

TIAA-CREF Individual & Institutional Services, LLC

Statement of Financial Condition

June 30, 2018

(Unaudited)

TIAA-CREF Individual & Institutional Services, LLC

Index

June 30, 2018 (Unaudited)

	Page(s)
Financial Statement	
Statement of Financial Condition	1
Notes to Statement of Financial Condition.....	2-6

TIAA-CREF Individual & Institutional Services, LLC
Statement of Financial Condition (amounts in thousands)
June 30, 2018 (Unaudited)

Assets

Cash	\$	123,388
Cash segregated under regulatory requirements		20,125
Advisory fees receivable		47,815
Receivable from clearing broker		2,432
Due from affiliated entities		5,602
Receivable from non-proprietary funds		1,568
Other assets		<u>1</u>
Total assets	\$	<u>200,931</u>

Liabilities and Member's Capital

Due to affiliated entities	\$	87,240
Other liabilities		<u>725</u>
Total liabilities		<u>87,965</u>
Member's capital		<u>112,966</u>
Total liabilities and member's capital	\$	<u>200,931</u>

The accompanying notes are an integral part of this statement of financial condition.

TIAA-CREF Individual & Institutional Services, LLC

Notes to Statement of Financial Condition (amounts in thousands)

June 30, 2018 (Unaudited)

1. Organization

TIAA-CREF Individual & Institutional Services, LLC (“Services”) was incorporated on September 4, 1990 as a membership corporation and is a wholly owned subsidiary of Teachers Insurance and Annuity Association of America (“TIAA”), a legal reserve life insurance company established under the insurance laws of the State of New York in 1918. Services is a registered broker-dealer under the Securities Exchange Act of 1934 and a member of the Financial Industry Regulatory Authority. Services is a registered as an investment advisor under the Investment Advisers Act of 1940 and provides investment advisory services to individuals. Effective January 1, 2004, Services was converted from a membership corporation to a single member limited liability company (“LLC”).

Services maintains a contractual arrangement with its affiliate, Teachers Personal Investors Services, Inc. (“TPIS”) to distribute shares of various mutual funds on a retail basis for which TPIS is the principal underwriter.

Services offers brokerage services to individuals as an introducing broker clearing on a fully disclosed basis through Pershing, LLC (“Clearing Broker”). Services also offers investment advisory services to individuals maintaining accounts at Pershing LLC for which it is separately compensated.

Services maintains a Distribution Agreement with TIAA-CREF Life Insurance Company (“T-C Life”) under which Services is the principal underwriter and distributor for variable annuity, variable universal life, and market value adjusted annuity products offered by T-C Life.

Services maintains distribution agreements with numerous unaffiliated mutual fund groups, and collaborates with TIAA to offer direct sales of selected mutual fund investments (“non-proprietary funds”) to customers of TIAA. Services receives distribution fees on the sale of these non-proprietary funds.

Services maintains a Phone Center and Field Support Agreement with TIAA-CREF Tuition Financing Inc. (“TFI”) under which Services is compensated for actual costs incurred for services it provides to TFI in its role as program manager for various state tuition savings plans.

Services maintains a Distribution Agreement with TIAA under which Services is the principal underwriter and distributor for variable annuities issued by TIAA. Services also maintains a Distribution Agreement with TIAA under which Services is the distributor for proprietary and non-proprietary mutual funds.

Services incurs expenses for distribution activities related to the issuance of variable annuity contracts by the College Retirement Equities Fund (“CREF”) and on behalf of the TIAA Real Estate Account (“REA”). Such activities performed by Services are at cost, pursuant to a Principal Underwriting and Distribution Services Agreement with CREF and a Distribution Agreement with REA. Fees are earned by Services based on a percentage of CREF's and REA's daily net assets, adjusted to actual costs quarterly, based on actual amounts charged to Services by TIAA.

TIAA-CREF Individual & Institutional Services, LLC

Notes to Statement of Financial Condition (amounts in thousands)

June 30, 2018 (Unaudited)

Various cash disbursements for Services are made by TIAA and its wholly owned affiliate Nuveen, LLC ("Nuveen"). Both TIAA and Nuveen are reimbursed by Services in accordance with Cash Disbursement and Reimbursement Agreements between Services and TIAA. TIAA and Nuveen allocates certain of its costs and expenses, as well as certain direct costs, to Services. These costs and expenses primarily relate to personnel, facilities, computer equipment and software, office equipment and supplies, utilities, advertising and sales materials.

Services has an agreement with TIAA, FSB ("Trust Company") under which the Trust Company provides advisory services on customer accounts and custodial services on certain types of customer accounts for Services. Services also has an agreement with the Trust Company under which Trust Company provides bank sweep account services for customer accounts and pays Services administrative service fees for assets swept. Services also has an agreement with the Trust Company where it receives fees for clients referred to the Trust Company's private asset management product.

The financial impact of affiliated agreements is included in Note 9 – Related Party Transactions.

2. Significant Accounting Policies

Basis of Presentation

The accompanying Statement of Financial Condition has been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). In preparing this statement of financial condition, Services has evaluated events and transactions for potential recognition or disclosure through September 12, 2018, the date the statement of financial condition was available for issue.

Use of Estimates

The preparation of the Statement of Financial Condition in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Statement of Financial Condition. Actual results may differ from those estimates.

3. Cash

Approximately 62% of Services' cash is held at State Street Bank and Trust Company. The remaining 38% is held at JPMorgan Chase & Co. All of Services' cash segregated under regulatory requirements is held at US Bank. Financial instruments that potentially subject Services to a concentration of risk consist principally of cash balances deposited into one financial institution, which, at times, may exceed federally insured limits. The Federal Deposit Insurance Corporation currently insures cash balances up to \$250 thousand. Services' management monitors these balances to mitigate the exposure of risk due to concentration and has not experienced any losses from such concentration.

4. Taxes

Services is a single member LLC and, as such, is treated as a division of TIAA for federal income tax purposes. Because of its status, Services is disregarded as a separate entity for income tax purposes and thus does not record income taxes in its financial statements.

TIAA-CREF Individual & Institutional Services, LLC

Notes to Statement of Financial Condition (amounts in thousands)

June 30, 2018 (Unaudited)

Services is subject to various state taxes based on revenues or business license taxes. Revenue based taxes are partially subject to reimbursement by affiliates under agreements to perform services “at cost.” As of June 30, 2018, Services accrued state tax liabilities of \$430 thousand; which was included in Other liabilities. A receivable for \$240 thousand was included in Due from affiliated entities related to reimbursement to be received.

5. Special Reserve Bank Account

Cash of \$20 million, which is recorded in the Statement of Financial Condition as cash segregated under regulatory requirements, has been segregated in a special reserve bank account for the exclusive benefit of customers under Rule 15c3-3 of the Securities and Exchange Commission (“SEC”). Cash held temporarily for customers is related to remittances awaiting final instructions or documentation from the customer. Services includes cash and securities held temporarily for customers and certain other associated items in determining the amount required to be held as segregated cash under Rule 15c3-3 of the SEC.

6. Minimum Net Capital Requirements

As a registered broker-dealer, Services is subject to the minimum net capital requirements pursuant to the Uniform Net Capital Rule 15c3-1 of the SEC (“Rule”). Under the Rule, Services is required to maintain minimum net capital, as defined under the Rule, equal to the greater of \$250,000 or 6 2/3 percent of aggregate indebtedness, as defined under the Rule. At June 30, 2018, Services had net capital of \$58 million, which exceeded required net capital by \$52 million and a ratio of aggregate indebtedness to net capital of 1.52 to 1.

7. Commitments and Concentration of Credit Risk

Services offers discount brokerage services through the Clearing Broker on a fully disclosed basis. Pursuant to the terms of the agreement between Services and the Clearing Broker, the Clearing Broker has the right to charge Services for losses that result from a customer’s failure to complete a purchase or sale transaction.

The maximum potential liability of Services could be equal to the aggregate trading volume of its customers’ transactions during the settlement period; however, this amount cannot be estimated due to the volatility in daily trading volumes. The liability is minimized by the fact that, in the event of nonperformance by the customer, the underlying security would be transferred to Services who could, in turn, immediately liquidate the position, limiting the loss exposure to the market fluctuation in the underlying price of the security. Additionally, Services may seek recourse from the customer by reimbursing itself from any cash or securities in the defaulting customers’ account. At June 30, 2018, Services has recorded no liability with regard to customer transactions. During the period ended June 30, 2018, Services experienced de minimis net losses as a result of its customers’ failure to fulfill any purchase or sale transactions.

Services' has retail brokerage clients who conduct securities transactions on a margin basis. In margin transactions, credit is extended to customers by the Clearing Broker subject to various regulatory and internal margin requirements. As an introducing broker, it is Services' responsibility to collect initial margin requirements from its clients and to monitor the adequacy of such collateral on an ongoing basis. In this regard, Services may require the deposit of additional collateral or may reduce security positions as necessary to satisfy regulatory and internal requirements. Margin transactions may expose Services to credit and market risk in the event a client fails to satisfy its obligations. In that event, Services may be required to purchase or sell financial instruments at

TIAA-CREF Individual & Institutional Services, LLC
Notes to Statement of Financial Condition (amounts in thousands)
June 30, 2018 (Unaudited)

current market prices to satisfy the customer's obligation to the Clearing Broker. The maximum amount of Services's potential exposure to reimburse the Clearing Broker on margin accounts may fluctuate daily depending on the amount of secured borrowings requested by customers, and may not be readily estimated due to volatility in the amount of such borrowings. No amount is accrued in these statement of financial conditions for potential reimbursements to the Clearing Broker on margin loans extended to Services's customers. Services mitigates this risk by revaluing collateral at current prices, limiting portfolio concentration and by monitoring compliance with credit limits and industry regulations.

In the normal course of business, Services may be named, from time to time, as a defendant in various legal actions, including arbitrations, class actions and other litigation, arising in connection with its activities as a financial services institution.

Services is also involved, from time to time, in other reviews, investigations and proceedings (both formal and informal) by governmental and regulatory agencies regarding Services' business, and involving, among other matters, sales and trading activities, financial products or offerings sponsored, underwritten, sold, or distributed by Services, and accounting and operational matters, certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief.

Services contests liability and/or the amount of damages, as appropriate, in each pending matter. Where available information indicates that it is probable a liability had been incurred at the date of the consolidated statement of financial condition and Services can reasonably estimate the amount of that loss, Services accrues the estimated loss by a charge to income.

Services has established a liability of \$300 thousand for the anticipated costs of open regulatory actions or litigation, and is included in other liabilities. In the opinion of management, the ultimate disposition of such matters will not have a material adverse impact on Services' financial condition, cash flows, net capital, or results of operations.

8. Related Party Transactions

Amounts due from and to affiliated entities related to the distribution of insurance products, mutual funds, and tuition savings plans and Trust Company agreements are reflected in the table below.

Due from affiliated entities		Due to affiliated entities	
		TIAA	73,234
Trust Company	1,986	CREF	4,379
TPIS	1,553	Trust Company	8,170
T-C Life	1,460	Nuveen	935
TFI	603	REA	522
<u>Total</u>	<u>5,602</u>	<u>Total</u>	<u>87,240</u>

TIAA-CREF Individual & Institutional Services, LLC
Notes to Statement of Financial Condition (amounts in thousands)
June 30, 2018 (Unaudited)

9. Subsequent Events

On June 11, 2018, Services, in its capacity as a registered investment adviser ("RIA"), notified the U.S. Securities and Exchange Commission ("SEC") of its intent to participate in the SEC's Share Class Selection Disclosure Initiative ("Initiative") for RIAs. The Initiative is intended to identify and promptly remedy instances in the industry where RIAs have invested clients in mutual fund share classes which carry 12b-1 fees when lower cost share classes of the same fund were available and failed to sufficiently disclose the practice and associated conflict of interests to their clients ("qualifying 12b-1 fees"). The Initiative covers qualifying 12b-1 fees received during the period January 1, 2014 to present and requires participating firms to disgorge such qualifying 12b-1 fees. On September 7, 2018, TC Services notified the SEC that Services estimates disgorging approximately \$1.4 million in 12b-1 fees and \$1 million in other mutual fund funds fees related to the Initiative.