Real Estate Strategy Semi-Annual Report (Open Session)

Prepared for California State Teachers' Retirement System

As of Q1 2026

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September 8, 2026

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REPORT PREPARED BY:

Taylor Mammen, Chief Executive Officer

Ben Maslan, Managing Director

Erik Ctvrtlik, Vice President

Ethan Michalowski, Senior Associate

Gavin Bramwit, Analyst

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CalSTRS Q1 2026 Open Session Report

Goals and Objectives

The objective of this semi-annual report is to provide the Committee with an evaluation of the real estate portfolio's alignment with CalSTRS' established goals and policies and the investment opportunities presented by property and capital markets.

To accomplish the above objective, we reviewed the CalSTRS portfolio, policies and limitations, previous recommendations and activities, as well as current and forecasted economic, capital market, and property market conditions.

Current and long-term portfolio goals and objectives that the semi-annual report evaluates include:

- A real estate allocation target of 15% +/- 5%;
- Target net return that exceeds the NCREIF NFI-ODCE Index;
- Provide stable income, a hedge against inflation, and improved diversification to the overall CalSTRS Investment Portfolio;
- Allocation based on property stage – stable and value creation (lease-up/reposition and construction) – to maintain an appropriate risk profile;
- An appropriate level of leverage, with a loan-to-value (LTV) limit of 50% for the control portfolio and 65% for the non-control portfolio.

Performance

As of Q1 2026

- The real estate portfolio has outperformed its target return benchmark over the last decade and has generated a 10-year net TWR of 4.7%, outperforming the ODCE benchmark return by ~90 basis points. The portfolio has underperformed the ODCE benchmark over the last five years by ~50 basis points, delivering a net TWR of 1.8%.
- The portfolio has generated net TWRs of 0.5% and -4.3% over the 1- and 3-year time horizons, respectively. The portfolio underperformed 1-and 3-year ODCE benchmark returns by ~260 basis points and ~150 basis points, respectively. Given the legacy investments' small percentage of portfolio NAV, the 3-, and 5-year performance is relatively unchanged when excluding legacy investments, although 1-year returns are impacted as legacy investments have significant underperformance over this period.[1]

Portfolio Performance[2,3]

Net Time Weighted Returns

	Including Legacy				*Excluding Legacy*			
	1 Yr	**3 Yr**	**5 Yr**	**10 Yr**	**1 Yr**	**3 Yr**	**5 Yr**	**10 Yr**
Core	1.3%	-3.6%	2.0%	4.6%	1.3%	-3.6%	2.0%	4.6%
Value Add	1.0%	-7.0%	-0.3%	4.4%	1.0%	-7.0%	-0.3%	4.4%
Opportunistic	-2.3%	-4.8%	2.5%	5.3%	-0.5%	-4.3%	3.3%	7.3%
Total	**0.5%**	**4.3%**	**1.8%**	**4.7%**	**1.0%**	**4.2%**	**1.9%**	**5.1%**
Target Return (ODCE)	**3.1%**	**-2.8%**	**2.3%**	**3.8%**	**3.1%**	**-2.8%**	**2.3%**	**3.8%**

[1]Legacy refers to historical investments made by CalSTRS prior to the Great Financial Crisis. Legacy investments currently comprise 0.26% of the total portfolio and had a one-year performance of -58.7%.

[2]The Core portfolio has a net target return benchmarked to the ODCE, while the Value Add and Opportunistic portfolios have net target returns of 50 basis points and 300 basis points over the ODCE, respectively.

[3]Interest expense from CalSTRS' Master Credit Facilities Program was misclassified in prior reporting from 2020 to 2023, and historical returns have been adjusted accordingly. This misclassification resulted in reported Real Estate Returns 23-53 bps above actual returns.

Source: State Street, PrivateEdge, NCREIF, FRED

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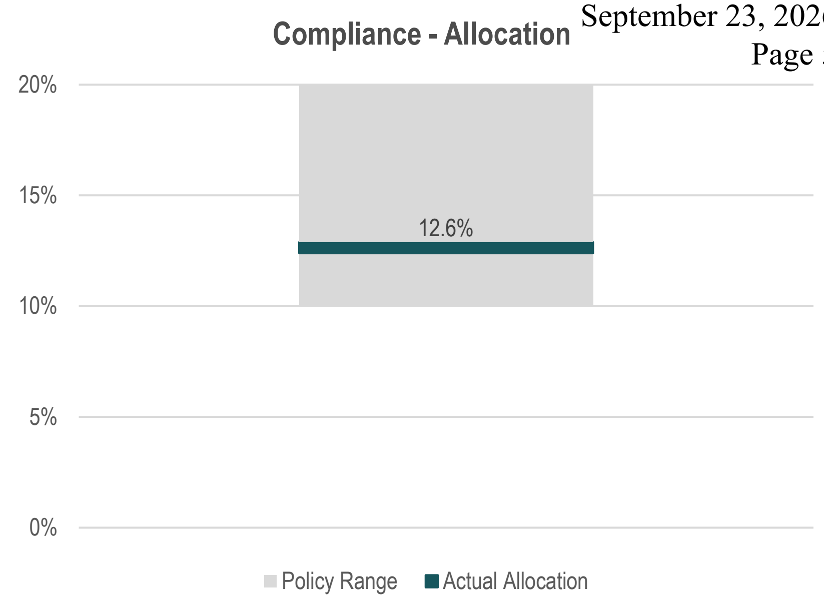
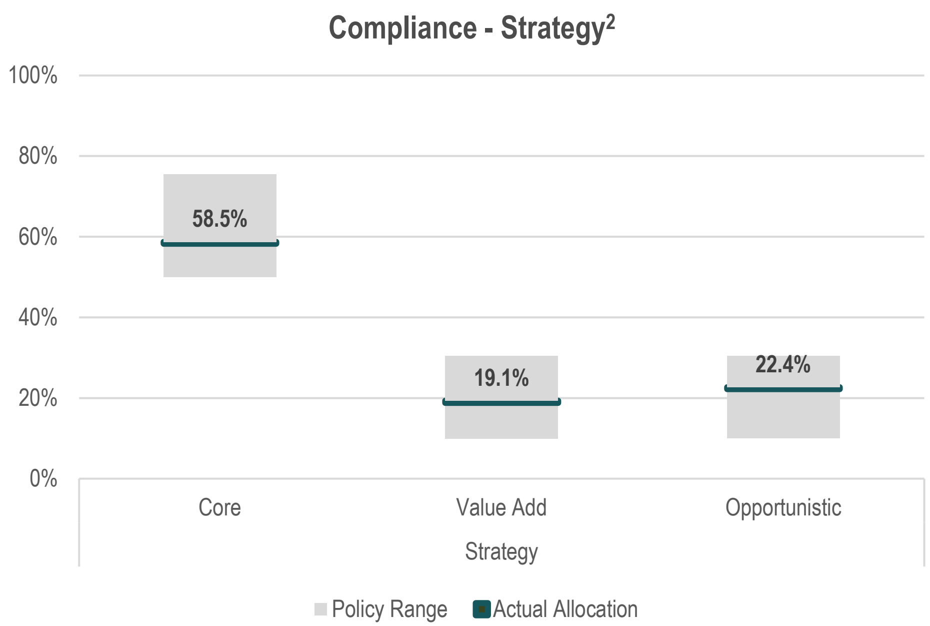
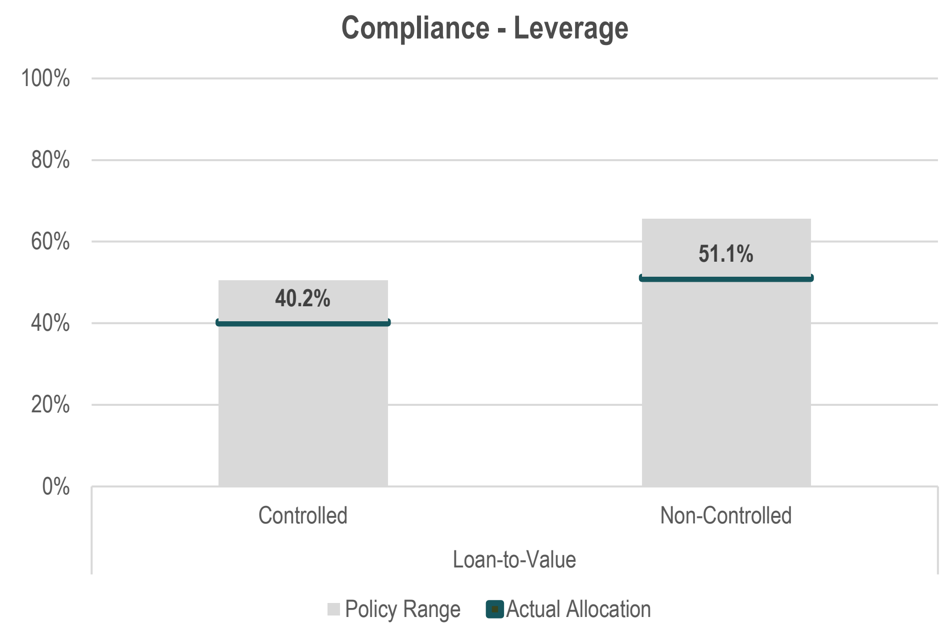
Funding Status and Compliance

As of Q1 2026

- The portfolio had a net asset value (NAV) of ~$49.4B as of Q1 2026, equating to 12.6% of the total fund. This is below the target allocation of 15%, but within the permitted range of +/- 5%.
- The portfolio is compliant with the targeted allocation by investment strategy and is within the permitted leverage limits for the control and non-control portfolios of 50% and 65%, respectively. [1]







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[1]Control portfolios are those which CalSTRS maintains control over acquisitions, dispositions, and/or financing or has high liquidity in normal market conditions. In non-control portfolios, CalSTRS does not retain such discretion.
[2]Percentages do not account for the portion of Legacy assets. Public REITs included with Core.
Source: State Street

Current Portfolio Summary

- The portfolio had a net asset value (NAV) of ~$49.4B as of Q1 2026, equating to 12.6% of the total fund. This is below the target allocation of 15% but within the permitted range.
- Approximately 83.4% of the portfolio is invested in the United States.
- The portfolio continues to be underweight industrial and multifamily by 7.1% and 4.5%, respectively, relative to ODCE. The allocation to office properties (including life science properties) increased by 74 basis points over the past six months and remains 5.1% overweight relative to the benchmark. This increase in allocation is due to appreciation of existing office assets and a slower pace of direct portfolio office sales in Q1 2026. A reduction in ODCE's allocation to office also contributes to CalSTRS' remaining overweight relative to the benchmark.
- Total debt utilized in the real estate portfolio was $38.8B as of Q1 2026, an increase of $1.0B since Q3 2025. The LTV of the total portfolio decreased by 89 basis points from ~44.5% in Q3 2025 to ~43.6% in Q1 2026.
- The LTV of the control portfolio decreased by 129 basis points from ~41.5% in Q3 2025 to ~40.2% in Q1 2026, while the non-control LTV increased by around 51 basis points to 51.1% over the same period.[1] Per the investment policy statement, the LTV is within the compliance limit of 50% and 65%, respectively.
- The allocation by risk profile is 58.3% Core, 19.0% Value Add, and 22.4% Opportunistic. Legacy investments comprise 0.3% of the NAV.

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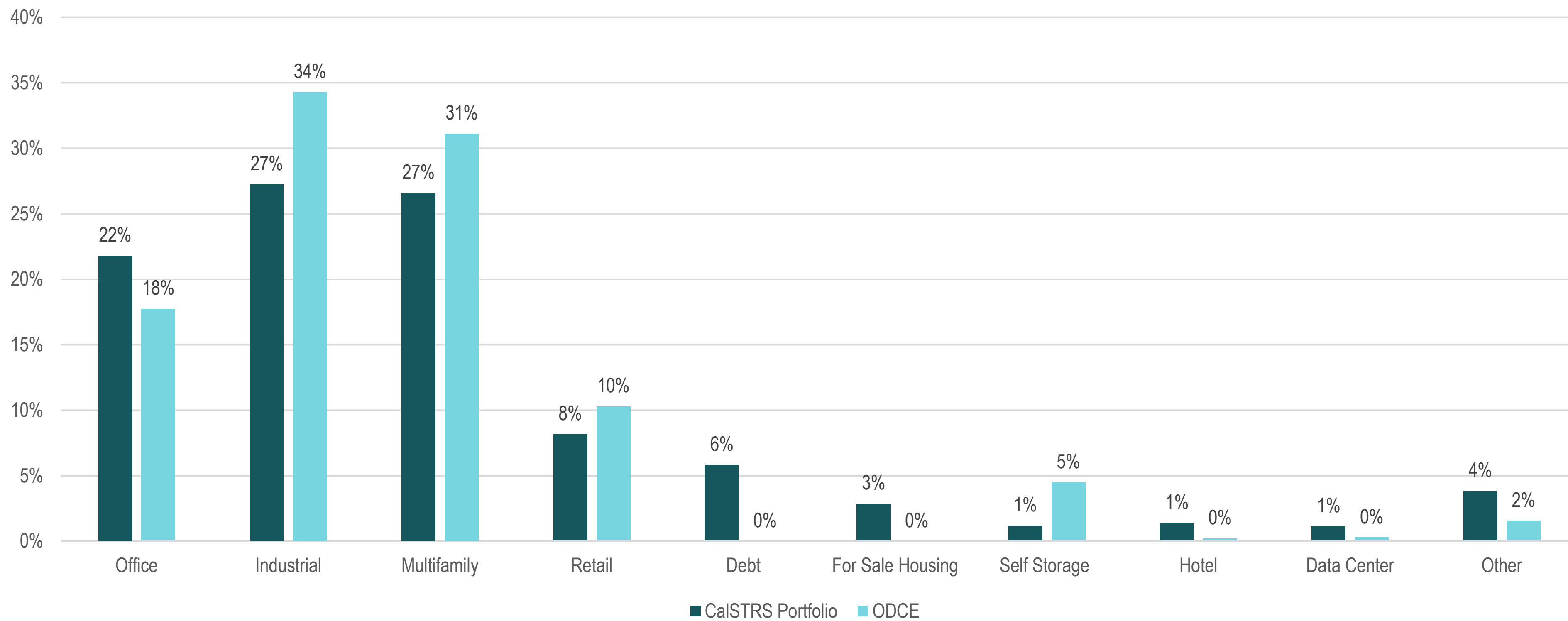
[1] *Control investments are those which CalSTRS maintains discretion over acquisitions, dispositions, and financing, or has high liquidity in normal market conditions.*

Portfolio Diversification

Property Type vs. ODCE

- The real estate portfolio remains overweight to office investments (including life science) relative to the benchmark.
- The portfolio continues to be underweight to industrial and multifamily by 7.1% and 4.5%, respectively.
- The portfolio has a 5.8% allocation to investments in real estate debt, which is the largest overweight allocation, given ODCE funds have no allocation to real estate debt investments. The portfolio is generally overweight to "niche" sectors such as for-sale housing, data centers, and other, although the portfolio is 3.3% underweight to self storage.

Total Portfolio - Property Type Diversification[1]



[1]The "other" property type includes the following property types which are less than 1.0% of the portfolio: senior living, land, mixed-use, diversified, REOCs and other.
Note: ODCE and CalSTRS' weights based on gross real estate value.
Note: Instances where chart totals do not equal 100% are due to rounding.
Source: State Street, CalSTRS

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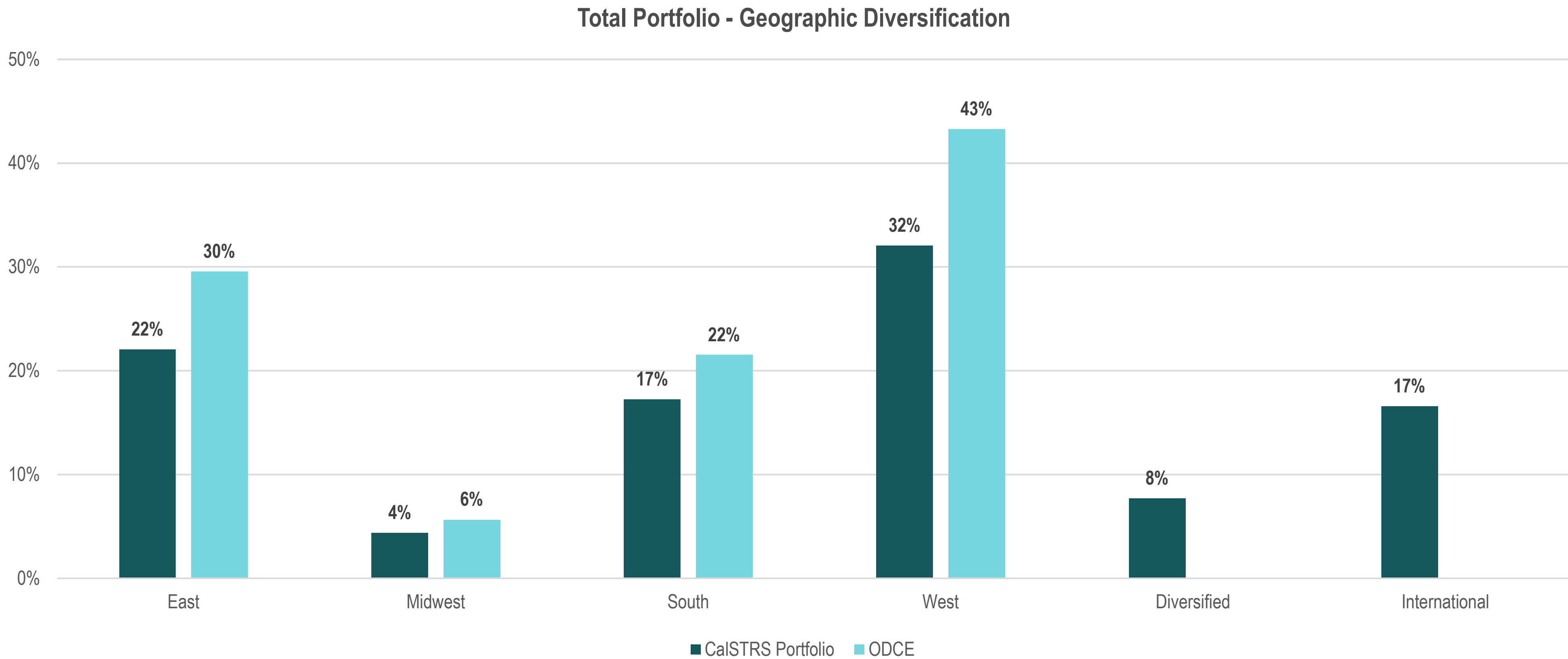
Portfolio Diversification

Geographic Allocation vs. ODCE

- Approximately 83.4% of the portfolio is invested in the United States. The benchmark has no International allocation.
- Excluding International, the West geography is the only region outside of +/- 10% of the benchmark regional weights.
- Approximately 7.7% of the portfolio is invested in diversified vehicles which do not provide specific geographic data, largely due to their allocations toward real estate operating company investments, debt, fund of fund investments, and portfolio acquisitions.[1]

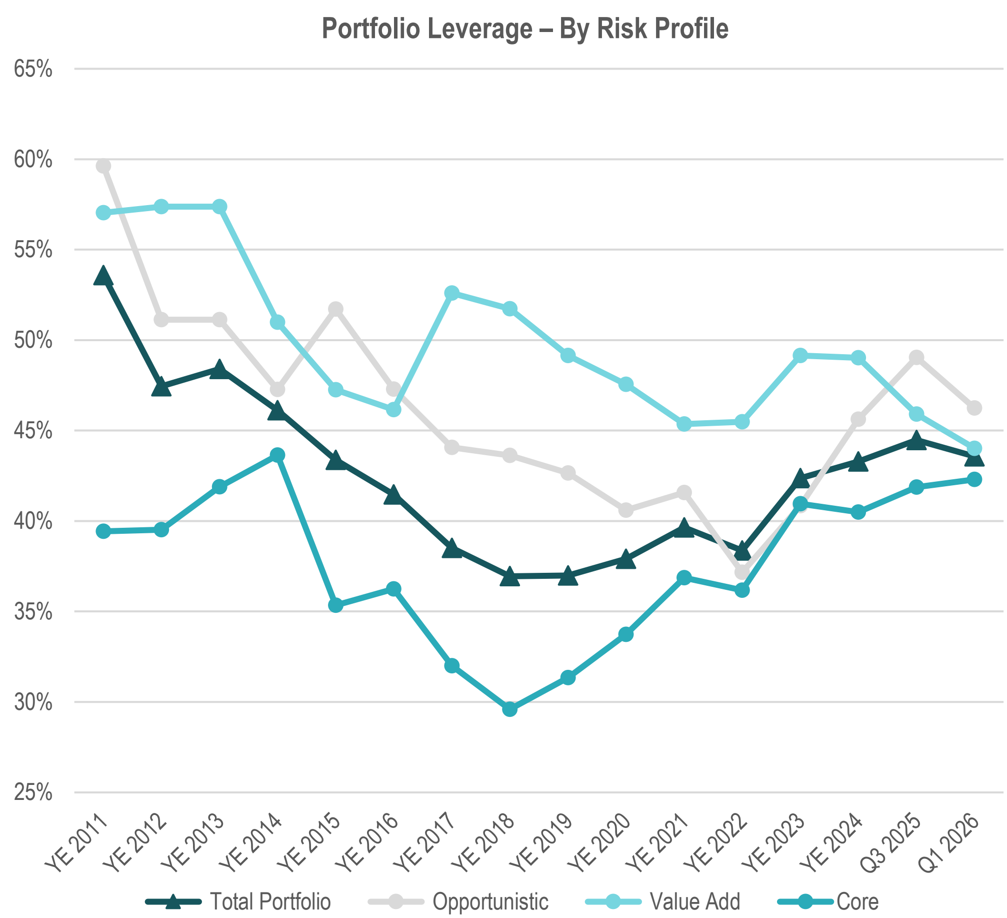


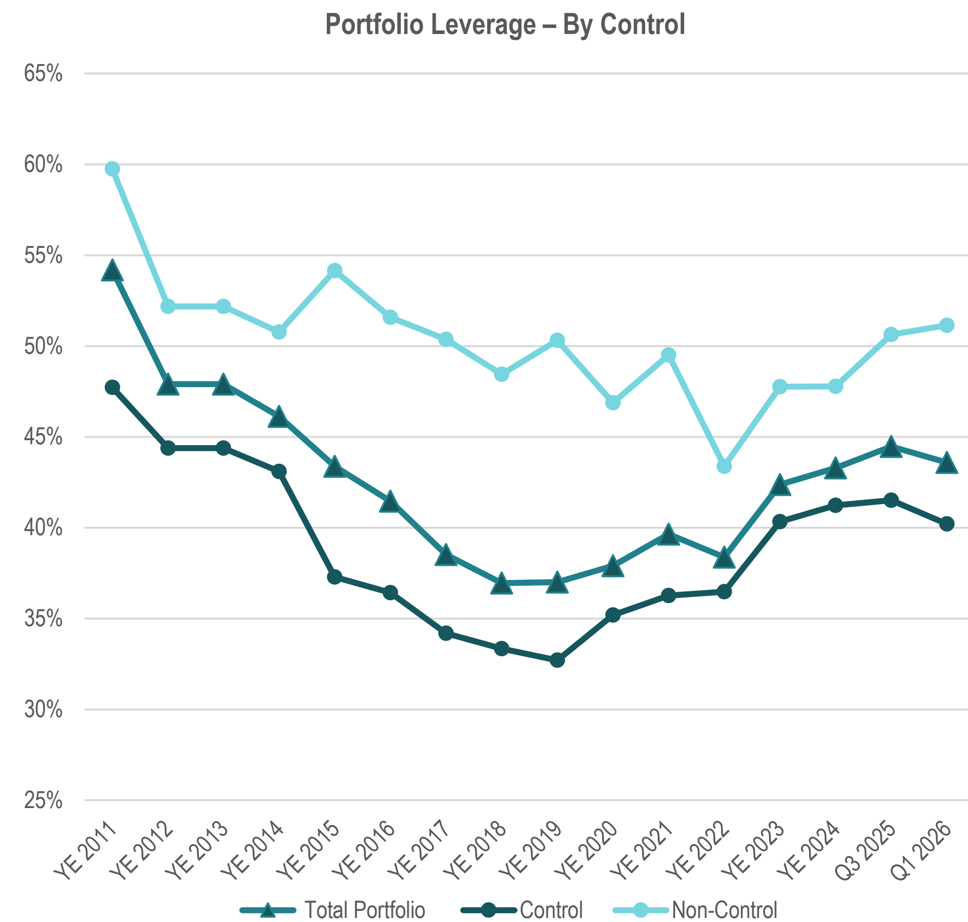
[1]"Diversified" geographic category represents the following locations, in descending order by percentage, USA Diversified, Various, and Global.
Note: ODCE and CalSTRS' weights based on gross real estate value.
Note: Instances where chart totals do not equal 100% are due to rounding.
Source: State Street, CalSTRS

Total Portfolio Leverage

By Risk Profile and Control

- CalSTRS' real estate debt was $38.8B as of Q1 2026, an increase of $1.0B since Q3 2025. The LTV of the total portfolio decreased by 89 basis points from ~44.5% in Q3 2025 to ~43.6% in Q1 2026.
- The LTV of the control portfolio decreased by 129 basis points from ~41.5% in Q3 2025 to ~40.2% in Q1 2026, while the non-control LTV increased by around 51 basis points to 51.1% over the same period. [1]



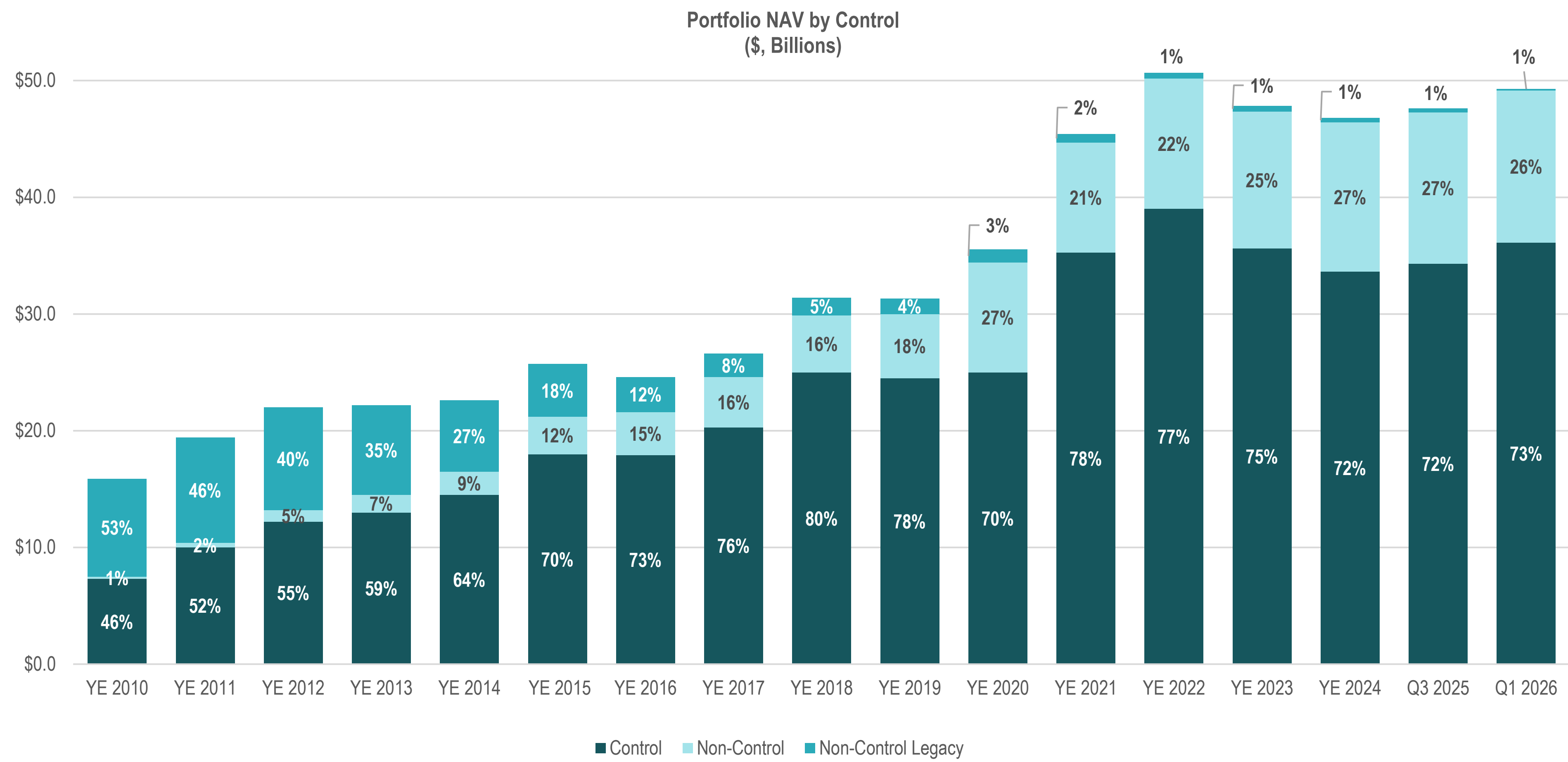


[1] Control investments are those which CalSTRS maintains discretion over acquisitions, dispositions, and financing, or has high liquidity in normal market conditions.
Source: CalSTRS, State Street

Real Estate Portfolio Growth

Portfolio NAV by Control

- CalSTRS' real estate portfolio NAV has increased by $1.8B in the past six months to $49.4B, largely due to direct portfolio appreciation and increases in allocations to real estate. The control portfolio comprises 73% of the NAV as of Q1 2026.[1]
- Legacy investments represent less than $0.2B of the NAV, or under 0.5% of the portfolio.



[1]*Control investments are those which CalSTRS maintains discretion over acquisitions, dispositions, and financing, or has high liquidity in normal market conditions.*
Note: Weights based on percentage of CalSTRS' net asset value. REITs included in Core.
Source: CalSTRS, State Street

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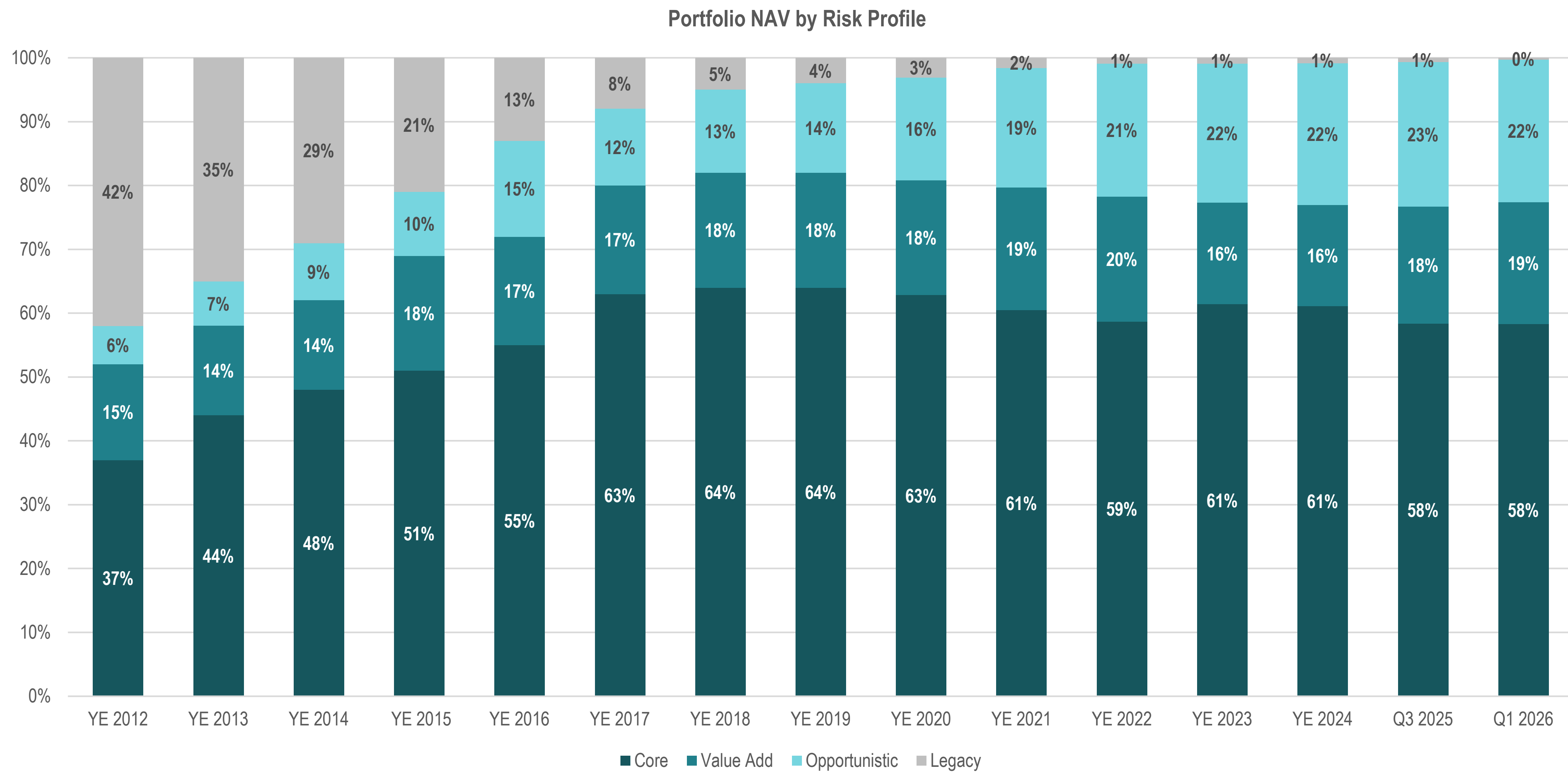
Portfolio Allocation

By Risk Profile

- Allocations by risk profile have shifted slightly over the last six months.
- The allocation to Value Add has increased 0.7% and the Opportunistic allocations have decreased by 0.3%.



Note: Weights based on percentage of CalSTRS' net asset value. REITs included in Core.
Note: Instances where the allocations do not sum to 100% in the chart above are due to rounding.
Source: CalSTRS, State Street

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APPENDIX I: KEY MARKET TRENDS

U.S. Real Estate Summary

As of Q1 2026

Operating Fundamentals

- ***Multifamily*** – Annual absorption was strong but was outpaced by completions. Consequently, stabilized vacancy rose and YoY rent growth was a low 0.3%. Fundamentals should improve through 2029 as new supply moderates.
- ***Office*** – Net absorption turned positive but remained low. Vacancy has likely peaked, and rent growth was modest at 1.6%. Premium office properties in top submarkets should outperform.
- ***Neighborhood Retail*** – Vacancies ticked up due to negative absorption but remain below their long-term average. Rent growth remained favorable at 3.2%. Limited new supply should support stable operating fundamentals through 2029.
- ***Industrial*** – Absorption has cooled meaningfully and was far outpaced by completions, pushing vacancies above their long-term average. Rent growth has stayed resilient at 2.5%. Fundamentals are projected to soften further before improving in the mid term.

Performance and Capital Markets

- Annual private real estate returns were steady in Q1 with ODCE and NPI returns registering 4.0% and 4.9%, respectively.
- Trailing-year appreciation was slightly positive for the NPI (0.2%) while ODCE appreciation remained negative (-0.1%).
- NPI returns are expected to average ~6.8% through 2030.
- NPI and ODCE annual income yields were 4.7% and 4.1%, respectively. The NPI yield spread to the 10-Year UST yield contracted.
- NPI (and ODCE) appreciation has been close to zero for six quarters. Prior up-cycles have lasted an average of approximately nine years.
- Annual transaction volumes totaled $580B in Q1, up 28% from the year prior. Transaction volumes were up for all four major property types.
- Real estate capital markets continued to broaden as lending standards normalized. Annual CMBS issuance climbed to $38B in Q1.
- Despite economic uncertainty, REITs have performed well in 2026. All Equity REITs posted a return of 13.1% through April of this year (YTD), outperforming public markets. Data center REITs led all other property types, with a return of 39.8%, followed by Lodging/Resorts (16.6%), and Self Storage (16.0%).

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Source: CoStar; MSCI; NCREIF

U.S. Property Markets Snapshot and Outlook

As of Q2 2026

Multifamily

- Annual absorption slightly outpaced completions; however, due to a supply overhang stabilized vacancy rose and YoY rent growth was a low 0.3%. An acceleration of the supply pipeline may keep fundamentals depressed in the near term.

Office

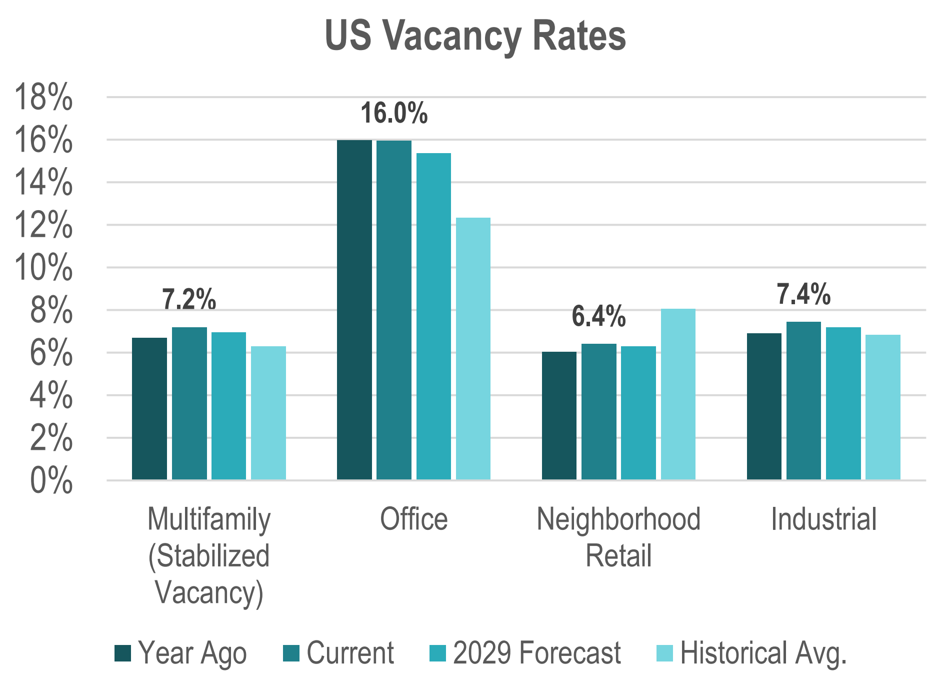
- Net absorption improved considerably although it remained outpaced by new supply. Vacancy has begun to moderate but rent growth will remain weak. Premium office properties in top submarkets should outperform.

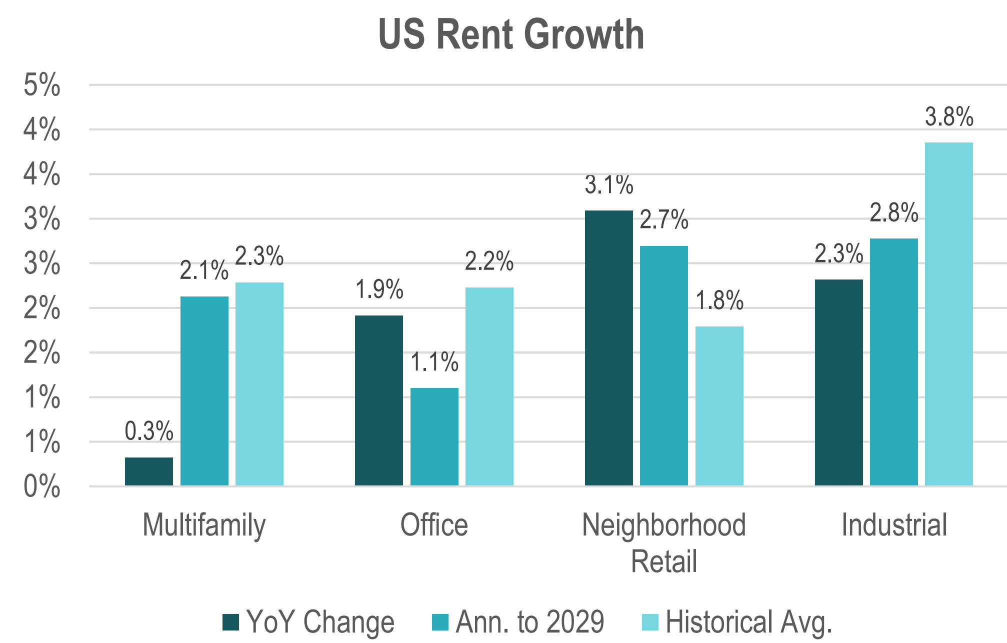
Neighborhood Retail

- Vacancies ticked up slightly but remain below their long term average. Rent growth is forecast to soften slightly in 2026 but limited new supply should support stable operating fundamentals through 2029.

Industrial

- Absorption improved but continued to lag completions, pushing vacancies higher. Rent growth has also slowed considerably. Fundamentals are projected to soften further in the near term before improving in the mid term.





Data are as of 2026 Q2.
Note: Vacancy and rent growth rates are rolling four-quarter averages; office and multifamily data are filtered for Class A&B; apartment vacancy reflect stabilized vacancy.
Source: CoStar

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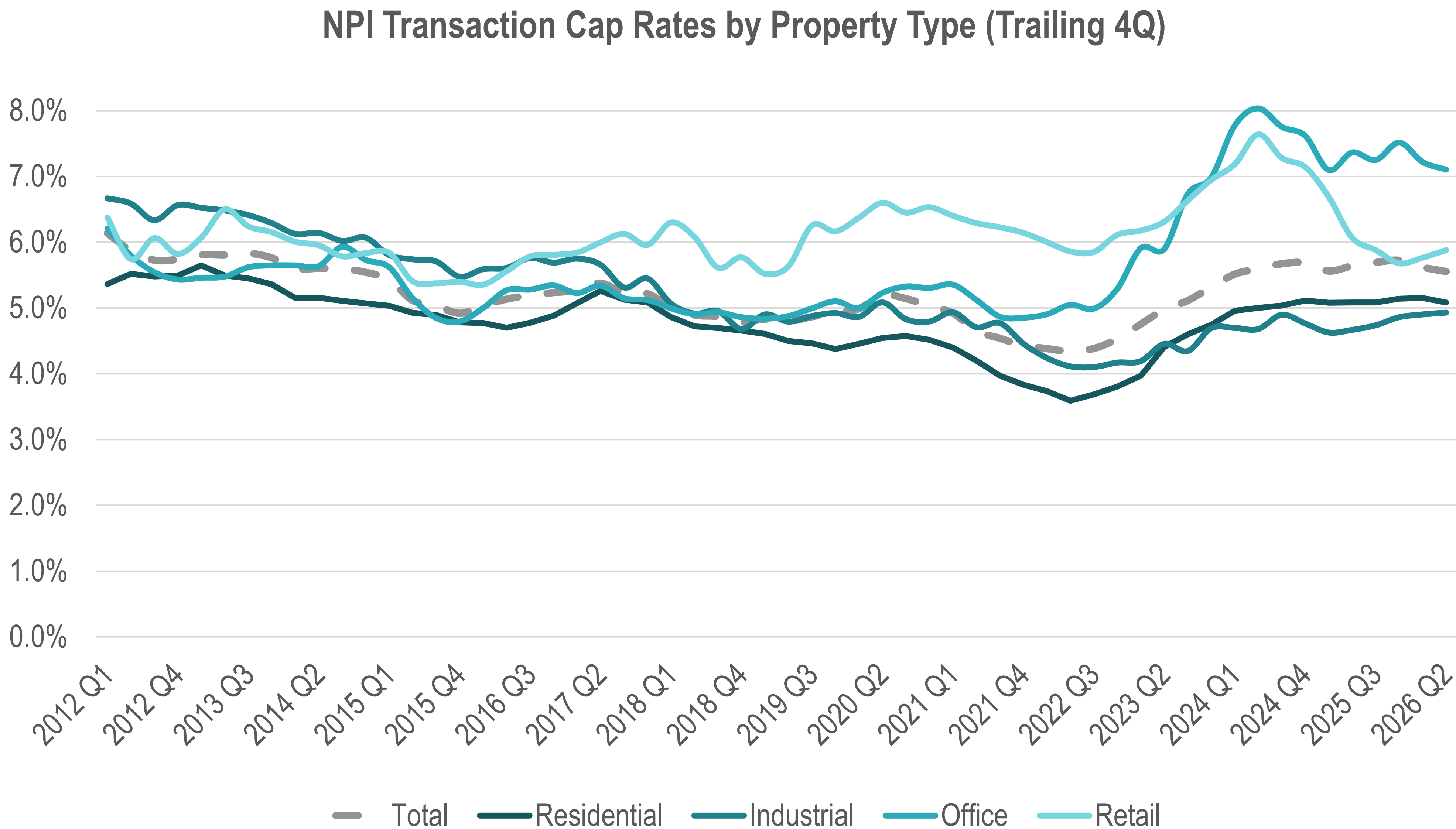
Cap Rates Remained Mostly Stable in Early 2026

Office and Residential Drove Modest Decline in NPI Transaction Cap Rates



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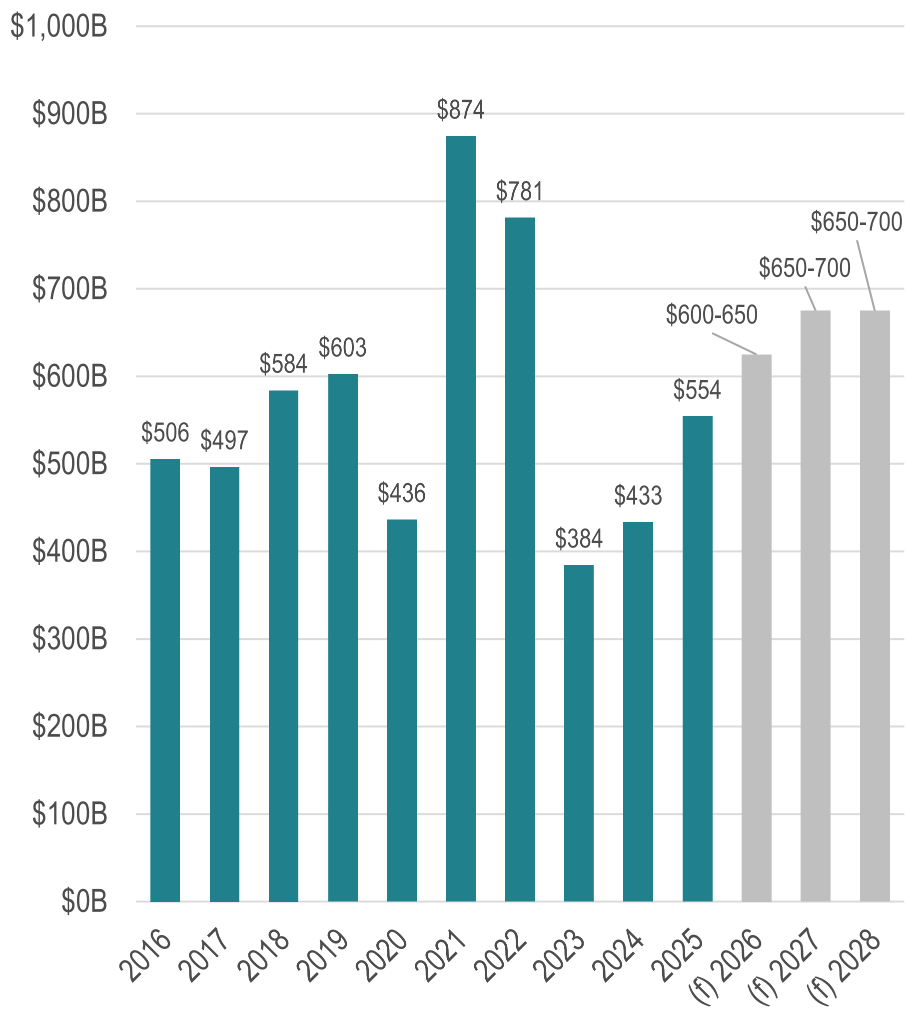
Data are as of 2026 Q2.
Note: Mix of NPI property types varies from quarter to quarter, potentially impacting average cap rates.
Source: NCREIF; MSCI

U.S. Transaction Volume Is Forecast to Continue Increasing

Transaction Volumes Have Increased Over 20% YoY in All Property Types Except Apartments

Annual Transaction Volume



Trailing Four-Quarter Transaction Volume

Data are as of 2026 Q2.
Source: MSCI, RFA

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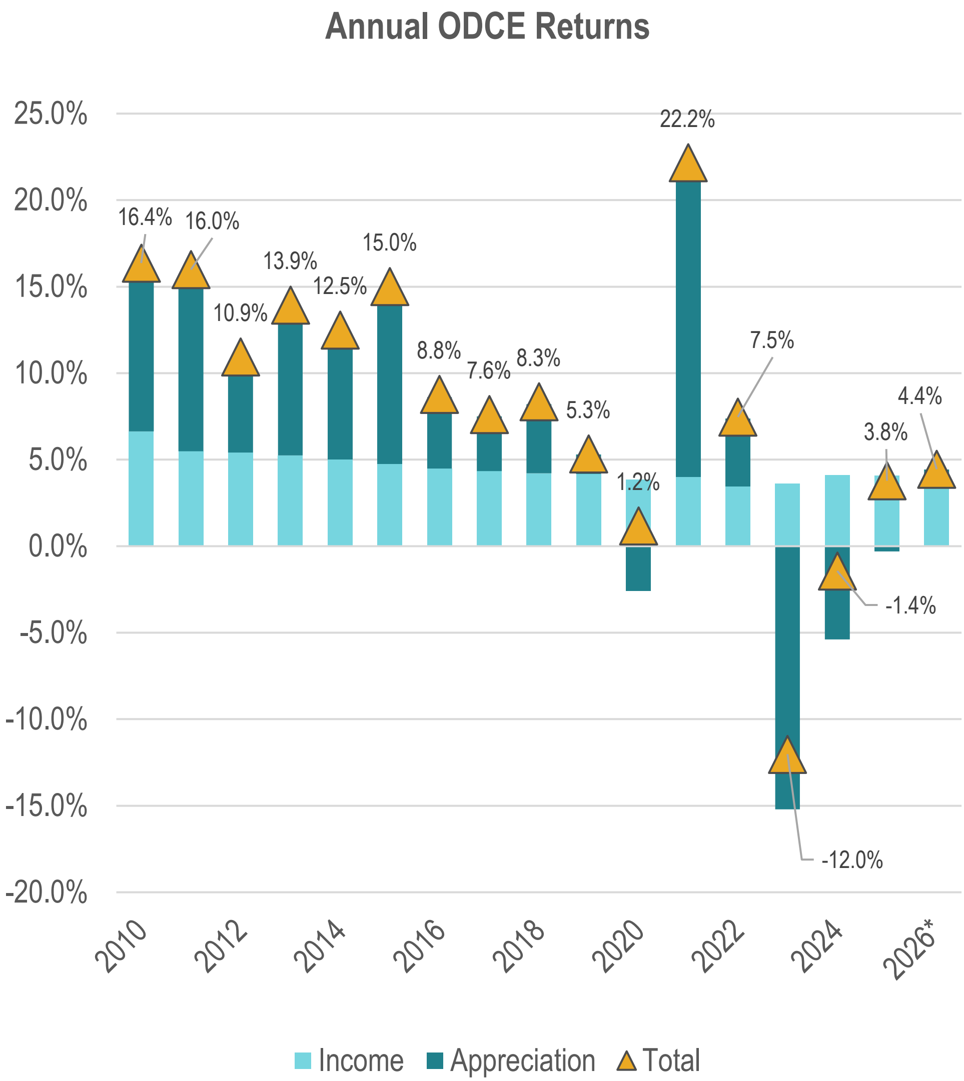
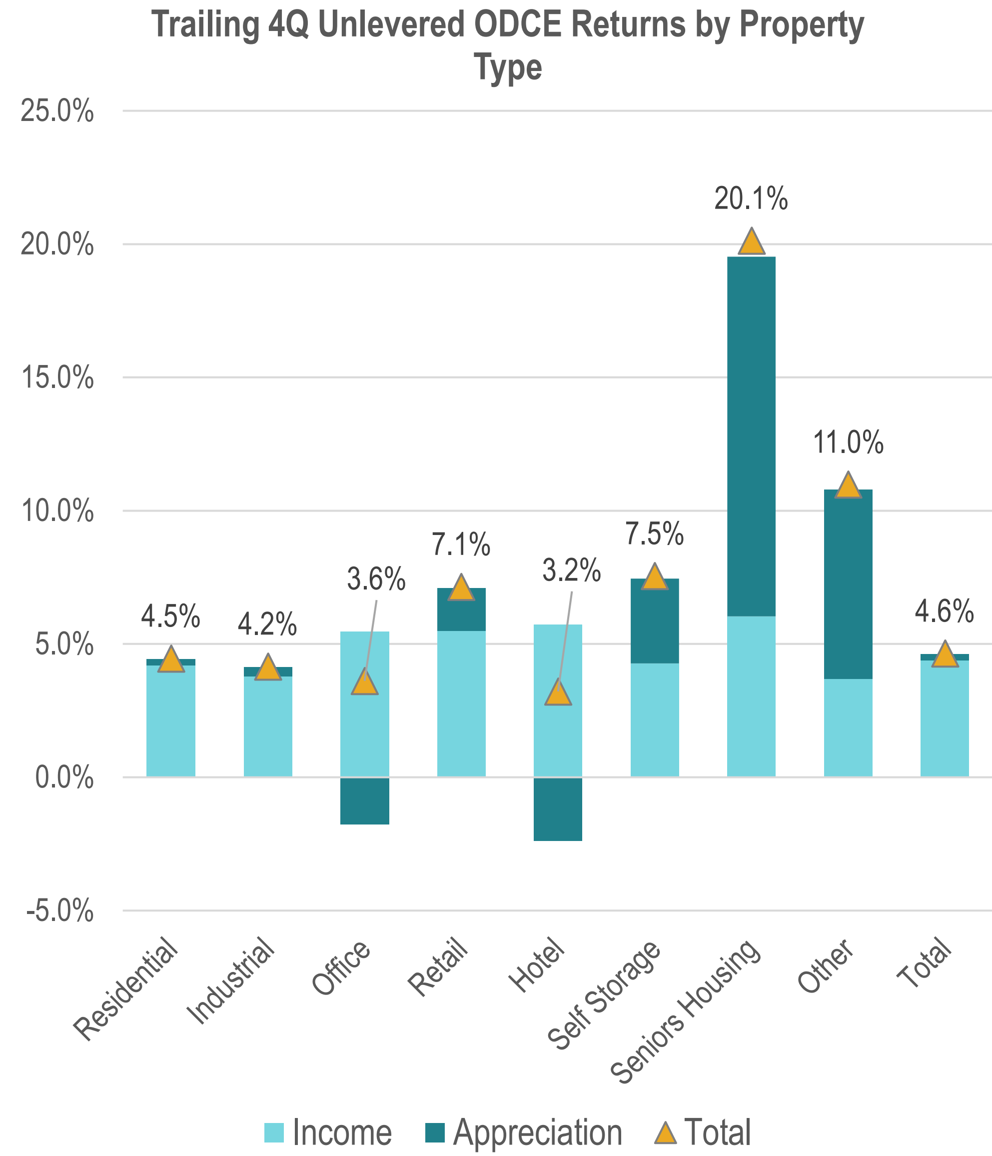
Annual ODCE Returns Rose Slightly to 4.4% in Q2

Seniors Housing and Other Led ODCE Returns; Hotel and Office Lagged



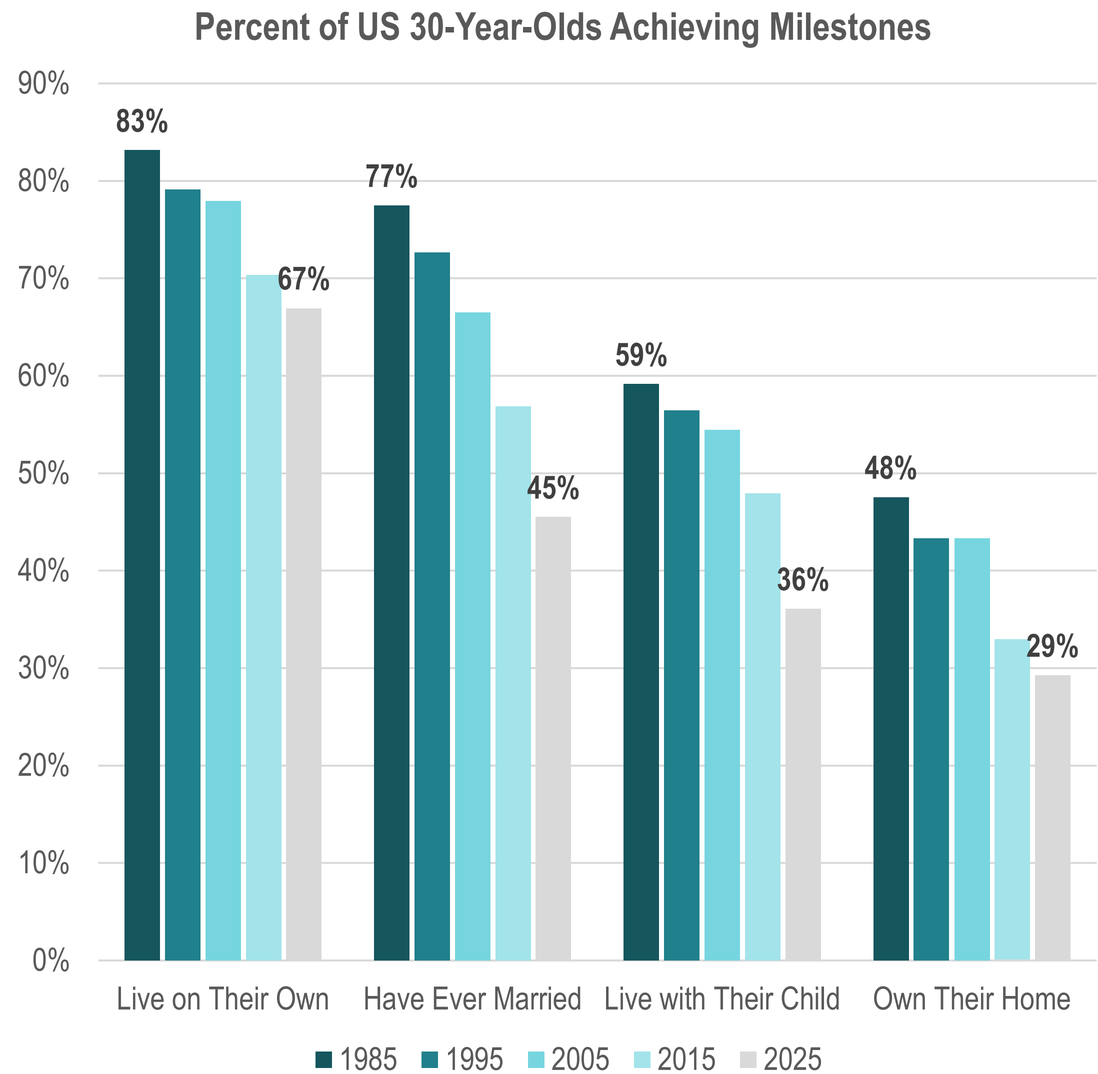


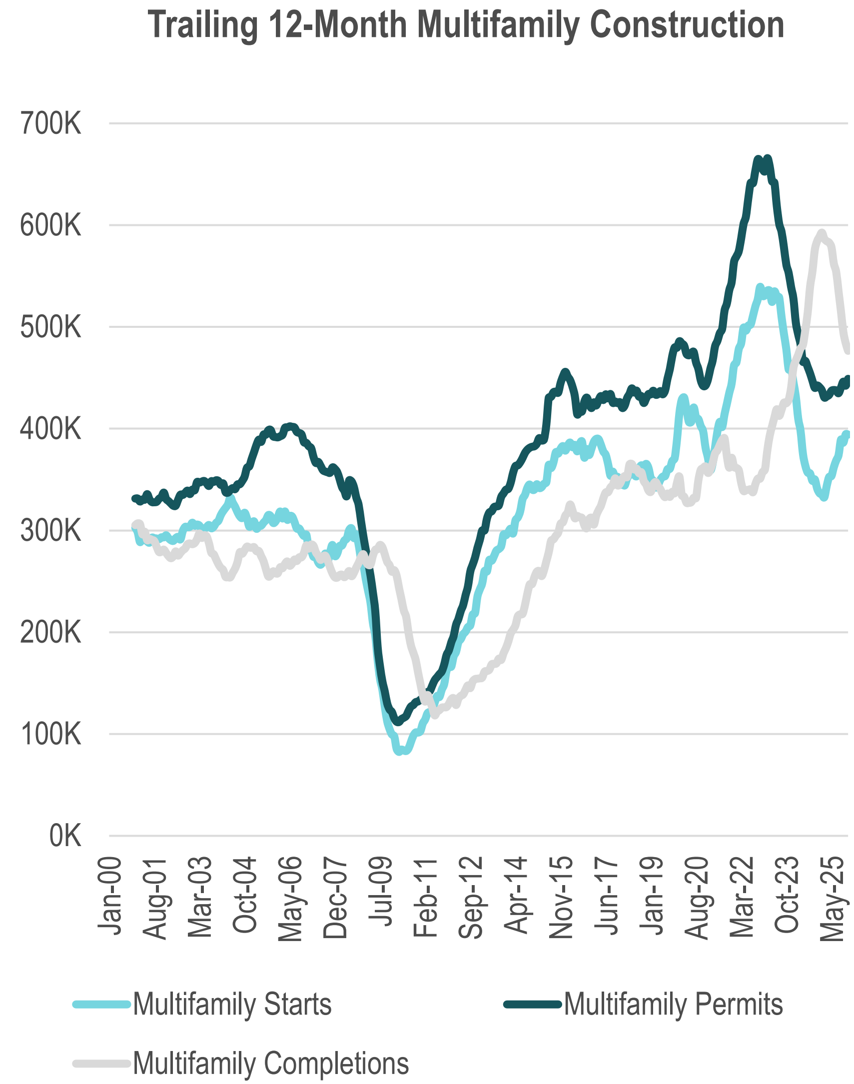
Data are as of 2026 Q2.
Note: Total returns are levered, gross of fees at ownership share; property type returns are unlevered, gross of fees, at ownership share.
Source: NCREIF

APPENDIX II: DEMAND DRIVERS

Multifamily: Young Adults Delaying Milestones Will Support Demand

Multifamily Supply Pipeline Cooling After Recent Highs





Data are as of 2025 Q4.
Source: Federal Reserve Bank of St. Louis; U.S. Census Bureau; IPUMS CPS University of Minnesota

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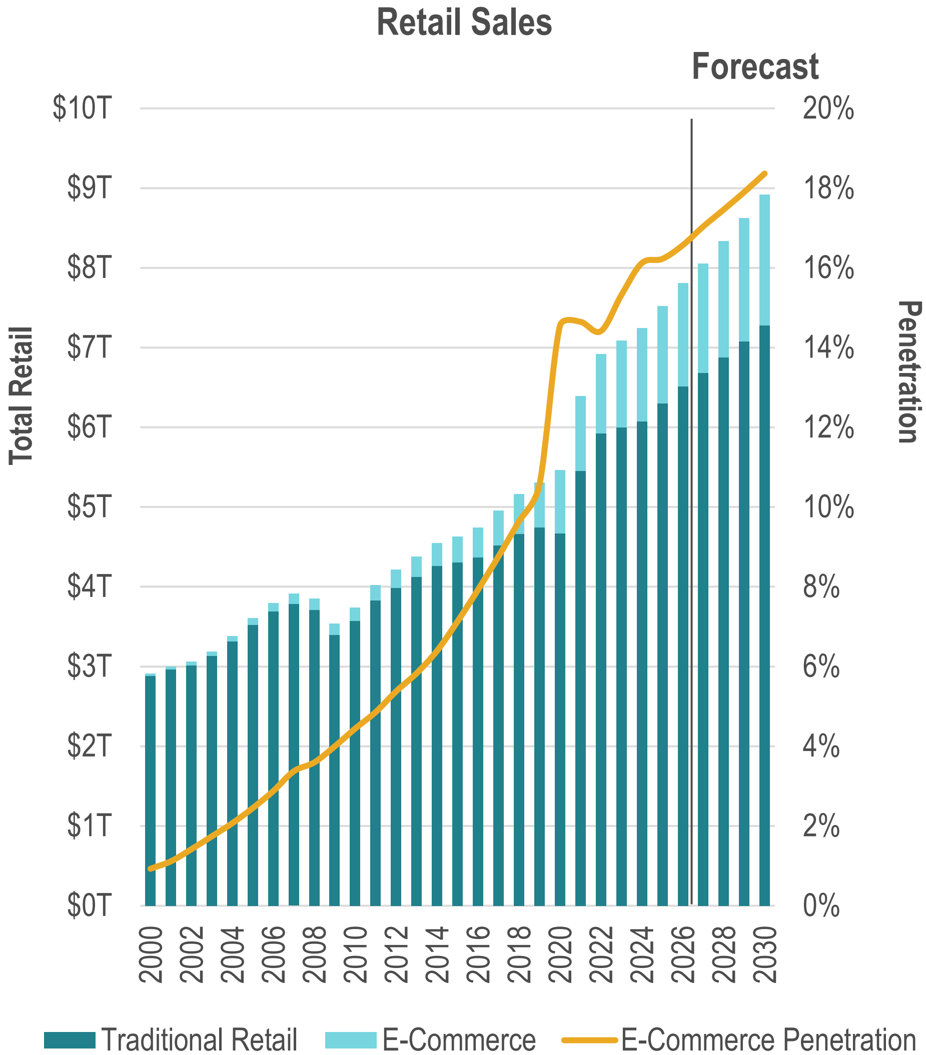
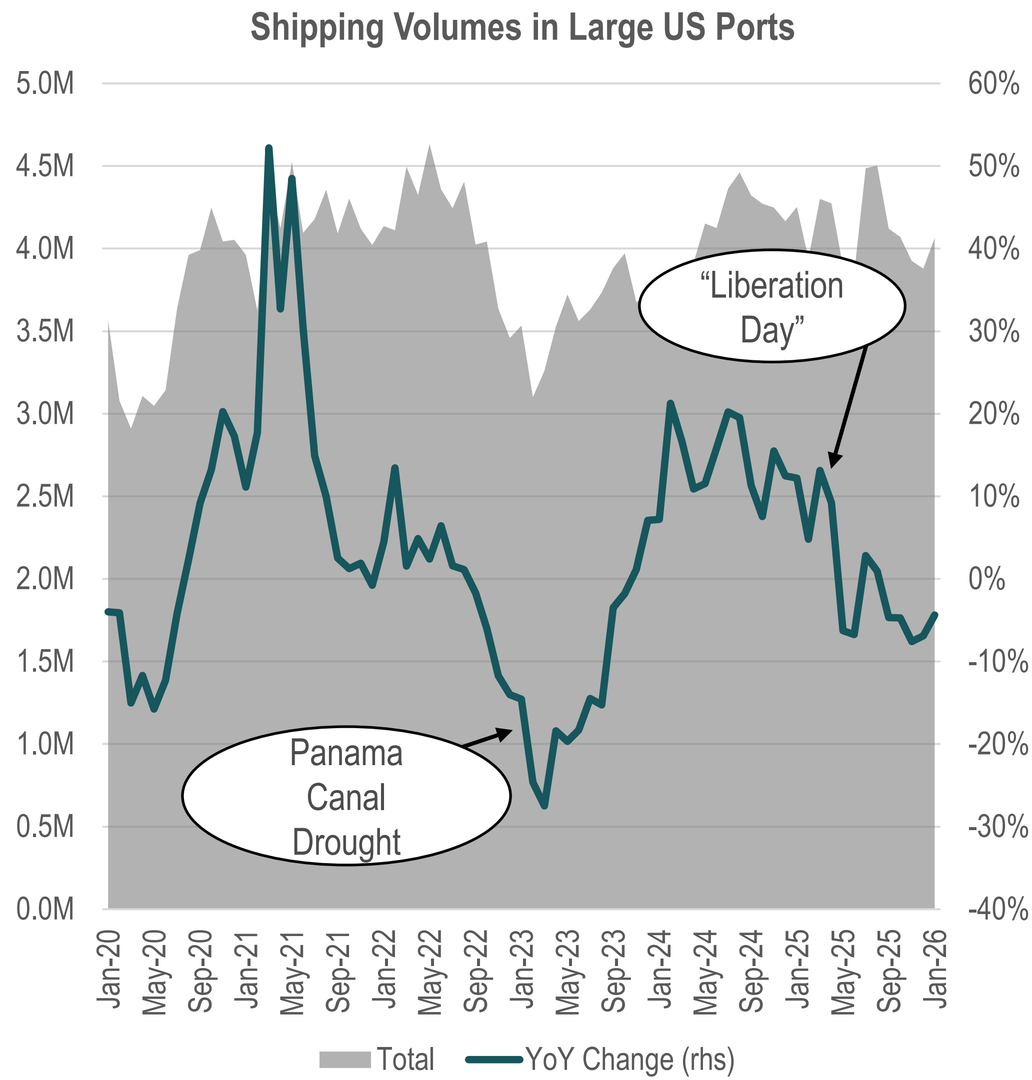
Industrial: Secular Shift to E-Commerce to Support Long-term Demand

Geopolitical Uncertainty & Tariffs Pose Near-Term Headwinds





Shipping volume data are as of January 2026; retail sales data are as of 2025 Q4.
Source: Department of Transportation; US Census Bureau; Federal Reserve Bank of St. Louis; Oxford Economics; Statista

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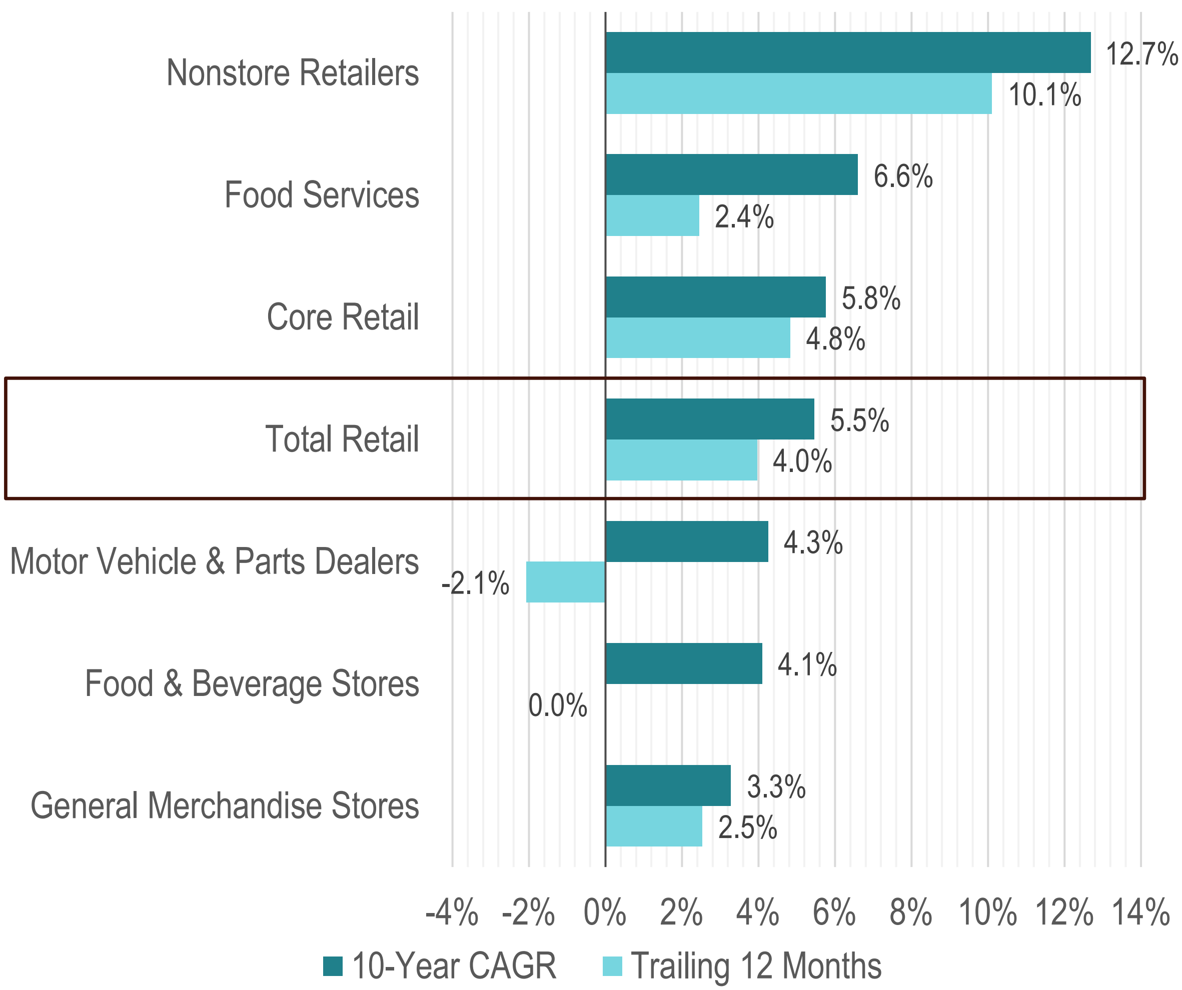
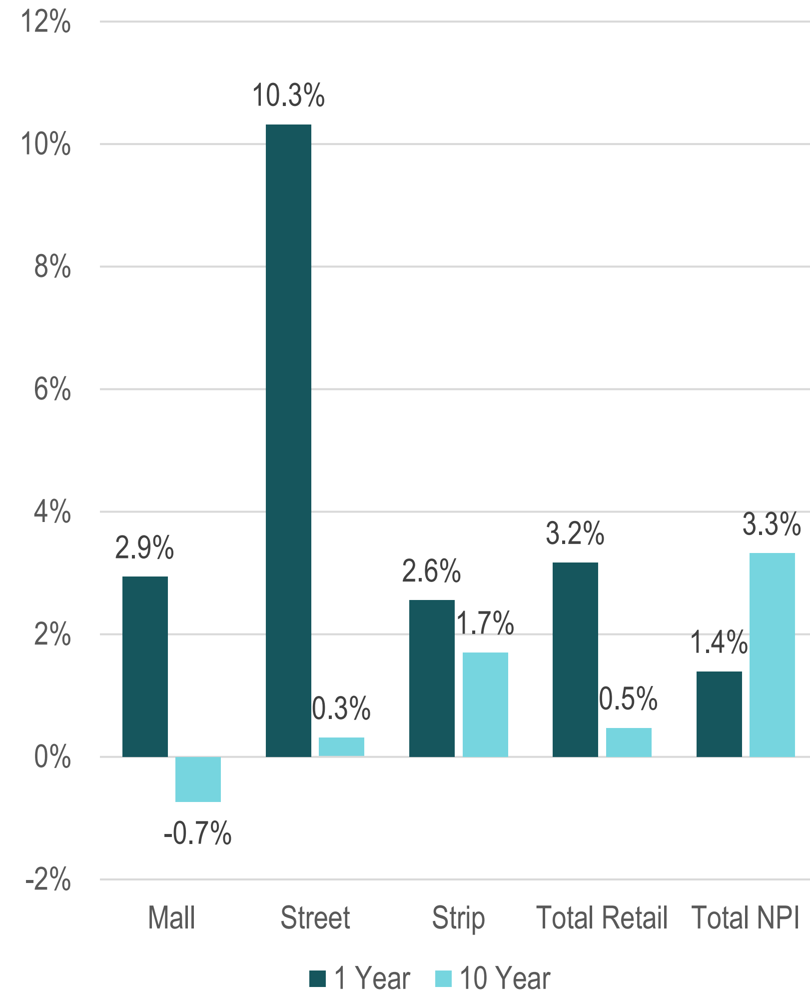
Retail: Total Sales Growth Remains Strong Despite Uncertainty

Strongest Historical NOI Growth in Strip Retail Despite Street Retail's Recent Rise



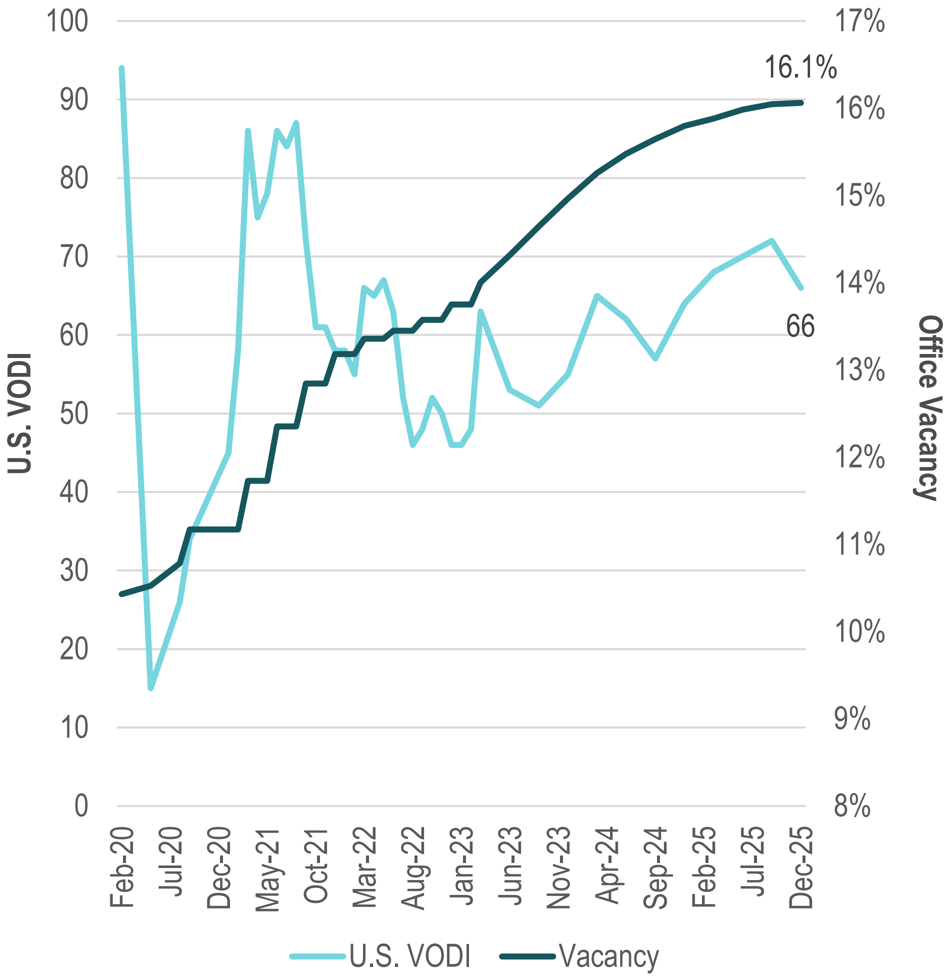


Data are as of 2025 Q4.
Source: Federal Reserve Bank of St. Louis; NCREIF; Oxford Economics; US Census Bureau

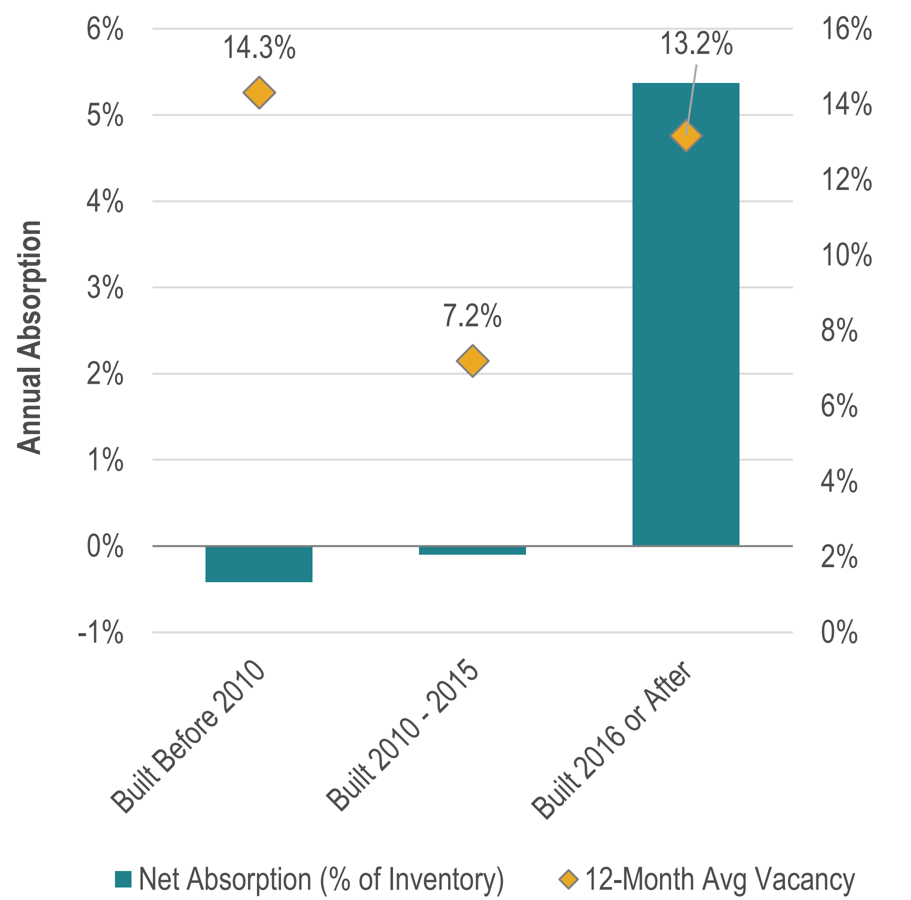
Office: Sector Remains Weak but May Offer Value Opportunities

Newer Offices Capture Greater Demand in a Bifurcated Market

U.S. VTS Office Demand Index (VODI)



Net Absorption and Vacancy by Vintage



VTS is a provider of leasing and asset management software for commercial real estate landlords. VTS captures more than 60% of Class A commercial space in the U.S. and 12B SF of commercial real estate globally is managed on its platform. VODI is reported as an indexed value from the baseline of 2018-2019 average demand.
Data are as of 2025 Q4.
Source: CoStar; VTS Office Demand Index

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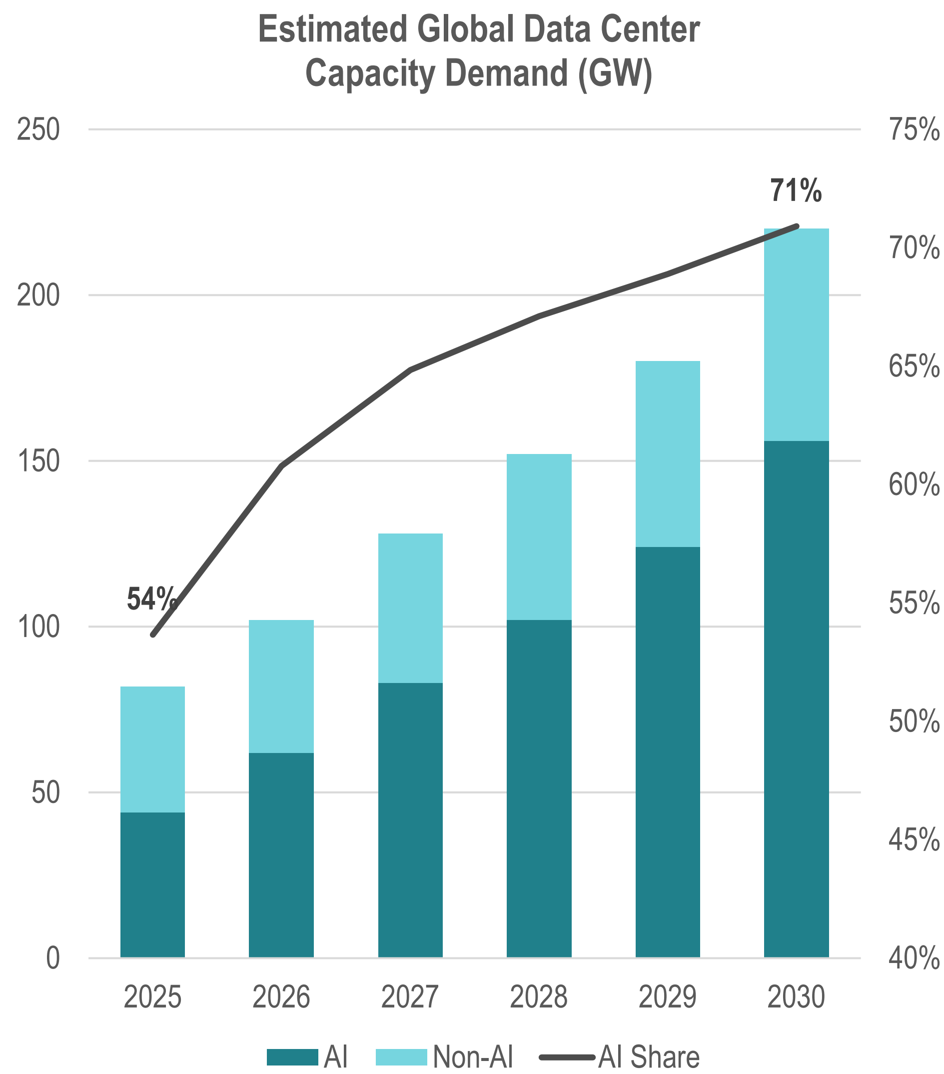
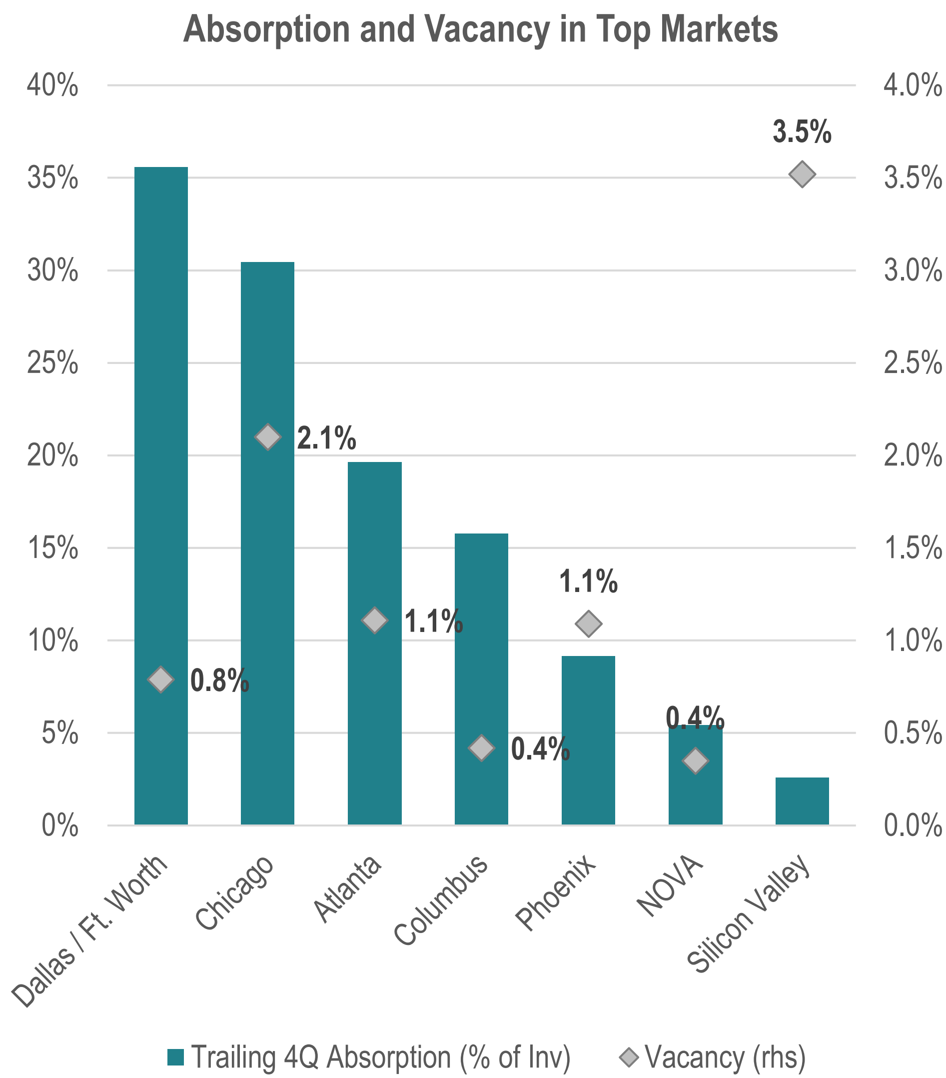
Data Centers: Growth of AI Will Be Primary Driver of Demand

Strong Absorption and Very Low Vacancy Recorded Across Top Data Center Markets





Market data as of 2025 Q4.
Source: McKinsey; datacenterHawk
Note: Data center inventory is measured in megawatts (MW) rather than square feet.

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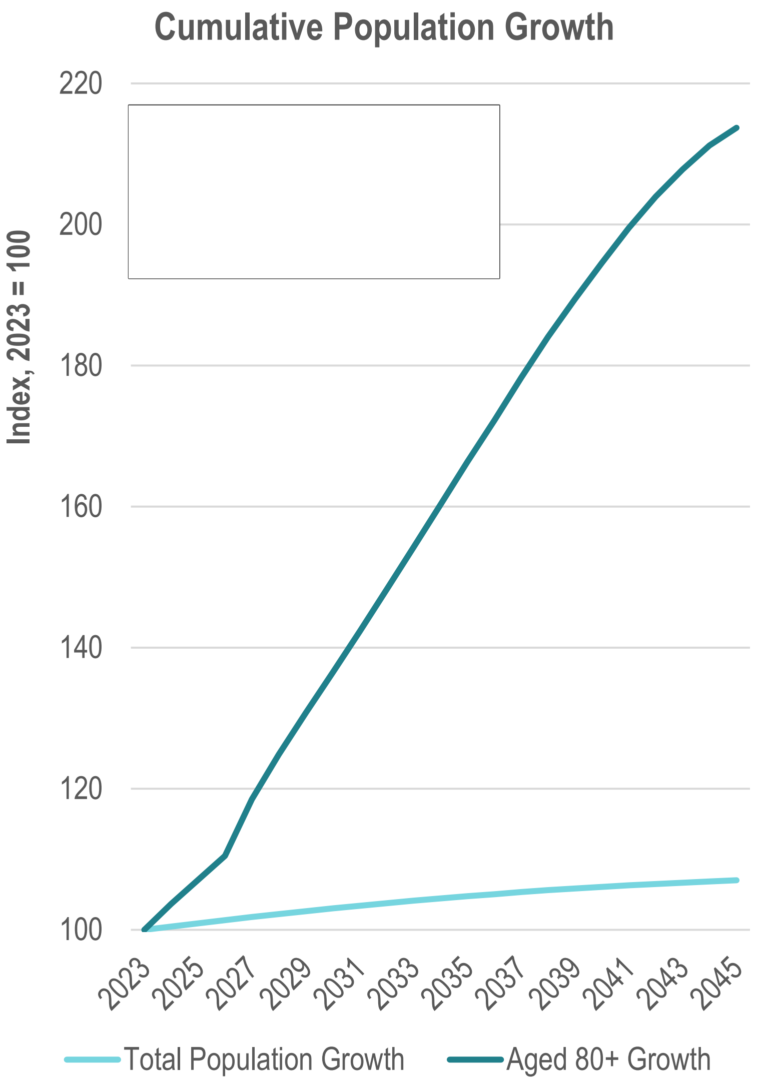
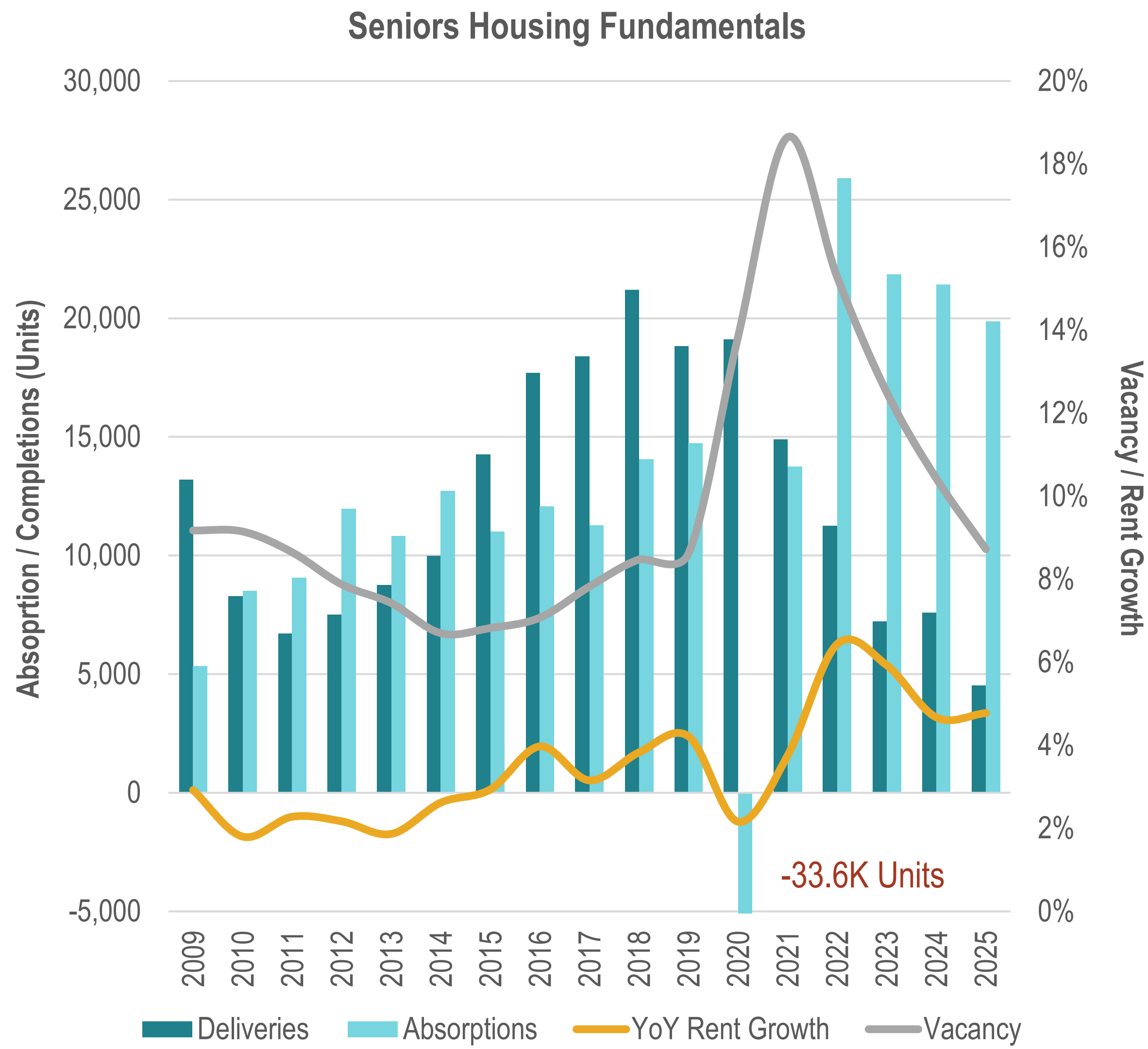
Seniors Housing: Necessary Product for Aging US Population

Vacancy Has Fallen Considerably in Recent Years Due to Strong Demand





Data are as of 2025 Q4.
Source: US Census Bureau; NIC MAP

Disclaimers

Critical Assumptions

Our analysis depends on the correctness and completeness of data available as of the date of this memo. The future performance of the global, national, and local economy and real estate market, and other factors similarly outside our control may vary. Given the fluid and dynamic nature of the economy and real estate markets, as well as the uncertainty surrounding particularly the near-term future, it is critical to monitor the economy and markets continuously. Stable and moderate growth patterns are historically not sustainable over extended periods of time; the economy is cyclical; and real estate markets are typically highly sensitive to business cycles. Further, it is very difficult to predict when an economic and real estate upturn will end.

Our analysis cannot predict unusual economic shocks on the national and/or local economy, potential benefits from major "booms" that may occur, or the residual impact on the real estate market and the competitive environment of such a shock or boom. Also, it is important to note that it is difficult to predict changing consumer and market psychology.

As such, we recommend the close monitoring of the economy and the marketplace, and updating this analysis as appropriate.

General Limiting Conditions

Reasonable efforts have been made to ensure that the data contained in this study reflect accurate and timely information and are believed to be reliable and comprehensive. This study is based on estimates, assumptions, and other information developed by RCLCO Fund Advisors from its independent research effort and general knowledge of the industry. No responsibility is assumed for inaccuracies in reporting by any data source used in preparing or presenting this study. This memo is based on information that to our knowledge was current as of the date of this memo, and RCLCO Fund Advisors has not undertaken any update of its research effort since such date.

Images: *1100 Spinks Road, Dallas, TX*

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