

Jack Ehnes
Chief Executive Officer



California State Teachers'
Retirement System
7667 Folsom Boulevard
Post Office Box 15275
Sacramento, CA 95851-0275

916.229.3706 Tel
www.calstrs.com

Board Members
Chair
Carolyn Widener

Vice Chair
Dana Dillon

Kathleen Brugger
David Crane
Jerilyn Harris
Roger Kozberg
Gary Lynes
Elizabeth Rogers

Ex Officio Members
State Treasurer
Philip Angelides

Director of Finance
Michael Genest

*Superintendent of
Public Instruction*
Jack O'Connell

State Controller
Steve Westly

February 10, 2006

Nancy Morris
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549

**Re: Internet Availability of Proxy Materials
Securities Exchange Act Release No. 52926 (Dec. 8, 2005)
File No. S7-10-05**

Dear Chairman Cox:

We are writing on behalf of the members of the California State Teachers' Retirement System ("CalSTRS"). CalSTRS is the second largest public pension system in the United States, with over \$140 billion in assets that are managed on behalf of over 755,000 members and beneficiaries. Our domestic equity portfolio is comprised of the stock of over 3,000 domestic companies. In terms of market value, the domestic equity portfolio represents the overwhelming majority of our trading on national securities exchanges.

As a result of our investment strategy and our fiduciary responsibilities to our members, CalSTRS supports efforts to take better advantage of communications technology to promote efficiency, enhance corporate governance and empower shareholders. Accordingly, we are submitting this letter to provide our comments on the Securities and Exchange Commission's recent rulemaking proposal, the "Internet Availability of Proxy Materials," Rel. No. 34-52926 (Dec. 8, 2005) (the "Proxy Rulemaking").

In the Proxy Rulemaking, the Commission articulates two principal goals of the rulemaking: to update the regulatory framework to take advantage of communications technology, and to provide an alternative proxy model that could reduce the printing and mailing costs associated with furnishing proxy materials to shareholders. These are both laudable goals that we fully support. We believe, however, that certain modifications to the rulemaking will be necessary to realize those goals.

Internet Availability of Proxy Materials
Securities Exchange Act Release No. 52926 (Dec. 8, 2005)
File No. S7-10-05
February 10, 2006
Page 2

Shareholders Should Be Permitted to Make a One-Time Election for Physical [or Electronic] Delivery

Under the Proxy Rulemaking, an issuer that elects to employ the “Notice and Access” model will be required to deliver paper copies of the proxy materials to shareholders upon request. The Proxy Rulemaking also provides that an issuer that chooses to rely on the “Notice and Access” model would have to comply with all of the requirements of the model, including delivery of the Notice of Internet Availability of Proxy Materials for every instance that it chooses to rely on this model. The result of this structure is that shareholders that request paper copies one year will have to renew that request in each subsequent year that the issuer chooses to rely on the Notice and Access model. We believe that this structure would require printing and shipping on an ad-hoc basis, which may negatively impact the cost savings to be achieved by the Proxy Rulemaking.

Automated Data Processing, Inc., the largest proxy distributor, is submitting a comment letter in which it indicates that the cost of manually printing and shipping proxy materials on an ad hoc basis has the potential to lower and possibly negate the cost savings the Proxy Rulemaking seeks to achieve. Therefore, we believe that a shareholder should be given the option of making a one time election to receive either physical or electronic delivery, until such time as such election is changed. At a minimum, this election should be permitted with regard to the holdings in the specific company to which the election is given. We also believe that the Commission should consider permitting the provision of an election notice that would apply to all that shareholder’s holdings through the broker or custodian that receives such a notice. This would give issuers, intermediaries and proxy distributors the ability to predict more accurately how many sets of proxy materials to print and ship ahead of time. This, in turn, would permit such parties to take better advantage of volume discounts for mass printing and shipping, and equally importantly, allow shareholders to avoid having to make thousands of requests for physical delivery with each proxy season. To put the impact of volume discounts in context, under the current system, such discounts have led to savings of \$700 million in printing and shipping costs. We believe the Proxy Rulemaking should be modified to allow such savings to continue. Specifically, the proposed model would provide greater cost savings if it established a default electronic delivery system, but also included opportunities for volume discounting by allowing shareholders to opt for physical [or electronic] delivery until further notice.

Physical Delivery Remains Important to Many Investors

The Proxy Rulemaking requests input regarding whether investors would prefer physical or electronic delivery of proxy materials. Just as physical checks have not been completely replaced by electronic checks, physical proxy materials will not be replaced entirely by

Internet Availability of Proxy Materials
Securities Exchange Act Release No. 52926 (Dec. 8, 2005)
File No. S7-10-05
February 10, 2006
Page 3

electronic proxy materials for certain shareholders. We believe we typify this fact. Many believe that CalSTRS is the poster child for electronic proxy delivery given the size of our holdings. However, we choose to receive our proxy materials in paper form and avoid unnecessary mailings through householding. We find that physical proxy materials serve a very useful record-keeping purpose for us, particularly as we fulfill our duties as trustees. As a fiduciary, we have a legal duty to disclose our voting record to our beneficiaries. In preparing these disclosures, we find it useful to have the source document, along with the investment officers' analyses, comments and research at hand. We expect that we will continue to rely on paper copies of the proxy materials if the Proxy Rulemaking is adopted. The only difference will be that if we don't request and obtain proxy materials on time, the costs of printing that normally rest with an issuer will be shifted to us. This is a cost that we believe is more appropriately borne by the issuer.

Contested Elections

Decreasing the costs of contested proxy campaigns can encourage their use which can increase shareholder value. A State University of New York study showed statistically significant results and abnormal shareholder returns of 26.9% from 40 days before to 250 days after a toehold position was taken, preceding a contested proxy campaign. Many contested proxy campaigns start at poorly run companies that can benefit from the changes in management. There is no shortage of poorly run companies. Stern Stewart data shows that 59% of the Russell 3000 companies have not earned their cost of capital for the five years ending December 31, 2004.

The Proxy Rulemaking asks several important questions about its effects on proxy contests. In particular, the Commission asked whether an issuer that relies on the Notice and Access model should be required to disclose whether it is aware of a proxy contest. We believe that the only answer to this question must be in the affirmative. From an anti-fraud perspective, we believe that it would be materially misleading within the meaning of proxy Rule 14a-9 for an issuer to mail a Notice of Internet Availability of Proxy Materials that contains matters that are the subject of a known proxy contest without advising shareholders of such contest. This is especially true in the context of a proposal that would allow an issuer to send the proxy card with the Notice. Under that scenario, to the extent that a shareholder votes the proxy card without referring to the proxy materials, the issuer would have a significant advantage over any other soliciting party. Out of fairness, the issuer should be required to state that the meeting is contested, if known, so that shareholders will know to look for the electronic dissident proxy as well.

The Proxy Rulemaking also asks whether the "Notice and Access" model should apply for both business combination and buyout transactions. We believe that the answer to this must

Internet Availability of Proxy Materials
Securities Exchange Act Release No. 52926 (Dec. 8, 2005)
File No. S7-10-05
February 10, 2006
Page 4

be in the affirmative as well. We believe it to be anomalous to exclude business combinations and buyout transactions from the Notice and Access model and yet allow the model to be employed in proxy contests. While we note that the Proxy Rulemaking precludes reliance on the Notice and Access model for solicitations by persons in opposition to a proposed business combination or buyout transactions, we believe that the Commission should reevaluate the merits of this distinction. As with business combinations and buyout transactions, proxy contests are highly extraordinary events and may involve proxy statements of considerable length and complexity. While we support the impact of the proposed rules on the costs of a proxy contest (i.e. we expect such costs to be lowered), we believe that proxy contests in business combinations and buyout transaction should be afforded the same treatment. Further, we support the exploration of whether business and buyout transactions that do not involve proxy contests should be able to be conducted in reliance on the Notice and Access model as well.

The Proxy Rulemaking also raises a question regarding the impact of the rules on broker non-votes. As noted in the Proxy Rulemaking, exchange rules determine whether a proxy solicitation is “contested” for the purposes of whether an intermediary may vote uninstructed shares with regard to a particular matter. If those rules are not modified, for example, a shareholder that seeks to rely on the Notice and Access model to launch a proxy contest against a NYSE-listed company would have to solicit more than 50% of the issuer’s shareholders in order to ensure that intermediaries would not be able to vote their uninstructed shares regarding the contested matter. This, we believe, would essentially mean that shareholders will be unable to conduct targeted solicitations of shareholders in order to take advantage of the new rules. Further, to the extent that an issuer does not disclose the existence of a proxy contest in its Notice of Internet Availability, a shareholder voting on a contested matter will be less likely to be aware of an impending proxy contest, unless the issuer is required to update the Internet proxy materials to reflect the contest. We believe that the Commission should consider providing additional information about the operation of this process and consider requiring additional rulemaking by national exchanges concerning this topic.

Conclusion

In closing, we wish to reiterate our support for the Commission’s efforts. The Proxy Rulemaking offers an opportunity to allow issuers and shareholders to benefit from improvements in technology and at the same time lower costs for all involved. There are, however, significant modifications that we believe are necessary to fully realize these benefits without comprising shareholder rights. We hope that this letter is helpful in identifying where such modifications are necessary.

Internet Availability of Proxy Materials
Securities Exchange Act Release No. 52926 (Dec. 8, 2005)
File No. S7-10-05
February 10, 2006
Page 5

Thank you for considering our comments. Should you have any questions or concerns, please contact the undersigned.

Sincerely,

A handwritten signature in blue ink that reads "Jack Ehnes". The signature is written in a cursive style with a large initial "J" and a long, sweeping underline.

Jack Ehnes
Chief Executive Officer