Third Annual Responsible Investing Survey

Investor interest in responsible investing soars

Advisors are recommending responsible investing less but assets are rising

EXECUTIVE SUMMARY

• The political and economic landscape appears to be sparking investment action among investors.

• Investor awareness, interest and preference for responsible investing (RI) soars, yet myths persist.

• All eggs in one basket? 52% of investors say they would be likely to put ALL of their investment holdings in a responsible investing portfolio. 92% of Millennials feel the same way.

• Though there has been an increase in advisors raising RI with clients, advisors are less likely to recommend RI products compared to last year. 22% of advisors who have heard of RI say they are currently recommending RI to clients, compared to 29% in 2015.

• Advisors who continue to recommend RI are recommending more assets and using RI as a competitive differentiator, perhaps because they have seen success in their practice, portfolio performance and client loyalty.

• The reasons for advisor hesitation range from difficulty in portfolio construction to a lack of access. One in 10 (11%) of advisors say they “completely understand” the due diligence process to incorporate responsible investing in portfolios.

• More than eight in 10 (82%) of investors would be more likely to work with an advisor who could give them competitive investment returns from investments that also make a positive impact on society.
ALTRUISTIC ATTITUDES SPARKING ACTION

Last year’s responsible investing study highlighted the importance of environmental and social causes for many investors. For example, we found that nearly nine in 10 (88%) of investors recycle every day and seven in 10 (76%) prefer to use reusable bags. This year, we see investors wanting to take further action.

Dentists over disruptive companies

Three in four (76%) of investors say they would rather go to the dentist over investing in a company that pollutes the environment.

Political environment sparking investment action

More than seven in 10 (72%) of investors say “given today’s political climate, I prefer to invest in ways that will positively impact the environment.” Advisors report the same phenomena. 34% of advisors say their clients have become more interested in learning about adding RI to their portfolio since the presidential election.

72% of INVESTORS

SAY: “Given today’s political climate, I prefer to invest in ways that will positively impact the environment.”

34% of ADVISORS

SAY: “High-net-worth investors have become more interested in learning about and adding responsible investing to their portfolio since the presidential election.”

ABOUT THE SURVEY

The Third Annual Responsible Investing Survey is a trended analysis of key issues facing advisors and investors. Nuveen commissioned Harris Poll to conduct two surveys of both populations, enabling the study to identify gaps between the perceptions of investors and those of advisors. The advisor survey was conducted online from June 13 - 22, 2017 among 281 currently employed financial advisors in the U.S. (one-third wirehouse, one-third RIAs, one-third broker/dealer affiliated). The affluent investor survey was conducted online from June 1 - 27, 2017 among 1,012 affluent investors: U.S. residents over age 21 with $100,000 in investable assets (excluding workplace defined contribution accounts or real estate), who consider themselves the decision maker for financial decisions and who currently work with a financial advisor.
Caring for the environment and society characterize modern American culture
Nine in 10 (88%) of Americans recycle every day.

**Investors want responsible investing**
Eight in 10 (80%) of investors say they want their investments to deliver competitive returns while promoting positive social and environmental outcomes.

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### ROSY ECONOMIC OUTLOOK AND PERSONAL PERSPECTIVE

Compared to last year, investors and advisors have a more positive outlook on the economy. As a result, advisors say their clients are less willing to revisit investment selections and are worrying less about their investments. Investors say they are more likely to focus on donating to charity, funding a loved one’s education or purchasing a home, compared to last year.

### Positive perspectives
Both advisors and investors have a stronger positive outlooks on the economy and on their personal financial situation compared to last year:

#### Positive outlook for the economy (%)

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advisors</td>
<td>50</td>
<td>70</td>
</tr>
<tr>
<td>Investors</td>
<td>38</td>
<td>57</td>
</tr>
</tbody>
</table>

#### Positive outlook for household finances (%)

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investors</td>
<td>54</td>
<td>65</td>
</tr>
</tbody>
</table>
Not disillusionsed by periodic disruptions

Despite the positive outlook on the economy, investors expect fluctuations in the market. 92% of investors say it is likely for the markets to fluctuate.

57% however 92%

of INVESTORS
H ave: A positive outlook
for the economy

of INVESTORS
S ay: It is likely for
markets to fluctuate

Positive advisor economic outlook, does not translate to increased advisor business satisfaction

Although advisors are more positive about the economy compared to 2015, advisors have the same satisfaction with their businesses. 89% of advisors say they are satisfied with “the state of my business overall” compared to 90% in 2015.

Less investor worrying and less willingness to revisit investments = more confidence

Compared to 2015, there is a downward trend in advisors saying “a majority of their HNW clients are willing to revisit their investment” (64% 2017 vs. 72% 2015) and fewer “worry if they have made the right decision after making investment choices” (10% in 2017 vs. 17% in 2015).

INVESTOR AWARENESS, INTEREST AND PREFERENCE FOR RI SOARS, YET MYTHS PERSIST

Familiarity with responsible investing has grown over the past two years, as have investor and advisor participation and dialogue. The majority of investors are interested in RI, and would feel more committed to an advisor who takes their values into account. In significantly higher numbers than 2015, investors are actively seeking out investments that can make a positive impact on the environment and society. In fact, over half of investors – and an even higher proportion of Millennial investors – say they would be likely to put all of their investment holdings in RI.

Investor familiarity with responsible investing increased from 2015 (%)

<table>
<thead>
<tr>
<th>Familiarity Level</th>
<th>2015</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very familiar</td>
<td>16</td>
<td>25</td>
</tr>
<tr>
<td>Somewhat familiar</td>
<td>25</td>
<td>32</td>
</tr>
<tr>
<td>Heard of it but not familiar</td>
<td>30</td>
<td>25</td>
</tr>
<tr>
<td>Never heard of it</td>
<td>28</td>
<td>19</td>
</tr>
</tbody>
</table>

Investing for charity, a loved one’s education and home purchase on the rise from 2015

Reasons why investors invest (%)

- Can donate money to charity: 49% in 2014, 57% in 2015, 62% in 2017
- Can pay for a loved one’s education: 46% in 2014, 54% in 2015, 43% in 2017
- Can purchase a home: 43% in 2014, 43% in 2015, 54% in 2017
### Third Annual Responsible Investing Survey

**Investor participation in RI also increased from 2015**

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>34%</td>
<td>↑</td>
<td>49%</td>
</tr>
</tbody>
</table>

- **Over half of investors not currently investing in RI say they are interested in it**

  - *Interested in participating in RI in the next 12 months (%)*
  - **2015** | **2017**
  - **Very** | 10 | 13 |
  - **Somewhat** | 37 | 42 |
  - **Not very** | 32 | 29 |
  - **Not at all** | 21 | 17 |

- **Over half of investors would put all of their investments in RI, and this percentage is much higher among Millennials***

  - General HNW investors (Somewhat or very likely)
    - **52%**
  - Millennial HNW investors (Somewhat or very likely)
    - **92%**

- **Given a $100K windfall there would be a nearly even split between traditional and responsible investing**

<table>
<thead>
<tr>
<th>Responsible investing</th>
<th>Traditional</th>
</tr>
</thead>
<tbody>
<tr>
<td>45%</td>
<td>55%</td>
</tr>
</tbody>
</table>

- **Likelihood to ask their financial advisor about RI in the next 12 months (%)**

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Very</strong></td>
<td>18</td>
<td>29</td>
</tr>
<tr>
<td><strong>Somewhat</strong></td>
<td>43</td>
<td>41</td>
</tr>
<tr>
<td><strong>Not very</strong></td>
<td>24</td>
<td>20</td>
</tr>
<tr>
<td><strong>Not at all</strong></td>
<td>14</td>
<td>10</td>
</tr>
</tbody>
</table>
Myths about RI persist among advisors and investors

<table>
<thead>
<tr>
<th>Myths about RI</th>
<th>2017</th>
<th>2015</th>
<th>Total Advisors</th>
<th>Total Investors</th>
</tr>
</thead>
<tbody>
<tr>
<td>BASE</td>
<td>281</td>
<td>275</td>
<td>1012</td>
<td>1103</td>
</tr>
<tr>
<td>Responsible investing is available in multiple asset classes</td>
<td>87%</td>
<td>82%</td>
<td>74%</td>
<td>75%</td>
</tr>
<tr>
<td>Responsible investing engages in long-term thinking</td>
<td>81%</td>
<td>80%</td>
<td>76%</td>
<td>81%</td>
</tr>
<tr>
<td>Responsible investing engages in sound governance practices</td>
<td>78%</td>
<td>78%</td>
<td>69%</td>
<td>–</td>
</tr>
<tr>
<td>Responsible investing is mostly about excluding companies that do not meet certain criteria</td>
<td>69%</td>
<td>72%</td>
<td>64%</td>
<td>65%</td>
</tr>
<tr>
<td>Responsible investing does not provide the same rate of return as other investment strategies</td>
<td>51%</td>
<td>51%</td>
<td>53%</td>
<td>47%</td>
</tr>
<tr>
<td>Talking about responsible investing with my clients helps foster a more long lasting relationship</td>
<td>49%</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Responsible investing options tend to have high fees</td>
<td>42%</td>
<td>35%</td>
<td>44%</td>
<td>41%</td>
</tr>
<tr>
<td>Responsible investing is merely about excluding controversial companies</td>
<td>23%</td>
<td>30%</td>
<td>42%</td>
<td>38%</td>
</tr>
<tr>
<td>Responsible investing is only something for the very rich</td>
<td>6%</td>
<td>8%</td>
<td>28%</td>
<td>23%</td>
</tr>
</tbody>
</table>

Advisors more likely not to offer RI this year compared to 2015 (%)

- Never offered
- No, but offered more than 12 months ago
- No, but offered in the past 12 months
- Yes, currently offering

THE NUMBER OF ADVISORS RECOMMENDING RI HAS DECLINED THIS YEAR, BUT RI ASSETS ARE RISING

Advisors who are recommending RI are using RI as a competitive differentiator. The survey suggests that those advisors who are recommending RI have seen successes in their practice, portfolio performance and client loyalty. However, many advisors have experienced challenges in both dialogue and implementation of RI strategies, with nearly two in five (39%) saying they have never offered RI to their clients. While nearly all (92%) advisors say they have heard of RI, fewer understand how to incorporate it into their clients’ portfolios. Perhaps this is why nearly half of advisors (48%) who’ve offered RI say they wait for their clients to bring up RI before discussing it as an option.
THE RI CATEGORY CONTINUES TO EXPAND

Sustainable investing appears to be here to stay

$8.7T

$\text{AUM (Strillions)}$

10

5

0


Source: US SIF, Barron’s 10/9/17

Growth of open end mutual funds

458% increase in # of funds

781% increase in AUM

$8.7 \times 10^12$

$\text{AUM (Millions)}$

250000

300

0


Increase in RI client conversations

Investors say their advisor brought up RI in the past year (%)

24% in 2015

40% in 2017

Most advisors lack clarity on the due diligence process to incorporate RI

Only 11% of advisors say they “completely understand” the due diligence process to incorporate RI into portfolios.

Nearly half of advisors (48%) say the due diligence process to include RI is confusing

Advisors who are recommending RI are using it as a competitive differentiator – and tend to be more satisfied with their practices

PRACTICE

Advisors who recommend RI are more likely to say they are satisfied with their practice.

97% of advisors who recommend RI say they are satisfied with the state of their business, compared to 86% of non-RI recommenders

PORTFOLIO PERFORMANCE

Of advisors who recommend RI, 10% say their clients with RI portfolios achieved above market returns, 70% say their clients have average market returns and only 20% say below market returns

PREFERENCE (CLIENT)

Investors say that they would feel optimistic (45%), impressed (42%) and more loyal (31%) to advisors who bring up RI.
Advisors face challenges explaining and implementing RI to their HNW clients

63% of ADVISORS SAY: “At times, it is challenging to help high-net-worth investors understand the true definition of responsible investing.”

47% of ADVISORS SAY: “I’ve had challenges implementing responsible investing in my high-net-worth investors due to a lack of information about how to implement it.”

33% of ADVISORS SAY: “I sometimes feel embarrassed talking about responsible investing to my high-net-worth clients because I do not feel like I know enough about the topic.”

Millennial madness

More social static appears to exist between Millennials and their advisors compared to non-Millennials. Eight in 10 Millennial investors feel “at times, I don’t feel comfortable talking to my advisor” (80% of Millennials vs. 23% of non-Millennials), and “I sometimes feel overlooked by my advisors” (80% of Millennials vs. 29% of non-Millennials).

Here today, gone tomorrow

Seven in ten (70%) investors say “I would switch my financial advisor if they couldn’t align my financial goals and objectives with my values.” That number jumps to 92% for Millennials.

Advisors know RI can create long-lasting relationships

Half of advisors (49%) say “talking about responsible investing with my clients helps foster a more long-lasting relationship.” Three in four (75%) of advisors who recommend RI share this feeling, compared to 41% of non-RI recommenders.

Advisors don’t seem to be paying attention today, but they know they have to get up to speed for Millennials

53% of advisors say RI that makes a positive impact on the environment is important to their current clients, but 79% say RI will be important for the next gen.

Practice makes perfect

Advisors who recommend RI are more likely to say they are satisfied with their practice. 97% of advisors who recommend RI say they are satisfied with the state of their business, compared to 86% of non-RI recommenders.

*Caution small base size (n<100)*
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Visit TIAA.org to learn more about responsible investing.

1 Reference to financial stability does not apply to the investment products offered

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