TIAA-CREF Asset Management

TIAA-CREF Lifecycle Funds

A distinctive combination of benefits for plan sponsors and employees.
TIAA-CREF’s Lifecycle Funds offer distinct advantages:

- Asset allocation glide path designed for longer lifespans
- Comprehensive risk management framework
- Very low fees
- Strong risk-adjusted returns
Target-date funds:

Rising demand and critical need

Target-date funds have rapidly become an essential tool to help plan sponsors prepare their employees for retirement. These funds – representing a category of asset allocation funds – are designed to automatically meet a range of needs: Broad investment diversification, risk management, and asset allocation that becomes more conservative as employees approach retirement.

The simplicity of target-date funds – requiring only one decision to select a diversified, age-appropriate portfolio – offers a solution for many employees: Those seeking a simple solution and professional management of their investments, and others who may be overwhelmed by investment choices or unengaged. As a plan’s default option, these funds offer fiduciaries reassurance that even employees who avoid any decision still can receive the benefits of their retirement plan.

But target-date funds are not all the same – their design and impact on retirement readiness can vary significantly. With rapid adoption and widespread usage, particularly among younger employees, plan sponsors have a vital interest in understanding key differences and choosing the product best suited to their employees. Consider:

<table>
<thead>
<tr>
<th>Usage increasing rapidly</th>
<th>Younger age groups</th>
<th>Vast majority of contributions</th>
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<tbody>
<tr>
<td>The share of participants contributing to target-date funds in TIAA-CREF retirement plans more than doubled to 43% in 2013, from 18% in 2009.</td>
<td>Two-thirds, or 66%, of participants under age 35 contributed to target-date funds in 2013.</td>
<td>Users allocate 72% of their contributions to these funds. The figure is even higher, at 93%, for participants under age 35.</td>
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Data reflect participants in TIAA-CREF retirement plans.

Overall, TIAA-CREF’s target-date offering – the Lifecycle Funds – represents a compelling choice for plan sponsors, offering a distinctive combination of benefits for employees.
A distinctive glide path design

With expertise developed over decades, TIAA-CREF designed the Lifecycle Funds to increase the potential for employees to reach their retirement savings goals. Their innovative glide path design – reflecting changes in the investment mix over time – factors more than 85 years of market history. The glide path also considers the future, modeling expected returns for each asset class and various market scenarios. Investment allocations are designed to address longevity risk given today’s longer life expectancies. The glide path takes into account employees’ income levels, savings rates and eventual withdrawal needs. All of the allocations are stress-tested to account for the potential impact of major market disruptions – and investors’ likely responses to market volatility.

As a result of our research, the Lifecycle Funds have higher exposure to equities during the retirement phase than many competing funds. At the target date, the Lifecycle Funds’ equity allocation is 50%, declining to 40% after 10 years for the rest of retirement (see chart below). Higher equity exposure is designed to provide sufficient growth for retirements lasting up to 30 years or more. Glide paths of most other funds tend to land in a range of 30% to 35% equity exposure during retirement, assuming investors want more principal protection. But our research on retirement outcome probabilities suggests a level below 40% increases the risk of retirees outliving their savings.

The Lifecycle Funds are an important component of TIAA-CREF’s comprehensive advice offering for plan participants. Expert decisions on asset allocation, risk management, and the age-appropriateness of a portfolio are built into the glide path’s proprietary design. This “embedded advice” frees participants from having to make investment decisions on their own.

Asset allocation glide path for TIAA-CREF Lifecycle Funds

Higher equity allocations during retirement to help address longer lifespans

Lifecycle Funds balance market and longevity risks for long-term growth potential.
Many target-date funds manage risk by diversifying the set of underlying funds across a broad range of asset classes. But TIAA-CREF takes risk management even further in several respects.

First, our actively managed funds employ an additional layer of diversification by combining underlying funds that use different management approaches. Some funds use the fundamental research of our industry analysts to select stocks, while others use quantitative modeling techniques. These two distinct methods pick stocks that tend to have low correlations and different performance patterns. Combining the two investment styles in a single portfolio can help to enhance diversification, reduce volatility, and improve risk-adjusted returns over time.

Second, we use an innovative risk budgeting framework to manage overall risk levels. Our portfolio managers set specific risk limits – a risk budget – for each Lifecycle Fund. They monitor the underlying mutual funds and adjust investment exposure to ensure that no single fund contributes more than 25% of the risk budget. Limiting risk contributions of each underlying fund helps to manage overall risk levels within desired ranges.

Finally, our Lifecycle Fund allocations are regularly adjusted to stay on target. On a monthly basis, the management team rebalances the relative weight of each fund’s holdings to within about 1% to 2% of its target allocation. This discipline helps to reduce vulnerability to market bubbles and prevents the funds’ risk profiles from drifting.

Lifecycle Funds are designed to temper volatility and deliver more consistent returns.
Very low costs

When it comes to expenses, TIAA-CREF offers among the lowest costs in the industry.

- The actively managed series of Lifecycle Funds have lower expenses than 95% of their peers, ranking in the bottom 5% within their respective Morningstar categories.¹
- The Lifecycle Index Funds have lower expenses than 98% of their peers, ranking in the bottom 2% within their respective Morningstar categories¹.

<table>
<thead>
<tr>
<th>TIAA-CREF Lifecycle Funds</th>
<th>Actively managed series</th>
<th>Index series</th>
</tr>
</thead>
<tbody>
<tr>
<td>TIAA-CREF average expense ratio¹</td>
<td>0.44%</td>
<td>0.16%</td>
</tr>
<tr>
<td>Percentile ranking vs. industry peers</td>
<td>Bottom 5%</td>
<td>Bottom 2%</td>
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Strong risk-adjusted returns

TIAA-CREF’s Lifecycle Funds earn high ratings from Morningstar, based on their risk-adjusted returns: 90% of the actively managed fund series and 100% of the index fund series received overall ratings of 4 or 5 stars, as of 12/31/2013.² (For the active funds, the ratings include 19% 5 star, 71% 4 star, and 10% 3 star. For the index funds, the ratings include 63% 5 star and 37% 4 star.) Morningstar ratings account for the amount of risk taken to achieve the level of returns.

More choices for plan sponsors

Complete series of actively managed and index Lifecycle Funds
TIAA-CREF is among few providers offering two distinct fund management options – active and index – allowing plan sponsors to choose the one most appropriate for their employees.

The two approaches enable investors to:
1. Pursue above-benchmark returns with actively managed funds, or
2. Track market returns with index funds, which also offer lower costs

¹ Based on the Institutional Share Class as of 12/31/2013, according to Morningstar.
² Ratings reflect all share classes as of 12/31/2013, according to Morningstar.
Multiple solutions from an experienced asset manager

As a Fortune 100 global asset manager, TIAA-CREF is renowned for its capabilities in investment research, risk management, and product innovation. As an organization, we have nearly 100 years of experience helping participants reach their retirement goals. The Lifecycle Funds are among TIAA-CREF’s full range of investment solutions for retirement readiness, including annuities offering the potential for guaranteed lifetime income.

“Covering a wide range of fixed-income sectors, as well as maintaining a relatively hefty equity stake, has helped the funds in the series earn strong risk-adjusted results, both recently and over the long term. More so, as one of the least expensive target-date series in the industry, low costs provide a constant tailwind.”

– The Morningstar Target-Date Fund Series Report, 9/30/2013

A compelling target-date fund solution for retirement readiness

Contact your TIAA-CREF relationship manager or plan consultant to learn how our Lifecycle Funds can offer a distinctive combination of benefits for your employees.

Call us at 888 842-7782
Visit us online at tiaa-cref.org

3 The Lipper Award is given to the group with the lowest average decile ranking of three years’ Consistent Return for eligible funds over the three-year period ended 11/30/12 and 11/30/13, respectively. TIAA-CREF was ranked against 36 fund companies in 2012 and 48 fund companies in 2013 with at least five equity, five bond, or three mixed-asset portfolios.
Morningstar is an independent service that rates mutual funds. The top 10% of accounts in an investment category receive five stars, the next 22.5% receive four stars, and the next 35% receive three stars. Morningstar proprietary ratings reflect historical risk-adjusted performance and can change every month. They are calculated from the account’s three-, five- and ten-year average annual returns in excess of 90-day Treasury bill returns with appropriate fee adjustments, and a risk factor that reflects mutual fund/subaccount performance below 90-day T-bill returns. The overall star ratings are Morningstar’s published ratings, which are weighted averages of its three-, five- and ten-year ratings for periods ended December 31, 2013.*

* Morningstar ratings include Retail, Retirement, Premier and Institutional fund share classes that have completed one calendar year of performance. Current rankings may be higher or lower on a monthly basis. Morningstar is an independent service that rates mutual funds.

Based on Morningstar data, the expense ratio on all mutual fund products managed by TIAA-CREF is generally less than half the mutual fund industry average. (70% are less than half their respective Morningstar Universe average and 60% are less than half their respective Morningstar Universe median.)


The target date is the approximate date when investors plan to start withdrawing their money. The principal value of the funds is not guaranteed at any time, including at the target date. Portfolios are subject to certain risks such as market and investment style risk. Please consider all risks carefully before investing. Target-date mutual funds share the risks associated with the types of securities held by each of the underlying funds in which they invest. Diversification is a technique to help reduce risk. There is no guarantee that diversification will protect against a loss of income. You should consider the investment objectives, risks, charges and expenses carefully before investing.

You should consider the investment objectives, risks, charges and expenses carefully before investing. Please call 877 518-9161 or log on to tiaa-cref.org for product and fund prospectuses that contain this and other information. Please read the prospectuses carefully before investing.

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