Get Closer®: The Responsible Investment Advantage

How to build a sustainable practice with responsible investment options
A responsible move for you and your clients

Start the conversation.
Many investors want Responsible Investment (RI) options – but they are often waiting for their advisors to bring up the topic. Have you started an RI conversation with your clients?

As practiced today, responsible investment is new. RI has evolved.
Marketing history tells us that consumer demand for new and innovative concepts often takes some time to take hold after that concept is introduced. Some recent examples of this are the smartphone, digital tablets prior to the iPad and Twitter. In the early days of Twitter, for example, many people and businesses didn’t see much potential for short snippets of text (microblogs) posted by the service’s users – how could these one-liners connect ideas and people? As more people realized the power of microblogging, demand for Twitter increased, and businesses and individuals began using it daily to share ideas, values and products.

In similar fashion, RI might not light a fire for investors until someone shows them what it is. Granted there’s plenty of information out there, but few investors are equipped to parse it and subsequently make confident decisions. That’s why it’s up to the advice community to step up, learn about RI options and begin conversations with investors. These conversations, even if they don’t lead to portfolio changes, are good for the client and advisor, because they increase engagement and can comprise a foundation for a more sustainable business model for the years ahead.

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Just the facts

53% of advisors say:
RI is “niche.”¹

BUT 1 of every $6
under professional management is an RI dollar.²
Give clients what they want.

Responsible investment and the products and concepts surrounding it have changed rapidly, making today’s RI essentially a new field – so new, in fact, that some clients may not even know it exists or that they might find it desirable. Additionally, advisors might refrain from bringing up RI as the concept is often misunderstood. Advisors who harbor even one misconception about the RI concept might be hesitant to start a discussion with clients.

However, despite the ever-evolving nature of RI, nearly two-thirds of investors (64%) say that they are interested in investing – or investing more – in RI options. Yet, less than a quarter of them say their advisor has spoken to them about RI opportunities.³ Why this gap? There are a number of reasons, and this paper will explore them, provide essential insights into RI, and describe its value for clients and for you. You’ll also learn how to gauge clients’ interest in RI, and how to evaluate various options to best meet their financial and personal goals.

Learn more about the myths surrounding RI in our white paper: Fringe to Foundation. Visit www.tiaa-cref.org/RIadvantage.


35% of advisors say: RI underperforms

BUT It’s provided comparable performance.

32% of advisors say: RI screens and excludes

BUT An ESG Leadership approach looks to include leaders across asset classes, sectors and for public and private firms.

RI – Knowing the essentials

Responsible investment is a quickly evolving discipline that promotes social value creation as well as financial value creation. The concept goes by other names, including Sustainable Investing and Socially Responsible Investing (SRI), which represents approaches that apply Environmental, Social and Corporate Governance (ESG) criteria when performing investment research and portfolio construction. Advisors continue to use these criteria for ongoing monitoring of these investments across multiple asset classes.

Some of the most common RI approaches include:

**Exclusionary / Avoidance**
This is most familiar to advisors. Investments are restricted based on business practices or entanglements that an investor finds objectionable. It may exclude tobacco, fossil fuels or weapons development.

**Social Impact / Community**
This approach seeks investments that create measurable positive social and environmental outcomes. Since large public companies are not single-mindedly focused on social goals, this type of RI is typically associated with private market or real estate investment. Examples include companies that market free trade coffee, and community development banks that work with the underserved.

**ESG Integration / “Best in Class”**
Used as part of conventional investment analysis, this type of RI factors in ESG criteria to assess a company’s risks and opportunities. Companies are compared against peers, and those considered “best in class” are favored when selecting investments. This type of RI is typically associated with public markets, as large public companies disclose the information needed to effectively rank them.

**Values-Based / Ethical Investing**
This type of RI combines active avoidance with active seeking of investments that consistently practice ethical or faith-based values. Examples include portfolios based on Catholic values or Sharia law.

**Active Ownership / Shareholder Advocacy**
This approach to RI goes beyond rating and choosing investments, to directly engaging public company leaders. Investors, individually or collectively, use their informal and formal rights to encourage companies to disclose, review or improve their ESG policies and practices.
Integrating RI

When evaluating a company’s ESG impacts, investment managers use industry-specific ESG factors and consider a company’s adherence to international norms and conventions.

Examples of considerations follow:

- **Environmental** – Use of natural resources, waste management, pollution, climate change impacts, etc.
- **Social** – Use of human capital (i.e., labor, human rights), product safety, customer care, development of communities and housing, health effects
- **Governance** – Public policy, corporate policies, business ethics
Gauging a client’s RI motivation

Although 84% of advisors say they have a strong understanding of the social and environmental causes their clients are passionate about, a full third of high-net-worth investors disagree. It’s important to learn about clients’ inner motivations so you can direct them to RI options that align with their personal values.

As you explore the RI arena with clients, be sure to also engage your client’s spouse and their adult children. Make it clear that spouses are your clients as well. Learn about their interests, accomplishments, values and priorities. Many advisors simply are not tuned into the goals and aspirations of clients’ spouses – and often “spouse” means wife. For example, when working with couples, 71% of advisors say they know the husband’s planned retirement date, but only 16% know the wife’s. Similarly, 54% of advisors know their client’s charity of choice, but only 13% know the charity of choice for their spouse.

Are you speaking your client’s language?

Clients’ motivations and goals differ as they look at responsible investment principles. Some may be interested in “megatrends” such as seeking solutions for some of the world’s sustainability problems—resource scarcity, climate change, or health and income inequalities. Others may have different interests.

If clients bring up responsible investment on their own, make sure to uncover exactly what the concept means to them.

Ask questions like:
“What makes you bring up this topic? What would you like to see? From other clients I often hear X, Y and Z.”

Next, restate your client’s answer and assure him or her that RI is a field in which you are well versed, and that you have access to products that should be able to address their needs.

Use statements like:
“Responsible investing is an evolving area, and it’s something I’ve been monitoring. There are many different products that try to achieve different goals. I’d like to spend some time explaining them to you.”

This puts you in a good position to then provide advice on the RI options that best fit their needs.
Integrating RI

Learn what matters to clients:

_new clients:_ Consider incorporating RI-related questions in your intake questionnaire.

Questions can directly mention RI:
“How interested would you be in aligning your values with investing?”
“How interested would you be in responsible investment?”
“How interested would you be in expressing your values in your investment portfolio?”

_You can also include indirect questions in the “personal interests” section related to:_
Hobbies, pets, favorite charities, volunteering, social and environmental issues of concern

Existing clients: Engage those whom you think might be interested in RI.

Ask clients to help you update your files, and use the conversation as a platform to touch on their values and motivations.

Even if a client is not receptive to RI products, such conversations may be a smart way to start a dialog.
Millennials and women –
the RI sweet spot

Baby Boomers grew up in an era of thriving social movements – ecology, civil rights, and anti-war demonstrations, which certainly makes them a key audience for the RI message.

Millennials, on the other hand, grew up with environmental and social issues at the core of their generation’s consciousness. Unlike Baby Boomers, they don’t remember when U.S. highways were lined by trash, but rather grew up with cartoons such as Capital Planet and Yogi Bear, that championed a sustainable lifestyle. As a result, Millennials are far more attuned to the value of sustainability as a factor in decision making, and are willing to pay more for sustainable products than those that don’t meet such standards.

In fact, Millennials, as well as women investors appear to be even more interested in RI than men or investors in general.

**Millennials and women are more interested in RI.**

<table>
<thead>
<tr>
<th></th>
<th>Investors overall</th>
<th>Millennials</th>
<th>Women</th>
<th>Men</th>
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<tbody>
<tr>
<td>64%</td>
<td></td>
<td>76%</td>
<td>70%</td>
<td>55%</td>
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</tbody>
</table>

In essence, by discussing and offering RI options, you may strengthen relationships with clients and everyone in their family. The right conversations today might lead to a stronger business tomorrow, as most advisors who work with couples tend to deal primarily with the husband. Creating a relationship with wives and adult children can be your best hope for retaining business and assets after a major life transition. Value-based conversations are a perfect way to engage all parties and begin forging broader, multigenerational relationships.

Consider these statistics.

**Spouses** – As many as 70% of women who go through a divorce will leave their husband’s financial advisor. And with the national divorce rate at about 50%, this is a significant possibility.

**Millennials** – As many as 86% of client heirs will leave the current advisor. Yet, only 35% of advisors have spoken to their clients’ adult children about their finances.
Integrating RI

Millennials align their values with their investments.

- Pay extra for sustainable products: 9% (Generation Z), 51% (Millennials), 25% (Generation X), 12% (Baby Boomer), 3% (Silent Generation)
- Check the packaging labels to ensure positive social environmental impact: 10% (Generation Z), 51% (Millennials), 25% (Generation X), 12% (Baby Boomer), 2% (Silent Generation)
- Prefer to work for a sustainable company: 9% (Generation Z), 49% (Millennials), 26% (Generation X), 12% (Baby Boomer), 3% (Silent Generation)

Percentages represent the fraction of respondents to a Nielsen survey who indicated the highest inclination toward practicing each sustainability strategy.

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Evaluating RI

It’s important to keep in mind that well-chosen RI options can be foundational – they are not “fringe” investments. When working with clients, help them find opportunities that provide a competitive return alongside a measurable societal outcome.

Indeed, advisors’ primary responsibility when it comes to RI is to suggest options that do not sacrifice performance. This begins by evaluating RI options without trying to apply an entirely unique approach. The fact that an investment is determined to be socially responsible, and the degree to which it is so, are just a couple of factors among many to consider when weighing its appropriateness for a client.

This means using conventional benchmarks and comparisons within conventional peer groups. Look primarily at the traditional evaluation factors – asset class, investment objective, investment technique, and the matter of active or passive management – to determine whether a particular RI might be a candidate for inclusion in a client’s portfolio.

Finally, remember that ESG criteria and methodology can vary considerably, so be sure to weigh them appropriately so you can help clients pursue their social impact goals in a way that’s meaningful to them and meets their performance expectations. Work with your clients and fund providers to determine the best approaches.
The right RI for each client

<table>
<thead>
<tr>
<th>Investor type</th>
<th>Solutions</th>
<th>Considerations</th>
</tr>
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<tbody>
<tr>
<td>Investors who favor companies with the leadership performance within a particular sector or industry group.</td>
<td>Consider solutions that exclude certain investments or select “best-in-class” investments.</td>
<td>Be sure to clarify expectations of what their portfolio will or will not hold.</td>
</tr>
<tr>
<td>“Double bottom line” investors, who’d like to see social returns alongside their financial ones</td>
<td>Consider investments that incorporate ESG factors.</td>
<td>Be sure to clarify the standards and methodology of the ESG evaluation process, and how it relates to their portfolio.</td>
</tr>
<tr>
<td>Investors who intentionally target investments with measurable social or environmental benefits</td>
<td>Consider impact investments.</td>
<td>Be sure to clarify the opportunities that each impact investment presents, and be direct about expected outcomes.</td>
</tr>
</tbody>
</table>

For more ideas on selecting RI options for your clients, see our white paper: “Socially Responsible Investing: Delivering competitive performance.” Visit [www.tiaa-cref.org/responsibleinvesting](http://www.tiaa-cref.org/responsibleinvesting).
TIAA-CREF: A leader in responsible investment and financial services

We deliver distinctive financial solutions coupled with a commitment to serve our clients. For nearly 100 years, TIAA-CREF’s mission has been to help our clients pursue lifelong financial well-being.

ESG Resources

TIAA-CREF has an established track record and history in ESG research and analysis. Our analysts are rigorous and we have the analytical capabilities for generating a transparent view of a company’s ESG performance. Analysts draw on diverse and comprehensive data sources that were chosen by considering input from multiple stakeholders. The methods applied are consistent across regions and are comprehensive – we not only weigh factors that encompass a broad range of ESG issues, we also focus on industry-specific risks and opportunities. And, of course, our ESG research and analysis evolve with time – company issues are continuously monitored, controversies are addressed, and emerging ESG trends are used to adapt our methods.

Experience and Expertise

TIAA-CREF is a leading provider of U.S. retirement benefits serving five million participants at more than 16,000 institutions and 27,000 plans. We offer a wide range of investment offerings through TIAA-CREF, Nuveen Investments and TH Real Estate. TIAA is among the highest rated insurance companies in the U.S. by the four leading insurance company rating agencies.* The company has $834 billion of assets under management as of September 30, 2015 and more than 12,000 employees with offices across the United States, England and Luxembourg.
Initiatives and memberships

- PRI: Principles for Responsible Investment
- Principles for Investors in Inclusive Finance
- University of Cambridge Institute for Sustainability Leadership
- Co-founder of the Farmland Principles

Awards

- Energy Star Certification Nation 2014 Executive Member Level Certification

*For its stability, claims-paying ability and overall financial strength, TIAA currently holds the highest possible ratings from three of the four leading insurance company rating agencies: A.M. Best (A++ as of 6/15), Fitch (AAA as of 9/15), Moody's Investors Service (Aa1 as of 8/15) and Standard & Poor's (AA+ as of 7/15). It currently holds the second highest possible rating from Moody’s Investors Service (Aa1 as of 8/15). Per S&P criteria, the downgrade of U.S. long-term government debt limits the highest rating of U.S. insurers to AA+ (the second-highest rating available). There is no guarantee that current ratings will be maintained. Ratings represent a company’s ability to meet policyholders’ obligations and do not apply to variable annuities, mutual funds or any other product or service not fully backed by TIAA’s claims-paying ability.
Join the RI revolution

As we’ve noted, investor interest in responsible investment is increasing, with Millennials and women leading the way. In the coming years, it’s likely that ESG will be an essential factor in portfolio development and evaluation. As you’ve also seen, many advisors are still harboring various misconceptions about this concept and haven’t yet made it part of their practice.

If you’re ready to be on the leading edge of this opportunity, take advantage of TIAA-CREF’s extensive resources for education and our suite of responsible investment options.

TIAA-CREF Funds are now offered by Nuveen Investments, bringing the best capabilities of each fund complex through a single Nuveen relationship manager. Call 800 752-8700 and we’ll be glad to answer any questions.
Resources from TIAA-CREF Asset Management

Download these and other practice management tools at www.tiaa-cref.org/RIadvantage.

**White Paper: Socially Responsible Investing: Delivering competitive performance**
TIAA-CREF analyzed leading SRI equity indexes over the long term—and found no statistical difference in returns compared to broad market benchmarks.

**Presentation: Get Closer*: The Responsible Investing Advantage**
This eye-opening presentation charts SRI’s growth in assets and investor interest. Learn how to facilitate client conversations about SRI.

**Infographic: Retaining clients with socially responsible investing**
Why it’s critical to understand investors’ goals, philosophies and passions.

**Article: Myth or fact? Test your RI knowledge!**
Test your own knowledge of SRI against five widespread myths.

**Article: Yikes! My Client is Asking about RI!**
What will you say when a client comes asking for responsible ideas? These four pointers can help get both of you speaking the same language.

**Article: Your clients may have an appetite for RI. Aren’t you going to show them the menu?**
Learn why now may be the time to start talking with your clients about socially responsible investing (SRI).

**Article: Responsible Investing Isn’t Philanthropy. It’s Investing.**
But advisors and their clients need to be clear: Charitable giving and RI are not the same thing. Both may be driven by the same desire to align wealth with personal values. But the two strategies serve different purposes—and need to be judged by different criteria.

**Article: RI’s Biggest Fans: Women and Millennials (oh, and Boomers)**
Learn how you can position yourself as a forward-thinking guide to engage the next wave of investors, including the wives and children of your current clients.

**Article: From “Fringe” to Foundation**
Contributed by Christine Pishko, Director, Client Portfolio Management
This article debunks the myths about responsible investment—and describes how socially responsible mutual funds can play a role as a core part of your clients’ portfolios.

**Worksheet: Suggested Questions to Facilitate RI Conversations**
Use this worksheet to help you engage with clients about responsible investment. It explains two different approaches to talking with your clients, and provides 10 sample questions to help you get the conversation started.

**Client Questionnaire: Dual Questionnaire**
Use this questionnaire to help ensure you collect the same information about both partners in a client couple.
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