.36
Navis Capital Partners	130,000,000.00	125,342,633.24	38,748,847.11	149,623,469.00	11.02
New Enterprise Associates	710,000,000.00	660,650,000.00	784,895,369.64	384,274,615.00	49.85
NGEN	15,000,000.00	13,674,168.59	742,774.74	4,413,309.00	(27.66)
Nogales	55,000,000.00	37,962,023.38	10,567,657.92	15,751,611.00	(10.04)

California State Teachers' Retirement System
Alternative Investment
IRRs by FOF (Excludes Co-Investments
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8/3/2012

Description	Capital Committed	Capital Contributed	Capital Distributed	Ending market value	Annualized ROR
Oak Investment Partners	75,000,000.00	75,000,000.00	28,262,206.04	45,412,472.25	(0.37)
Oaktree Capital Management	715,640,000.00	535,035,225.59	537,615,289.66	344,963,964.00	16.96
Olympus	75,000,000.00	50,793,467.00	6,066,859.00	68,512,208.00	22.11
OnCap	29,893,435.08	6,751,151.82	454.52	6,688,134.47	(1.66)
Onex Partners	425,000,000.00	308,999,758.00	306,252,079.00	243,705,307.00	23.14
OrbiMed Capital	40,000,000.00	8,980,000.00	717,467.12	6,853,767.00	(14.63)
PAG Capital Asia	125,000,000.00	35,095,951.07	21,226.83	28,385,519.00	(19.64)
Palladium	90,000,000.00	71,198,732.80	25,861,350.20	84,391,459.00	16.35
Paul Capital Partners	50,000,000.00	49,246,836.97	40,893,682.74	24,070,459.00	9.42
Permira	1,667,704,879.21	1,574,919,574.51	1,193,950,325.80	1,113,501,887.02	16.77
Phildrew Ventures	20,221,808.47	20,270,947.58	11,819,892.95	88,395.54	(14.97)
Pond Ventures	10,000,000.00	7,866,397.44	3,303,666.72	4,369,750.00	(0.81)
Prism Venture Partners	25,016,853.00	23,766,011.27	5,867,731.52	11,718,742.00	(9.35)
Providence Equity Partners	1,050,000,000.00	903,936,807.00	197,380,851.00	905,871,237.00	5.03
Quadrangle Capital Partners	100,000,000.00	79,145,252.00	26,632,378.00	80,194,049.00	7.48
Riverstone/Carlyle	350,000,000.00	241,759,205.91	22,404,093.43	249,497,833.00	4.55
Sankaty Advisors	625,000,000.00	575,000,000.00	162,114,951.96	497,731,883.97	3.63
Shasta Ventures	70,000,000.00	39,475,000.00	6,411,629.23	44,067,059.00	8.71
Sofinnova Venture Partners	85,000,000.00	46,300,000.00	19,693,064.97	36,473,988.00	5.37
Spectrum Equity Investors	386,839,889.00	328,574,895.96	325,440,441.46	116,067,414.00	7.57
Summit Partners	574,031,569.86	377,302,685.57	536,381,248.61	219,143,842.07	65.76
Syncom	20,000,000.00	17,049,070.00	147,172.00	9,649,872.00	(20.17)
TA Associates	312,500,000.00	241,286,550.00	204,052,072.98	135,498,288.00	13.54
Technology Crossover Ventures	320,000,000.00	269,318,000.00	109,925,939.07	236,497,700.00	11.06
The Cypress Group	278,125,000.00	261,260,997.00	185,434,437.38	38,478,736.00	(3.21)
The Resolute Fund	450,000,000.00	305,116,874.00	146,373,995.00	285,282,380.00	11.48
THL Equity Advisors	400,000,000.00	417,846,936.00	517,972,446.00	139,114,977.31	13.08
Thoma Cressey Bravo	260,000,000.00	158,139,998.95	201,298,515.73	47,466,953.00	9.15

California State Teachers' Retirement System
Alternative Investment
IRRs by FOF (Excludes Co-Investments
For Period 01 Jan 1900 To 31 Mar 2012

8/3/2012

Description	Capital Committed	Capital Contributed	Capital Distributed	Ending market value	Annualized ROR
TPG Asia	330,000,000.00	281,581,129.00	132,957,436.00	312,595,586.00	15.93
TPG Capital	2,631,832,542.00	2,100,960,599.00	1,508,022,746.92	1,303,298,820.00	11.33
TPG Growth	125,000,000.00	4,982,277.00	0.00	3,477,375.00	(30.21)
TPG Opportunities	35,438,698.00	4,422,259.00	0.00	4,297,638.00	(5.16)
Triton	67,725,184.14	62,075,169.50	35,705,354.85	80,752,921.62	19.40
US Renewables Group	60,000,000.00	53,938,573.00	1,175,699.00	53,178,206.00	(0.13)
VantagePoint Venture Partners	310,211,765.00	277,929,999.85	89,745,036.98	147,826,614.00	(3.13)
Vestar Capital Partners	250,000,000.00	243,776,425.98	179,890,682.09	151,453,401.00	8.87
Warburg, Pincus & Co.	110,000,000.00	110,000,000.00	572,831,102.17	0.00	49.15
Welsh, Carson, Anderson & Stowe	1,753,961,111.00	1,586,607,711.00	1,652,428,558.03	663,903,422.00	8.71
Whitney & Co.	375,000,000.00	359,544,192.46	452,150,263.19	80,288,170.00	9.53
Yucaipa	200,000,000.00	161,739,788.90	6,834,207.00	95,845,598.00	(7.48)

Appendix 2

The ending account balances for the 90 day Treasury bill and Russell 3000 components are added together to determine the model portfolio's terminal value. Using the terminal value of the model portfolio and STRS' actual cash flows, an IRR can be calculated for any period.

Dollar-Weighted Russell 3000 Benchmark Model / STRS Benchmark for the 3 years ended March 31, 2012.

	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)
Period	STRS actual cash flows and Market Value	Net Cash Flows	Contributions	Distributions (Net Cash Flows minus Contributions	Russell 3000 Quarterly Return	Russell Factors	Russell 3000 Growth of $ Invested	Russell 3000 $ weighted return	90 Day T-bill quarterly return	T-Bill Factors	90 Day T-Bill Growth of $ Invested	90 Day T-Bill $ Weighted Returns	Returns
2009 Q1	13,755,513,363	(194,767,576)	397,947,918	203,180,342	(10.83)	0.899	13,950,280,939						#############
Q2	14,843,705,849	(328,215,868)	418,059,236	89,843,368	16.83	1.176	16,730,558,522						(328,215,868)
Q3	16,222,007,439	(322,278,595)	539,347,539	217,068,944	16.36	1.171	19,915,538,907						(322,278,595)
Q4	17,739,122,913	(395,027,650)	845,982,763	450,955,113	5.91	1.067	21,637,694,202						(395,027,650)
2010 Q1	18,698,304,354	(145,319,802)	545,360,697	400,040,895	5.93	1.067	23,227,977,801						(145,319,802)
Q2	18,834,699,207	(338,824,718)	852,654,864	513,830,146	(11.37)	0.894	21,100,641,660						(338,824,718)
Q3	20,353,085,568	(436,165,761)	991,617,609	555,451,848	11.40	1.121	24,099,961,928						(436,165,761)
Q4	22,278,346,671	474,784,400	842,443,074	1,317,227,474	11.68	1.124	26,621,106,697						474,784,400
2011Q1	22,905,269,164	626,153,929	543,815,012	1,169,968,941	6.31	1.071	27,874,591,372						626,153,929
Q2	23,245,680,073	294,715,018	654,336,441	949,051,459	(0.08)	1.007	27,766,633,328						294,715,018
Q3	21,399,520,712	134,671,671	841,777,161	976,448,832	(15.46)	0.853	23,547,242,772						134,671,671
Q4	22,008,033,737	(233,997,409)	1,013,175,023	779,177,614	12.00	1.127	26,782,995,595						(233,997,409)
2012Q1	23,665,816,560	275,698,543	506,856,399	782,554,941	12.90	1.136	30,438,660,229						30,438,660,229

STRS Actual 3-yr Return:	**Benchmark Portfolio $ Weighted 3-yr Return:**
17.21%	**27.40%**

If STRS had invested in each of the two options shown, instead of investing in private equity, its portfolio would have a value of $30,438,660,229 at 3/31/2012. This combined portfolio would have generated a dollar-weighted return of 27.40%. Over this same time period the private equity portfolio generated an actual return of 17.21%.

KEY:

(A) STRS' portfolio cash flows, market value and 3-year IRR.
(B) STRS' net cash flows for the last 12 quarters.
(C) New contributions for the last 12 quarters.
(D) Distributions for the last 12 quarters.
(E) Quarterly return for the Russell 3000 (excluding tobacco).
(F) Factor is equal to 1 + the quarterly return for the Russell 3000 + 125 basis points (BP) on an annual basis until June 30, 2008. Premium reduced to 75 basis points starting from July 1, 2008.
(G) Calculates the growth of the dollars assumed to be invested in the Russell 3000 + 125 bp until June 30, 2008. Premium reduced to 75 basis points starting from July 1, 2008.
(H) Calculates the return on the Russell 3000 + 125 bp portfolio. Premium reduced to 75 basis points starting from July 1, 2008.
(I) Quarterly return for the 90-Day T-Bill.
(J) Factor is equal to 1 + the quarterly return for the 90-Day T-Bill.
(K) Calculates the growth of the dollars assumed to be invested in the 90-Day T-Bill.
(L) Calculates the return on the 90-Day T-Bill portfolio.
(M) Calculates the return on the combined portfolio.
CalSTRS' custom benchmark is dollar-weighted by quarter and is a blended benchmark comprised of the Russell 3000® Index and Treasury Bill returns (for capital contributions less than three years old). A 500 basis point premium is added to the Russell 3000 benchmark component to account for the lower liquidity and higher risk involved with private equity. Starting July 1, 2008, CalSTRS has revised the methodology to calculate the benchmark. The new methodology is based on the Russell 3000 plus 300 basis points. In this hybrid model, the growth that is calculated base on Russell.

Disclosure Policy
For
CalSTRS Alternative Investment Private Equity Partnerships

In recognition that the access to information concerning the conduct of the people's business is a fundamental and necessary right of every person in California under Government Code §6250, the California State Teachers' Retirement System (CalSTRS) has adopted a disclosure policy for its alternative investment portfolio with respect to private equity partnerships balancing the public's right to know through the disclosure of public records subject to California's Public Records Act, Government Code §§6250 *et seq*., with not disclosing when the release clearly would outweigh the public interest served by such disclosure as authorized under Government Code §6255(a).

CalSTRS is mandated under Education Code §22001 to provide a financially sound plan for retirement with respect to teachers in California's public schools and schools supported by the State of California and other persons employed in connection with these schools. Under Education Code §22203, the Teachers' Retirement Board (TRB) is authorized to invest the assets of CalSTRS through the purchase, holding, or sale thereof of any investment, financial instrument, or financial transaction when such action is prudent in the informed opinion of the TRB.

To maintain a financially sound investment portfolio, CalSTRS diversifies its investments among equities, fixed income, and real estate. These types of investments are transparent and ownership is a matter of public record through registries established for such transactions (e.g., stock exchange records and recording of property titles).
CalSTRS also discloses on an annual basis such holdings measured at the end of every fiscal year. Said information is available on CalSTRS' internet website www.calstrs.com.

CalSTRS also maintains alternative investments consisting of private equity partnerships, which are not by their very nature either accessible to the public or transparent. These types of investments usually consist of limited partnerships privately established according to confidential specific investment strategies for a contemplated limited period of time. Partnerships have asserted that such strategies constitute trade secrets and proprietary information (thereby exempt from the Public Records Act under Government Code §62544(k)) and the release of which would damage and harm a partnership's ability to be competitive in venture capital markets. While the partnership's investment assets may be traceable to the specific partnership through regulated transactional activity should investment be made through such vehicles, the partnership itself is private.

CalSTRS recognizes there are interested persons who wish to access information about CalSTRS' private equity partnership holdings. Presently the extent of such disclosure of private equity partnership holdings by public pension plans like CalSTRS is an evolving issue that is being debated among members of the venture capitalist community as well in legal arenas. At this time CalSTRS is attempting to balance the public policy of disclosure with the business needs of confidentiality to ensure that CalSTRS can participate successfully in the private equity marketplace. As a result, CalSTRS annually discloses a limited amount of information with respect to CalSTRS' partnership interests. The extent of that disclosure consists of releasing the name of the partnership investment, CalSTRS' capital commitment to the partnership, capital contributed to the partnership, capital distribution to CalSTRS from the partnership, and the internal rate of return (IRR) calculated by CalSTRS pertaining to its investment in the partnership.

The performance of CalSTRS' private equity partnership holdings is monitored and evaluated by the TRB's Investment Committee. Meetings of that committee are open to the public with the exception of "closed sessions" when dealing with confidential matters as authorized and permitted under California's Bagley-Keene Open Meeting Act, Government Code 11120 *et seq*. The public has access to the committee's agendas as well as to materials distributed in "open session" via CalSTRS' internet website. Among the items disclosed in "open session" are CalSTRS' new investment commitments to private equity partnerships that are made available in periodic reports.

Release of the Investment Committee's internal analysis or scoring of performance with respect to investments in private equity partnerships could impact a particular investment and be detrimental to CalSTRS' holdings. Furthermore, the release of CalSTRS' tiering or ratings of private equity partnership holdings could be very damaging to a partnership attempting to raise another capital fund. Potential investors viewing a CalSTRS rating on a general partner (GP) of a partnership where CalSTRS has invested that resulted in a lower ranking could interpret that rating as an indicator of future performance for the new fund when that ranking is applicable only to the existing CalSTRS investment. Given the possible misinterpretation of CalSTRS' internal rating system, CalSTRS will not release its tiering ratings.

CalSTRS will not release individual partnership agreements or any excerpts thereof. Each private equity partnership agreement contains specific confidential terms of investment participation, which results from the negotiation between the partnership's GP and the limited partners (which includes CalSTRS). If a GP's competitors in the fundraising market obtain documents containing such confidential negotiated terms, then a competing GP would be in an advantaged position in negotiating with potential partners at the expense of the partnership that CalSTRS has committed to. On the other hand, the GP may address concerns of a limited partner, such as CalSTRS, in ways that allow it to be competitive soliciting investment commitments. If such proprietary arrangements are known by competitors, such advantageous positioning may no longer exist. Furthermore, the list of investors in a particular partnership (including names, addresses and phones numbers) is of value to the GP. Such information could prove to be very valuable to a competing partnership seeking investors and /or for other potential limited partners trying to access investment opportunities with highly sought managers that would rival CalSTRS as investors.

CalSTRS will not release portfolio company information and valuation of an individual partnership. Disclosure of portfolio company information may not give a meaningful picture of the performance of a fund's investment. Frequently, an investment in a company will show a loss in value in the immediate time after the investment is made; however, over time the investment should become profitable as the GP implements operational and financial changes to improve the performance of the portfolio company. Hence, disclosing information at a critical time in a portfolio company's history may prove detrimental to the ultimate success of that company. Requirements to disclose portfolio company information could discourage GP's from disclosing such information to limited partners such as CalSTRS, which could result in CalSTRS receiving less information with which to manage CalSTRS' private equity investment activities. Restricting access to information by a GP could severely impair the ability of CalSTRS to properly monitor partnership performance.

The release of portfolio information and valuation of individual partnership interests further could harm the partnership and CalSTRS' own investment. By making valuation and other portfolio information publicly available, the possibility could exist that would allow each portfolio company's existing and prospective customers, suppliers, employees, competitors, and other business interests or rivals to learn about the status and financial health of the portfolio company. Such intimate knowledge could have harmful effects on a portfolio company's performance in the market place. Existing and prospective customers, suppliers, and employees could become anxious about the portfolio company's future and seek to do business with or employment from a competitor. If competitors became aware of such a valuation, they could have an advantage over the portfolio company in obtaining customers, suppliers and employees. That could result in permanent damage to the portfolio company and harm the partnership interest, which in turn would hurt CalSTRS' investment. Conversely, disclosure of a high valuation may attract more competitors to the Portfolio Company's industry thereby increasing competition and market share resulting in a disadvantage to the portfolio company, the partnership's interest and CalSTRS' investment. In addition, disclosing valuation information on a portfolio company could aid potential buyers of such companies. The buyer would have an advantage regarding with the worth of the company and could lower the value of a potential bid for that company.

The private equity marketplace is not accustomed at this time to operate in a totally transparent environment. Many venture capitalists seek to avoid disclosing investment strategies and private equity holdings of their partnerships for the reasons identified above. At this time, CalSTRS' limited disclosure practice for its private equity partnership holdings has not resulted in any significant avoidance with respect to investment opportunities. However, certain members of the private venture capitalist community have expressed displeasure and an unwillingness to enter into investment agreements with public pension funds out of concern over the extent of disclosure that could occur. CalSTRS is concerned that inappropriate disclosure beyond the current practice could lead to the exclusion of investment opportunities in this marketplace. Should that occur, then there could be limited and reduced private equity partnership investment opportunities available creating a smaller universe of potential investments for CalSTRS. Under such a scenario, some of the top prospective companies could seek capital investment from partnerships that are not subject to disclosure because those partnerships have excluded public pension funds as limited partners.

Currently GPs work to maintain the confidentiality of a private equity partnership interest, including those of the partnership's portfolio company's business information when dealing with lenders, investors, accountants, insurers and others in the course of financing the business. Public disclosure would jeopardize these standard business efforts. CalSTRS maintains that its current limited disclosure practice with respect to private equity partnership investments balances public policy demands for disclosure with those business needs so as not to put CalSTRS' investments in a disadvantage. Further disclosure beyond that what is already practiced would seriously harm CalSTRS as discussed herein. Therefore, any release beyond the extent CalSTRS presently discloses would clearly outweigh the public interest that would be served by more disclosure. Thus, CalSTRS will not engage in further disclosure beyond its current practice based upon Government Code §6255(a).

Information that is subject to public disclosure discussed above is posted on CalSTRS' internet website at www.calstrs.com for the convenience of the public. The information posted is updated periodically when reports are made to the CalSTRS Investment Committee. There is no charge to individuals downloading this information from CalSTRS' website. Separate requests for copies of those public records also can be submitted in accordance with the California Public Records Act to CalSTRS Investment Office. Said act permits CalSTRS to charge for the production of any requested records.

Glossary of Terms

Acquisitions - See Leveraged Buyouts.

Acquisitions - Add on - Add-on acquisitions, or platform investing, are a growth strategy, which involves the acquisition of a company that will be the base (or platform) from which future acquisitions will be made. This strategy invests in consolidating industries by teaming with key industry management to build companies through acquisition and internal growth. Initially, an industry with an unrecognized market niche, high growth potential and no clear market leader is identified. If a suitable company can not be identified, the investment manager may recruit a management team to run the new business. The company's management and the investment manager, acting as a team, will identify and negotiate to buy additional companies within the target industry. A "critical mass" is achieved when the investment manager consolidates formerly entrepreneurial-managed, fragmented operating units into a single portfolio company with standard operating procedures. As a result, the larger company becomes visible and attractive to a wider group of potential buyers. Other companies in the market typically are willing to pay a higher price earnings multiple to buy the portfolio company than paid by the investment manager for its component parts.

Advisory Board - Advisory Boards play a role in the governance issues relating to the fundamental aspects of the fund, such as decisions on valuations and management conflicts of interests. Generally, a majority of the composition of the Advisory Board is comprised of the largest limited partners in the limited partnership.

Aggregation of profits and losses - Aggregation of profit and losses ensures a fairer profit sharing between the general partner and the limited partners. This calculation is based on the entire performance of the portfolio rather than on a deal by deal basis.

Buyouts - See Leveraged Buyouts.

CAGR – Compound annual growth rate

Capital commitment - A partner's obligation to provide a certain amount of capital to a private equity fund for investments

Capital contribution – The total capital that a partner actually contributes to the partnership

Capital distribution – The total proceeds that are distributed back to partners by GPs as they exit their investments

Carried Interest - The mechanism by which general partners are compensated for their performance. The general partner's carried interest is its share of the partnership's profits, and generally ranges from 10% to 30% of the total. A 20% carried interest has become the industry norm.

Cash in - The total capital contributed to a private equity fund by a limited partner for making investments and paying for the fund's expenses and management fees

Cash out - The total proceeds distributed by the fund to the limited partner. Proceeds may include both return of capital and gain distributions

Clawback/lookback provision – Guarantees that the stated profit allocation is met at the end of a partnership's term with respect to the limited partners

Co-investments - Privately negotiated purchase of equity or quasi-equity from private or publicly traded entities. Such investments involve the purchase of non-registered securities, which by their private, illiquid nature command a premium over comparable publicly traded securities. These will not be stand-alone investments and will always be made alongside a partnership investment or pari-passu, or better terms, than the partnership is making its direct investment.

Convertible Preferred Stock - A class of stock having different rights than Common Stock, including a liquidation preference over Common Stock; and allowing the Preferred Shareholder to convert Preferred shares into Common shares at some specified conversion ratio. Conversion typically occurs in conjunction with and initial public offering, providing a means of liquidation for the Preferred Shareholder.

Cost multiple –Value of the investment (proceeds plus value of unrealized investment) divided over the cost of the investment (original capital commitment). It measures how many times the money multiplied regardless of how long it took to achieve the multiple

Debt Related Investment Strategies - Debt related investments include subordinated debt and distressed debt investment strategies. Subordinated debt is often used to help finance leveraged buyouts or other similar transactions. Subordinated debt typically takes the form of mezzanine securities, junk bonds, convertible preferred stock, and other high yielding debt oriented securities. Although considered debt-oriented, securities at the subordinated debt or mezzanine level typically possess equity conversion features, rights, and warrants. Investors at the subordinated debt level are junior to the senior debt holders in a leveraged buyout transaction, meaning they receive interest payments after the senior debt has been satisfied and they share in a liquidation after the senior paper holders have made their claims. However, subordinated debt suppliers are senior to the common equity holders of the company. Distressed debt investments are a form of recovery investing that focus on the debt of a distressed company. Distressed debt investing is defined as the investment in debt securities(generally senior-secured debt) of troubled or bankrupt companies. Also see Restructuring/Recovery investments.

Direct investment – Direct investments are similar to co-investments in that the investment is made outside of a limited partnership structure, and made directly into the target company. However, direct investments differ from co-investments in that they are not made alongside an existing partnership. Direct investments require a greater amount of time to pursue on due diligence, and they also involve a greater level of risk in comparison to co-investments

Distressed debt – Investments in debt securities (generally senior-secured debt) of troubled or bankrupt companies. Investments may be made based on non-control arbitrage strategies (short term) or control style turnaround opportunities (long term)

Distributions – Cash and/or securities paid out to the limited partners from the limited partnership

Equity expansion – Similar to late stage venture capital, except that equity expansion investments are generally larger, and are typically less technology orientated. These small- and medium-sized companies have grown from the start-up stage to profitability and are poised from continued rapid growth

Exposure – Total market value of all investments plus any unfunded commitments

General partner – Managing partners of a limited partnership responsible for performing the day-to-day administrative operations of the limited partnership and acting as investment advisor to the partnership. The general partner typically invests 1% of the capital and retains 20 percent of the profits

Hedge funds – Unregulated funds that use a wide range of securities in a variety of skill-based investment strategies

Hurdle rate – A rate of return that must be met before the General Partner can share in the carried interest

Initial public offering (IPO) – The sale or distribution of a stock or portfolio company to the public for the first time

Internal rate of return (IRR) – The discount rate at which the present value of future cash flows of an investment equals the cost of the investment. It is determined when the net present value of the cash outflows (the cost of the investment) and the cash inflows (returns on the investment) equal zero, with the discount rate equal to the IRR

International Buyout - An international buyout fund is a limited partnership that generally focuses on acquisition, equity expansion, or later stage investment strategies, however, the fund’s primary geographic focus is outside of the United States.

J-curve – The J-curve phenomenon is the effect of the cash flow behavior of a partnership. It can be summarized as the first year's investment expenses of investing in a fund that has yet to harvest its capital gains in the future. This normally translates into a negative IRR in the early years of the fund. The plot of the partnership value versus time generally resembles a "J"

Key man provision - Limited partners are demanding the right to suspend the funding of the partnership if some of the key people were to leave the firm. This provision is designed to assure the continuity of the firm, and to assure that success (if related to various individuals) stays within the firm.

Leveraged Buyouts (Acquisitions) - Acquisitions involve the purchase of all or part of the stock or assets of a company utilizing a significant amount of borrowed capital and a relatively small portion of equity capital. Borrowed capital typically consists of some combination of senior and subordinated debt. The company may be privately or publicly owned, or a subsidiary or division of a privately or publicly owned company. Acquisitions generally include companies with stable cash flows, high market share, and high profit margins, selling low or non-technology products in industries not subject to wide profitability swings.

The general goal behind an acquisition investment is to acquire a company, division or subsidiary that is currently undervalued, and whose assets may be underutilized, and restructure and revitalize it. Ideally, the revitalized company can then be sold, recapitalized, or taken public at a substantial premium to its pre-buyout value.

Limited partner – The investors in a limited partnership, generally providing 99 percent of the capital and receiving 80 percent of the profits. Limited partners are not involved in the day-to-day management of the partnership and generally cannot lose more than their capital contribution

Limited Partnership – The majority of private equity funds are legally structured as limited partnerships. They are typically fixed-life investment vehicles (with an average term being 10 years). Limited partnerships have General Partners and Limited Partners. The General Partners manage the day-to-day operations and receive a management fee and a percentage of the profits. The Limited Partners invest in the fund and receive income, capital gains, and tax benefits.

Market value – The current value of a limited partner's outstanding investments

Management fees – The management fee is designed to compensate the General Partner. This fee is used to provide the partnership with such resources as investment and clerical personnel, office space, and administrative services required by the partnership. Generally, the fee ranges from 1.0 percent to 2.5 percent of capital commitments

Mezzanine – Investments in unsecured or junior obligations that typically earn a coupon or dividend payment and have warrants on common stock or conversion features to enhance returns

Multiple of Money - Multiple of money is often used to measure performance. This is a cumulative return, identifying the return on an investment over the term of the partnership. A multiple that is greater than one indicates that the partnership's total value exceeds the amount of capital contributed to date, whereas, a multiple less than one indicates that the partnership's total value is less than the amount of capital contributed. In summary, achieving a high annualized rate of return over a long period of time is more impressive than achieving a high annualized rate of return over a shorter period of time.

Natural Resources - These investments utilize investment strategies that derive their return from the management of and the independent price movements in a particular resource. These investments are more specialized with a corresponding increase in risk. Sub-categories of this group include Oil and Gas (provides funding for the purchase or development of energy producing properties or companies operating within that sector), and Timberland or Farmland (provides funding for the purchase, development and/or lease of land for both growth and income-oriented strategies).

Overhang – Overhang is defined as the amount of capital committed to general partners that has yet to be invested and is calculated as the 5-year rolling difference between LP commitments and investments

Partnership Expenses - Expenses borne by the partnership including costs associated with the organization of the partnership, the purchase, holding or sale of securities, and legal and auditing expenses.

Partnership Term - The term of the partnership is normally ten years, with the general partner reserving the right to terminate the partnership early or extend the term for a set period of time. This is generally subject to the approval by the limited partners.

Pooled returns – Composite return measuring all private equity cash flows and valuation changes over a specific period of time

Portfolio companies – Any of the companies in which the private equity partnerships have an investment

Restructuring/Recovery - Recovery investments involve the investment of capital in companies experiencing anywhere from relatively minor, to extreme difficulties, to companies involved in bankruptcy proceedings. Recovery investing takes advantage of discounted securities of unhealthy, bankrupt (or near), under-performing, and/or under-capitalized companies and either ride or steer them back to recovery. To accomplish this goal, the various funds available use a variety of strategies. The strategies vary by the activity level and/or degree of control required by the acquirers, types of securities utilized, and the relative health of the target companies sought (from bankrupt to nearly healthy). Also, like LBO and venture capital managers, managers of ailing company funds each have a particular target company size preference, and some have industry or sector preferences.

Distressed debt investments are a form of recovery investing that focus on the debt of a distressed company. Distressed debt investing is defined as the investment in debt securities (generally senior-secured debt) of troubled or bankrupt companies.

Secondary limited partnership – Privately negotiated purchase of limited partnership interests or investment company interest. Such investments involve the purchase of a pro-rata ownership of non-registered securities, which are currently in, or will be a future purchase of, the partnership portfolio

Special Equity - See all non-venture capital related investment strategies, such as Leveraged Buyouts, Acquisitions, Special Situations, Mezzanine Investments, Subordinated Debt, Hedge Funds and Natural Resources.

Special Situations - Special Situation funds represents a “catchall” for non-traditional investments that do not fit in traditional groupings. These will include minority, but often control positions in public companies, “white knight” efforts to support managements, turnarounds and bankruptcy reorganizations, and other special situation profit opportunities. It is not the intention to invest in “unfriendly” business take-overs.

Top quartile returns – Average return earned by the highest performing 25 percent of capital in the private equity industry

Total value – A limited partner’s total market value plus any capital distributions received

Unfunded commitments – Money that has been committed to an investment but not yet transferred to the General Partner

Venture capital – Investments in young, emerging growth companies in different stages of development. The stages of venture capital investing include seed stage (entrepreneur seeking capital to conduct research or finish a business plan), early stage (company developing products and seeking capital to commence manufacturing), and late stage (profitable or near-profitable high-growth company seeking further expansion capital)

Venture Economics – Venture Economics is a leading compiler and publisher of private equity investment data

Vintage year – The year of fund formation and its first takedown of capital. By placing a fund into a particular vintage year, the limited partner can compare the performance of a given fund with all other similar types of funds formed in that particular year