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Creating better outcomes for our clients through responsible investing

If there’s one principle TIAA-CREF has cherished since our founding nearly a century ago, it’s that long-term investing is the best way to help create lifelong financial well-being for the people we serve. Over the years, we have also seen the tremendous social impact we can have by following that principle while engaging in responsible investing practices.

We have a long history of making a difference. TIAA was created in 1918 to provide college professors with portable pensions, enabling them to retire with financial security. In turn, this made teaching a more sustainable profession, and it strengthened America’s colleges and universities. Today, with more than $520 billion in assets under management\(^1\) and nearly 4 million participants, TIAA-CREF has many opportunities to make a positive impact through our investment activities. As an asset manager and signatory of the United Nations Principles for Responsible Investing, TIAA-CREF believes that good governance and responsible business practices can enhance the long-term economic value of companies. We have seen that such corporate behavior often lowers risk, improves financial performance, and brings better results across an array of social-responsibility issues—from ensuring product safety and protecting shareholder rights to safeguarding the environment.

TIAA-CREF feels a distinct responsibility to act as a model for other companies in the way we govern ourselves. We were the first U.S. company to adopt an advisory vote by clients for our own executive-compensation policies and disclosures. We became founding members of the Principles for Responsible Investing in Farmland, putting the principles of sustainability, transparency, and accountability of investments to work in our own management of our sizable international investments in farmland.

As one of the world’s top managers of commercial real estate, we promote energy efficiency in the properties we hold. This year we were pleased to receive the U.S. Environmental Protection Agency’s ENERGY STAR Sustained Excellence Award—the program’s highest honor—for a fourth consecutive year, in acknowledgement of our achievements in energy efficiency and real estate sustainability. We believe that a “greener” approach can help deliver solid investment returns while reducing our carbon footprint.

We have also taken steps to meet the increasing demand for investments meeting environmental, social and governance (ESG) criteria. In 2012, we added the Social Choice Bond Fund—which invests primarily in U.S. fixed-income securities while emphasizing ESG criteria—to our lineup of responsible-investment strategies. As of May 31, 2013, we had $14.4 billion in assets under management across our Social Choice products, making us one of the largest managers of responsibly invested assets reflecting ESG considerations.

This report describes many of TIAA-CREF’s responsible investing activities during the past year. Of course, there’s always more to do. We look forward to another year of productive work as a responsible corporate citizen, guided by what we believe is good for our participants’ financial well-being—and beneficial to society at large.

Roger W. Ferguson, Jr.
President and Chief Executive Officer

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\(^1\) As of March 31, 2013
At TIAA-CREF, we’ve been putting our clients’ needs first for the past 95 years, serving them through many market cycles, different economic environments, and periods of war and peace.

As one of the financial industry’s most experienced institutions, we understand the importance of responsible investing to our stakeholders, to the environment, to society at large and to our business.

We believe that the consideration of environmental, social and governance criteria by investors can produce competitive, long-term financial returns for our clients while also contributing to positive societal outcomes, broader economic development and a healthy environment for future generations.

Building on our history of investing responsibly

Our pioneering effort to practice responsible investing dates back to the 1970s, when we were one of the first institutional investors to engage in dialogue with companies on social issues. Today, amid the world’s economic, environmental and social challenges, responsible investing is needed more than ever before—and we see growing opportunities in integrating societal benefits with investment strategy.

Responsible-investment strategies in the United States have continued to expand across asset classes, attracting capital at a compound annual rate of 11% since 1995—faster than all other professionally managed investment assets.² In 2012, these strategies accounted for more than one of every nine dollars under management, with total assets of $3.74 trillion—a 22% increase since year-end 2009 (see exhibit on next page).

Our responsible-investment philosophy

Exhibit: U.S. assets in responsible-investment strategies have grown significantly

This reflects investors’ growing demand for strategies with a twofold objective: achieving competitive returns while considering investments’ environmental, social and governance (ESG) implications. We’ve been responding to this demand by expanding and refining our responsible-investment practices across our organization—and by offering clients an array of related products and strategies.

Making effectiveness a priority

As an asset manager and fiduciary, we center on producing positive financial outcomes for our clients that help them achieve their objectives. For us, investing responsibly on behalf of those who entrust us with this task means:

- considering ESG criteria in our investment decisions;
- weighing the ESG risks and opportunities associated with our investment strategies; and
- favoring opportunities to leverage our particular strengths and spheres of influence in order to effect meaningful change.

What’s more, our responsible-investment strategies and initiatives are anchored in the commitment of TIAA-CREF’s leadership, established in organizational policies, and backed by dedicated resources.
We have more than $14 billion in assets across our Social Choice product suite, making us among the largest managers of invested assets incorporating environmental, social and governance criteria.

Our Global Real Estate Sustainability Initiative helped reduce electricity consumption by 124 million kilowatt hours and cut 57,897 metric tons of greenhouse-gas emissions across our office portfolio—comparable to removing roughly 11,400 cars from the nation’s roads for one year.

Our public-equity portfolio of $214 billion puts us in an influential position when voting on shareholder resolutions. In 2012, we supported compensation plans at 85% of the companies whose plans we had opposed in 2011, suggesting that many of these companies changed their policies after hearing shareholder concerns.

We have nearly $1 billion allocated to Proactive Social Investments, which is TIAA-CREF’s proprietary framework for identifying fixed-income securities that provide potentially competitive risk-adjusted returns alongside measurable social and environmental benefits. Last year we updated and expanded this framework in response to the viable investment opportunities emerging in the universe for our Social Choice strategies.

TIAA’s General Account Social Investment Program portfolio totals $664 million as of December 31, 2012. We will direct future investments toward affordable housing, financial services to underserved populations, and services to low- to mid-income communities—including childcare, education, healthcare and environmental improvements. Last year, we deployed $50 million in the inclusive-finance sector.

Through our $4 billion farmland platform, we directed capital to land maintenance and development, making the investor community part of the solution to the financial challenges facing landowners.

This year, TIAA-CREF received the U.S. Environmental Protection Agency’s ENERGY STAR Sustained Excellence Award—the program’s highest honor—for a fourth consecutive year. We are the only financial-services organization to be honored for its leadership and commitment in this area, by earning the “Sustained Excellence” level of recognition.

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3 As of March 31, 2013
5 Ibid. 3
6 As of year-end 2012
7 Ibid. 3
TIAA-CREF is proud to have made continued progress over the last year in implementing and promoting responsible investing while seeking long-term returns for those who depend on us most: our clients.

In keeping with the United Nations-supported Principles of Responsible Investment (PRI) Initiative, to which our organization is a signatory, we are incorporating and refining our discipline of responsibility along five key areas:

- Applying ESG criteria to investments
- Active ownership
- Promoting ESG transparency in the market
- Collaboration and thought leadership
- Accountability through reporting

**Applying ESG criteria to investments**

At TIAA-CREF, we pursue opportunities across asset classes—from equities and bonds to real estate—that provide competitive risk-adjusted returns for our clients. At the same time, within specific strategies, we may consider ESG criteria to inform the analysis and due diligence of investment opportunities we choose to pursue—and to guide the management and monitoring of our holdings.

**The Social Choice products**

**Funds and variable annuities**

The TIAA-CREF Social Choice products are a suite of investment options designed with a twofold objective in mind: the achievement of positive, long-term financial outcomes through public securities that meet specific ESG criteria. The process for determining eligible investments for the portfolios is a rigorous one—and we use proprietary frameworks as well as independent, comprehensive third-party research to determine eligibility. ESG criteria and their implementation are subject to an annual, board-level review.
The TIAA-CREF Social Choice products are a suite of investment options designed with a twofold objective in mind: the achievement of positive, long-term financial outcomes through public securities that meet specific ESG criteria.

Since launching the CREF Social Choice Account in 1990—one of the industry’s first blended stock/bond variable annuities to incorporate ESG criteria into investment decision making—we have expanded our product line to offer additional mainstream investment vehicles that consider ESG parameters when investing.

- In 1999 we introduced the TIAA-CREF Social Choice Equity Fund, a mutual fund for individual and institutional investors that gives special consideration to companies’ ESG records while seeking returns that reflect the investment performance of the broad U.S. stock market.
- In 2000 we added the Social Equity Fund to our TIAA-CREF Life Funds series in order to provide our life insurance clients with responsible-investment options for investing the equity in their accounts.
- In 2012 we launched the Social Choice Bond Fund, which invests in U.S. fixed-income securities while emphasizing ESG criteria in the selection process.

Both the Social Choice Bond Fund and the fixed-income portion of the Social Choice Account include an allocation to Proactive Social Investments (PSI), which is TIAA-CREF’s proprietary framework of targeting responsible-investment opportunities in fixed income. This framework serves as a guide to our portfolio managers for identifying fixed-income securities that provide our clients with access to potentially competitive risk-adjusted returns alongside measurable social and environmental benefits.

We developed the PSI framework in 2007 and, following an extensive internal review in 2012, updated and expanded it in consideration of the viable investment opportunities in the marketplace. Today, PSI is revised to target investments along four themes: affordable housing; community and economic development; renewable energy and matters relating to climate change; and natural resources.

At year-end 2012, we had $996 million allocated to PSI investments across the fixed-income portion of our Social Choice products. These investments represent 22% of all fixed-income assets held in Social Choice portfolios.
Separately managed accounts

In addition to our widely available Social Choice products, we offer nonretirement institutional clients the opportunity to design investment portfolios in a way that reflects their ESG priorities, accomplished through separately managed accounts.

As of March 31, 2013, we had more than $14 billion in assets across our Social Choice product suite, making us among the largest managers of responsibly invested assets incorporating ESG criteria.

The Social Choice Products: Evaluating investment opportunities

- When considering investments for our Social Choice portfolios, we evaluate companies on the most relevant ESG issues relating to their specific industry. This process is consistent for all companies and seeks to strike the appropriate balance between ESG quality and the needs of portfolio construction.
- We consider a company’s leadership on ESG issues and involvement in ESG-related controversies, including violations of international norms and conventions.
- A company must meet or exceed our minimum ESG performance standards to be eligible for investment. We continually evaluate and refine these standards, as informed by new ESG research, best practices, and information we receive from stakeholders.
- Our environmental assessment covers matters at the root of climate change, natural-resource consumption, waste management and ecological impact. Our social evaluation covers such matters as labor practices and human rights, product safety, and community impact. We also examine companies’ corporate governance, business ethics, and government and public policy.

Programs and initiatives

The General Account Social Investment Program

TIAA’s General Account is the investment portfolio supporting our guaranteed fixed-annuity products—essentially the pool of capital supporting our ability to pay out claims.

The General Account’s Social Investment Program embodies our endeavor to direct capital toward quality investment opportunities—consistent with the General Account’s overall investment strategy—that also create measurable social outcomes.

Tracing its roots to the mid-1980s, the program has $664 million in total commitments. The portfolio’s goal is to invest in sectors overlooked or underpopulated by mainstream investors and facing “capital gaps.” The program aims to invest about $100 million in new commitments this year and, following a comprehensive review in 2012, has been enhanced to focus on three thematic areas:

As of March 31, 2013
As of December 31, 2012
TIAA-CREF’s responsible investing in practice (2012–2013)

- **Affordable housing**: The provision of quality, safe and affordable rental or for-sale housing to low- to moderate-income communities
- **Inclusive finance**: The provision of quality, fair, transparent and affordable financial services to traditionally underserved populations and small- to mid-sized enterprises globally
- **Community and economic development**: Projects and initiatives that provide enhanced access to such essential services as childcare, education, healthcare, and environmental improvements to low- to moderate-income communities globally

These three areas have in common the existence of a market-based solution to address social needs; quality investment opportunities reflecting a good balance between financial and social return; and an opportunity for TIAA-CREF to play a leadership role by investing in them.

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**Putting money to work in inclusive finance**

Inclusive finance focuses on providing affordable financial services to underserved consumers, including micro entrepreneurs, small businesses, and poor and vulnerable communities—all of which have traditionally lacked access to those services because of the high transaction costs associated with serving these client categories. Services within the inclusive-finance sector include such products as savings and credit accounts, insurance, and money-transfer services (like those made for payments or remittances).

In 2012, the General Account Social Investment Program deployed $50 million to inclusive-finance initiatives.

This amount includes:

- **$32 million in two global private equity funds**—Developing World Markets (DWM) Inclusive Finance II, and Creation Investments Social Venture Fund II—which focus on inclusive finance through majority stakes in influential institutions serving under-banked communities. DWM and Creation are signatories to the Principles for Investors in Inclusive Finance, which provide a framework for responsible investment in this sector.

- **$5 million in a private-equity investment** in ProCredit Holdings, a bank providing global microfinance and financing solutions to small- and mid-sized enterprises, and to low- and middle-income individuals. TIAA has been an existing shareholder of ProCredit since 2006.
Investments in farmland and timberland assets

TIAA recognizes that one of society’s future challenges will be to provide food, fuel and fiber to a growing and increasingly prosperous global population. Notably, the natural resources that help provide these essentials to society—farmland and timberland—are in finite supply and must be cultivated and managed responsibly to sustain generations to come.

By making investments in farmland and timberland, TIAA seeks to provide our clients with access to the return potential from natural resources, and take a leadership role in ensuring the future viability of these assets by partnering with communities in which we invest.

As founding members and signatories to the Principles of Responsible Investment in Farmland, we are in the process of developing key performance indicators in order to measure the impact of sustainable farmland practices. We also uphold similar principles of sustainability in our timberland investments.11

The impact of our investment

By directing investment capital to land maintenance and development, we have made the investor community part of the solution to financial challenges facing landowners. Achieving this is not simple; institutional investors typically have not been large holders of farmland because of historically high barriers to entry. These include low market liquidity, limited reporting and research on such assets, and the number of off-market transactions.

TIAA-CREF has overcome these barriers in several places and directed investment capital to land development. For example, by March 31, 2013, we had invested $800 million in farms across agriculturally productive areas in Brazil—an attractive market of diverse climates and crops—through our local Brazilian asset manager.

We practice environmental sustainability across our entire farmland portfolio, with activities including:

- the reduction of soil erosion and rainfall runoff through properly designed roads, berms, culverts, terraces or cover crops;
- water conservation (during irrigation) through grading, leveling, and improved technology that optimizes efficient water delivery;
- the avoidance of underground water contamination; and
- the monitoring of fertility and crop rotations to ensure the long-term health of soil.

11 Our statement on principles for responsible investment in timberland has been made available to interested external parties.
One example of such action has been in Brazil. Through our Brazilian asset manager, we conducted the largest environmental analysis of so-called “Permanent Protection Areas.” For this analysis, our local team developed a methodology in conjunction with the University of São Paulo that is now used as a reference by the government agency responsible for monitoring and enforcing conservation.

Additionally, in many cases, land disputes in Brazil were impeding efficient development of the land available for use. Our investment approach established a methodology to address such issues, focusing on improving the productivity of existing farmland rather than merely stimulating development (which would lead to greater deforestation in environmentally sensitive areas).

As long-term investors, we believe that ethical conduct, responsible stewardship of the environment, and respect for those with whom we do business are essential to the long-term performance of our farmland and timberland investments.

### TIAA-CREF’s farmland and timberland investments

- As of March 31, 2013, our farmland platform totaled about $4 billion, with assets in the United States, Brazil, Australia and Eastern Europe.
- In 2012, TIAA-CREF acquired a majority stake in GreenWood Resources (GWR), one of the nation’s leading timberland investment managers. This acquisition allows us to leverage GWR’s specialized knowledge and local access to diversify our timberland investments in new regions while maintaining our commitment to environmental sustainability.
- TIAA’s timberland investments are managed according to third-party certification programs, such as the Forest Stewardship Council (FSC) and the Programme for the Endorsement of Forest Certification (PEFC)—both of which reflect high social and environmental standards.

### Pre-investment considerations

As long-term investors, we believe that ethical conduct, responsible stewardship of the environment, and respect for those with whom we do business are essential to the long-term performance of our farmland and timberland investments.

Our dedicated property management and engineering services teams assess the environmental impacts and risks of each investment in farmland and timberland. We conduct environmental due diligence relating to previous ownerships and property conditions overall, taking into account such environmental issues as the presence of hazardous waste, wetlands and endangered species. We also consider pesticide storage and vehicle-emissions standards, mineral-ownership rights, landlord-tenant laws and boundary disputes when evaluating each investment.

### Farmland research

We support farmland research and education in order to provide transparency and advance investment knowledge in this asset class. In addition, we support similar programs focused on the farmer and agriculture community with the aim of developing more sustainable and innovative methods to help meet rising demand for farmland products. For more information on this topic, refer to the chapter on collaboration and thought leadership (page 18).
The Global Real Estate Sustainability Initiative

TIAA-CREF is one of the world’s largest real estate investors, with more than $47 billion of equity and debt investments in both private and public real estate assets. Our position as major long-term investors enables us to influence the sustainability characteristics of our assets—from greenhouse-gas emissions to the consumption of energy and water use by the properties we own. We recognize that the sustainable management of properties is friendlier to the environment, favorable to the communities in which we operate, and contributory to long-term financial performance for the benefit of our investors.

The TIAA-CREF Global Real Estate Sustainability Initiative—launched in 2007 to address the environmental impact of our direct investments in real estate—is being implemented across our U.S. and international real estate portfolio, which includes 35 million square feet of office buildings, 11,900 multifamily units and tens of millions of square feet of other properties.

In accordance with this initiative, our Global Real Estate investment team considers sustainability criteria, which include benchmarks for reducing energy and water consumption and achieving high returns on investment in sustainability measures. It evaluates properties’ long-term investment performance, cost savings, environmental impact, and environmental performance ratings by industry and international standards, such as ENERGY STAR.
TIAA-CREF’s responsible investing in practice (2012–2013)

TIAA-CREF’s Global Real Estate Sustainability Initiative in action

- As one of America’s largest institutional real estate investors, TIAA-CREF has been a pioneer in the effort to advance real estate sustainability, having benchmarked its entire office portfolio since 2007 and its entire multifamily dwelling portfolio since 2008 to rigorous standards.
- By year-end 2012, we reduced the energy intensity (i.e., the amount of energy used per square foot) across our real estate portfolios by 17% over our 2007 baseline performance.
- In 2012, we cut greenhouse-gas emissions by approximately 64,000 metric tons through improved efficiencies, which lowered utility costs by an estimated $17 million.
- In 2012, across our office portfolio alone, we achieved electricity-consumption savings of approximately 124 million kilowatt hours and cut 57,897 metric tons of greenhouse-gas emissions—comparable to removing roughly 11,400 cars from the nation’s roads for one year.
- As a result of these efforts, in 2013, TIAA-CREF received the U.S. Environmental Protection Agency’s ENERGY STAR Sustained Excellence Award—the program’s highest honor—for a fourth consecutive year. We are the only financial-services organization to be honored for its leadership and commitment in this area, by earning the “Sustained Excellence” level of recognition.
- We’ve earned the ENERGY STAR Leaders Top Performer Award for 2011 and 2012.
- TIAA-CREF received recognition from the U.S. Department of Energy and from the Building Owners and Managers Association (a preeminent industry advocacy group).
- In an EPA-sponsored national building competition, a TIAA-CREF investment property at 1900 K Street in Washington, D.C., ranked 5th of 676 office buildings by achieving a 28% reduction in energy intensity.  

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13 For more information about the national building competition sponsored by the Environmental Protection Agency, visit www.energystar.gov
Active ownership

As a fiduciary that invests on behalf of its clients, we have a responsibility—and exercise our right—to monitor and engage with the boards and management of our portfolio companies on matters concerning shareholders’ long-term interests and the good of the market as a whole. We encourage companies to pursue responsible corporate citizenship by adopting sound governance policies; maintaining ethical business practices; minimizing their environmental footprint; respecting human rights; and improving transparency and stakeholder engagement.

We believe that we partially fulfill our fiduciary duty by promoting sustainable, long-term shareholder value through active ownership of portfolio companies.

Forms of active ownership

TIAA-CREF monitors the governance practices of its portfolio companies, with the conviction that good corporate-governance practices maintain the appropriate balance between the rights of shareholders (as owners of the company) and the needs of the board and management to direct the corporation’s affairs.

We engage with our portfolio companies on a range of issues—from executive compensation to their environmental impact. Engagement can take a variety of forms, including voting proxy ballots in support of good governance and social responsibility, meetings with company representatives, and written correspondences. We also conduct shareholder and public advocacy with investor, corporate and regulatory bodies in the United States and around the world to articulate our expectations and contribute to the ongoing development of best practices.

TIAA-CREF believes that engagement through “quiet diplomacy” (in the form of private meetings with companies to address governance concerns) is the most effective way to influence corporate practices and should take precedence over divestment as a constructive, nonconfrontational way to leverage our stakeholder position, exert our influence and produce change. We resort to divestitures (i.e., selling or reducing our holdings in a portfolio company) as a last and final recourse—and only if several years of enhanced engagement do not produce results; if we determine that we can undertake such an action in a manner consistent with our fiduciary duty; and if there is internal consensus at TIAA-CREF in favor of such an approach.

Levels of engagement

Our engagement with portfolio companies may originate as any of the following:

- **Proxy-related engagements**: Initiated by a portfolio company’s management and board regarding matters on which the company is soliciting shareholder votes. These engagements typically occur either right before a company’s annual meeting or after vote solicitations (in the period following “proxy season”).

- **Intermediate engagements**: Initiated when we identify a material concern about a governance, environmental or social issue with a portfolio company. Engagement consists of a series of discussions and correspondences with the company and typically concludes within a relatively short time span.

- **Targeted engagements**: Targets portfolio companies of a particular industry, or a select group of portfolio companies. These engagements typically last 12 to 24 months and are focused on a specific corporate governance, environmental, or social issue.
Priorities of engagement

TIAA-CREF prioritizes the issues on which to engage with portfolio companies according to the following factors:

- The issue’s economic implications for the market and for individual companies
- The size of our current and potential investment in the company or asset in question
- The issue’s relevance to the long-term business strategy of the company
- The opportunity for shareholders to exert material influence
- Our expertise on the issue and capacity to engage the company in question
- The availability of external resources, including research providers and partners, to inform our engagement on the issue
- The potential positive or negative impact of engagement on our reputation

Examples of engagement

Executive compensation

We continue to make a priority of talking to companies about executive compensation. Carrying on our effort of previous years, in 2012 alone we’ve held conversations with management teams of approximately 400 companies about their executive compensation policies.

Typically, companies reach out to us shortly before their respective annual meetings in an effort to win our support for their advisory vote on executive compensation. Many companies also seek out our perspective later in the year as they consider changes to their compensation plans. These discussions are an opportunity for us to help influence the thought process within companies and ensure that compensation plans help align executive incentives with the long-term interests of shareholders.

Our experience over the last few years suggests that companies are taking shareholder feedback seriously. In 2012, we supported compensation plans at 85% of the companies whose plans we had opposed in 2011, suggesting that many of these companies changed their policies after hearing shareholder concerns.

Natural gas extraction

In general, we believe that companies involved in natural-resource production should engage with local communities, evaluate risks and provide disclosures about how they are addressing the potential environmental effects of their business.

Specifically, in light of concerns that extraction of natural gas from shale deposits (a process known as hydraulic fracturing) may cause health and environmental hazards, we have been in dialogue with several companies in the oil and gas industry over the last two years, chiefly to address their exploration and extraction methods, as well as their disclosure practices and engagement levels with the public. Our meetings have also included discussions and correspondence with leaders of America’s Natural Gas Alliance, the industry’s trade association.

While the companies in question initially resisted greater levels of engagement and disclosure, we’ve witnessed some progress in the quality of information they have made available. For example, many companies now disclose the chemical contents of the injection fluid they use for natural-gas extraction; this disclosure will help determine whether groundwater is being contaminated in the process.
Finally, we contributed to a document—later endorsed by the International Energy Agency—that identifies best practices for energy companies to become more transparent.

**Sustainability reporting**

We engage in dialogue with the management teams of numerous companies throughout the year—including from the real estate, banking, energy, retail, and apparel sectors—to review their sustainability and corporate social responsibility reports. This dialogue focuses primarily on how effectively companies’ governance and management systems address sustainability concerns across a range of potential concerns.

We generally advise companies to explain how their sustainability strategy supports their overall business strategy; clarify how they enforce sustainability policies throughout their organization; and develop metrics to assess performance against their sustainability objectives.

We often find that companies use sustainability reporting as a means of improving operational performance. For instance, one company noted that in an audit of energy efficiency, it found that some areas of the company were more efficient than others. This revelation subsequently led to greater learning among peer employees and helped the entire company become more efficient.
TIAA-CREF’s responsible investing in practice (2012–2013)

Promoting ESG transparency in the market

To advocate for high standards of responsibility at the companies in which we invest, TIAA-CREF undertakes a range of activities related to improving the disclosure of an enterprise’s environmental, social and governance (ESG) policies and business operations. By doing so, we aim to increase the amount, quality and comparability of information available to investors regarding ESG issues.

TIAA-CREF participates as a member of several initiatives, organizations and standard-bearers to establish frameworks for ESG disclosure. We are a founding partner and serve on the steering committee of the Global Initiative for Sustainability Ratings (GiSiR), an independent, multi-stakeholder initiative whose mission is to design and continuously improve a generally accepted ratings framework for assessing the sustainability performance of companies.

Additionally, TIAA-CREF works with several organizations:

- We participate in the Sustainable Accounting Standards Board (SASB), which is dedicated to developing industry-specific principles of sustainability accounting suitable for disclosure.
- We are signatories of and contributors to the Carbon Disclosure Project (CDP), which provides a global system for companies and cities to measure, disclose, manage and share vital environmental information.
- We are founding members of the Greenprint Foundation, a worldwide alliance of real estate owners, investors, financial institutions and other industry stakeholders committed to reducing carbon emissions from real estate properties, which account for roughly one-third of all carbon emissions globally.
- We hold a seat on the board of the Investor Responsibility Research Center Institute, whose mission is to provide thought leadership on corporate responsibility and on the informational needs of investors through the funding of ESG and capital-markets research (visit www.irrcinstitute.org).

Finally, to many investors, farmland investing is an opaque discipline that often entails complex financing and ownership structures. Our launch of the TIAA-CREF Center for Farmland Research at the University of Illinois earlier this year (described next) serves to shed light on the complex process of investing in farmland—and to make it more transparent.
Collaboration and thought leadership

TIAA-CREF participates in the advancement of ideas and practices surrounding responsible investing and advocates their acceptance and implementation within the investment industry. Toward that effort, we support organizations and associations dedicated to promoting responsible investing, good corporate governance, shareholder-rights protection, and research.

Formalized agreements

Since 2009, we have been signatories to the United Nations-supported Principles for Responsible Investment (PRI). The PRI’s objective is to help investors integrate the consideration of ESG issues into investment decision-making and ownership practices across all asset classes and regions.

We are signatories to the Principles for Investors in Inclusive Finance (PIIF), which is housed within the PRI initiative, and we serve on PIIF’s steering committee to advance the integrity of microfinance in such areas as client protection and pricing transparency.

Memberships and collaboration

- We are Investor Council members of the Global Impact Investing Network (GIIN) Investor Council, an organization dedicated to increasing the scale and effectiveness of impact investing. Impact investments are investments made into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return.

- We are members of the Farmland Principles Working Group, which supports investors in integrating environmental, social and governance considerations into their farmland investments through best practices, knowledge-sharing and implementation tools.

- We collaborate with like-minded organizations through our institutional membership in the USSIF—The Forum for Sustainable and Responsible Investment, an organization dedicated to advancing dialogue, promoting awareness and increasing the focus for investors on the value of responsible investing. TIAA-CREF is a benefactor sponsor of the USSIF Foundation’s flagship research project, the Report on Sustainable and Responsible Investing Trends in the United States—a biennial report that serves as a critical benchmarking measure for the industry.

- We serve on the Council of Institutional Investors and the International Corporate Governance Network (ICGN) to magnify the impact of our effort to promote responsible investing and ensure that our own investment approaches incorporate best practices and contribute to future needs.

- We have representation on the Responsible Property Investment Product Council of the Urban Land Institute (ULI), a global nonprofit organization that promotes best practices for responsible land use. The council focuses on ways investors can create value by changing the economic, social and environmental consequences of their investments. TIAA-CREF has played an active role at the ULI for the last three decades.

- TIAA-CREF is a member of Impact Community Capital (ICC)—an independent initiative created, owned and funded by eight insurance companies (including TIAA) to facilitate, on their behalf, quality investments benefiting low-income families and underserved communities.
Research and intellectual contributions

In March 2013, we launched the TIAA-CREF Center for Farmland Research at the University of Illinois. The center serves to enhance the university’s research and educational initiatives for its students and the agriculture community, including investors, farmers, researchers and businesses. By supporting the development of data and education for investors and farmers, we seek to increase productivity, meet rising demand, and develop more sustainable and innovative methods of agriculture.

In addition to conducting research and providing a specialized academic unit within the university’s College of Agricultural, Consumer and Environmental Sciences, the center will host academic symposiums focused on farmland prices and the financial aspects of farm management. It will support Farmdoc, the university’s widely read online research program on the agriculture sector—and it will receive guidance from an advisory board of TIAA-CREF and university representatives.

TIAA-CREF sponsors research on environmental, social and governance practices; hosts conferences; and works with regulators, legislators, self-regulatory organizations and other institutional investors to educate the business community about governance, shareholder rights and responsible investing. We submit written comments on regulatory proposals and testify before various governmental bodies, administrative agencies and self-regulatory organizations. We participate in public and industry debates—as well as related conferences and symposia—dealing with governance issues in domestic and international markets.
Accountability through reporting

As a PRI signatory, TIAA-CREF is committed to reporting on its activities and progress in implementing responsible-investment principles. We view such reporting as an important part of our ongoing engagement with stakeholders.

We periodically publish our policies on corporate governance, shareholder rights, social responsibility and related issues. These policies inform portfolio companies and provide the basis for our engagement activities.

This report, known as the annual TIAA-CREF Responsible Investment Report, is one of our prominent efforts to communicate to our stakeholders—and to the public—the advances we make on responsible-investment affairs. We also submit PRI reports (required of all PRI signatories) to the United Nations’ Principles for Responsible Investment Initiative.

Additionally, as signatories of the Principles of Responsible Investment in Farmland, we issue an annual farmland sustainability report (available at www.tiaa-cref.org/public/pdf/Farmland-Sustainability-Report.pdf), which details our activities toward leading, developing, and implementing sustainable farmland investing practices.

Finally, as part of our effort to be transparent, we disclose our responsible-investment practices and activities to the following organizations each year:

- **The Carbon Disclosure Project**, a nonprofit organization encouraging companies to disclose their impact on the environment and make an effort to reduce it
- **ENERGY STAR**, a government-backed program helping businesses and individuals protect the environment through superior energy efficiency

Climate change: On the agenda for TIAA-CREF in responsible investing

For many, global climate change is among the most pressing issues of our time. Recent calls for limiting or divesting holdings in fossil-fuel companies have raised awareness and advanced the dialogue about how such concerns can be appropriately integrated into investment portfolios. A transition to a less carbon-intensive economy will ultimately require action at multiple stakeholder levels—including the business community, consumers, investors and political leadership.

This topic is of importance to TIAA-CREF as a universal owner (UI), applying a diversified investment approach across all sectors and through multiple asset classes. In our view, the investment approach to climate change should be balanced, thoughtful and addressed in a manner that upholds and augments our firm’s core mission and long-term investment objectives. For many years, climate change has been a cross-cutting theme of TIAA-CREF’s responsible-investment activities, including how to address it within existing structures and management practices. TIAA-CREF is a leader in sustainability practices identifying and implementing prudent actions to manage our investment exposure while maintaining a focus on achieving competitive risk-adjusted returns for our clients.

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14 Universal owners are large institutional investors that have a financial interest in the well-being of the economy as a whole.
We are taking steps to position ourselves to create better measurements of climate-related risks, as well as opportunities presented by climate change, across a number of dimensions. Our objective is to better understand these risks so that they can be appropriately managed, and to capitalize on opportunities.

**Investment strategies**

**The Global Real Estate group**

TIAA-CREF’s Global Real Estate group applies responsible investment principles to its investments. Through improved energy efficiencies, the TIAA-CREF Global Real Estate Initiative (GRESI) has achieved large reductions in greenhouse-gas emissions across real estate portfolios.

From mandating LEED certification for all new development projects to pursuing ENERGY STAR certification for all eligible properties, our continuing efforts in sustainability help these properties achieve recognition in the marketplace. The outcomes of these efforts have been significant. We’ve reduced annual energy costs by millions of dollars, achieved an average ENERGY STAR rating of 80 across our global portfolio and helped avoid large quantities of greenhouse-gas emissions. Our efforts have been widely recognized by the U.S. Environmental Protection Agency (EPA), the U.S. Department of Energy (DOE) and Ceres, a national coalition of investors, environmental groups and other public interest organizations.

To learn more about the achievements of the Global Real Estate Sustainability Initiative, please refer to page 12.

**The Global Private Markets (GPM) team**

The Global Private Markets team invests in natural resources and infrastructure assets that support the production of energy from renewable sources, including solar, geothermal and wind-generated energy. Investments in our farmland portfolio provide raw materials for the production of biofuel (ethanol). Additionally, investments in our energy and timberland portfolios are helping meet the increasing demand for other alternative energy sources. As an example, in 2012, within our energy portfolio, we partnered in initiatives to support and fund investments in renewable energy, such as clean-wind energy. And through a joint venture, TIAA-CREF is funding the growth and development of large wind-energy projects across North America—including projects in Nebraska, Texas, and Wyoming—translating into more than 400 megawatts of energy capacity.

**The Social Choice strategies**

Through our Proactive Social Investments (PSI) framework within the Social Choice fixed-income strategy (see page 7), we invest in projects and entities that benefit the environment, in keeping with our investment themes of “Renewable Energy and Climate Change” and “Natural Resources.” These themes center on the financing of renewable energy; power generation and transmission-system efficiency projects; projects that result in the reduction of greenhouse-gas emissions; land conservation and sustainable forestry; remediation and redevelopment of contaminated sites; waste management and water infrastructure; and sustainable buildings.
For investors wishing to limit their exposure to fossil fuels, our Social Choice strategies have historically offered reduced exposure to the oil and gas industry relative to their benchmarks.

Companies considered for inclusion in Social Choice are leaders in their respective sectors according to a broad set of environment, social and governance factors. We look at their involvement in major ESG controversies (relating to the environment, customers, human rights and the community, labor rights and supply-chain management, and corporate governance) when considering them as investments. Our ESG evaluation process is built upon a balanced set of criteria and favors investments in companies whose overall ESG performance exceeds that of their peers. As a result, companies eligible for inclusion from the oil and gas industry typically have programs to protect biodiversity and address community concerns; environmental management systems; and a commitment to mitigating the adverse impact of their operations.

Active ownership

TIAA-CREF is committed to engagement with companies and will only consider divesting from a security in the rarest of circumstances and after prolonged efforts at dialogue have failed. We believe that divestment does not offer TIAA-CREF an optimal strategy for changing the policies and practices of portfolio companies, nor is it the best means to produce long-term value for our participants. TIAA-CREF seeks to use our influence as shareholders in these corporations to influence their environmental and social practices to help protect the long-term value of our participants’ investments.

- We encourage companies to take a responsible and proactive approach to measuring and reducing their impact on the climate, and to explore strategies to adapt to anticipated environmental challenges that may result from climate change.
- We support reasonable shareholder proposals asking for greater disclosure of companies’ climate impacts and strategies for addressing risks related to climate change.
- Through our Climate Change Initiative, we engage in dialogue directly with hundreds of companies, especially steel manufacturers, airline and real estate companies, and retailers, to discuss their disclosures on climate change risks.
- We encourage greater reporting transparencies to include measures taken to reduce their impact on the climate. For example we have requested information about the risk of methane leaks from gas pipelines.

ESG disclosure and collaboration

As a founding member of the Greenprint Foundation and signatory to the Carbon Disclosure Project (see page 17), TIAA-CREF takes action to disclose—and reduce—the environmental impact of its own operations. We also report on our progress according to the CDP’s metrics.

Lastly, TIAA-CREF is a member of the Investor Network on Climate Risk (INCR), a network of 100 U.S. investors that promotes better understanding of the financial risks and investment opportunities posed by climate change.
Through our more than 90-year history, we have learned that responsible practices can provide financial benefits and add value to our investments. Whether in directing capital across asset classes to opportunities that demonstrate positive ESG characteristics, launching special programs and initiatives, engaging companies in which we invest, or through collaboration with industry organizations and efforts, we view our role as a large institutional investor to be a leader in the promotion and implementation of responsible-investing practices. We intend to remain a leader in responsible investing through continuous innovation, expanding the asset classes where we apply ESG criteria, adopting and developing creative approaches to managing assets, influencing key stakeholders, advancing benchmarking, and sharing best practices throughout the industry and worldwide.

While responsible investing is still in its infancy, we are pleased to see nearly 1,200 institutions representing $34 trillion in assets under management, committed, as we are, to the United Nations Principles for Responsible Investing. Our vision is that adoption of these responsible practices will continue to grow and deliver positive outcomes for the mainstream investor.
The initiatives described in this material involve risks that could result in loss of principal. Because social screening criteria exclude some investments, the variable annuity accounts and mutual funds referenced in this report may not be able to take advantage of some market opportunities or trends available to accounts and funds that do not use these criteria. In addition, the variable annuity accounts and mutual funds are subject to other risks, which are described in their respective prospectuses.

Annuity account options are available through contracts issued by TIAA or CREF. These contracts are designed for retirement or other long-term goals, and offer a variety of income options, including lifetime income. Payments from the variable annuity accounts [and mutual funds] are not guaranteed and will rise or fall based on investment performance.

You should consider the investment objectives, risks, charges and expenses carefully before investing. Please call 877 518-9161, or visit tiaa-cref.org for a current prospectus that contains this and other information. Please read the prospectus carefully before investing.

The TIAA-CREF Social Investment Program and Global Real Estate Sustainability Initiative are not funded through any investment product nor do they contribute to the performance of any investment product. The sole funding source for the investments in the GMIP are assets in the TIAA General Account.

The TIAA General Account is an insurance company account, does not present an investment return, and is not available to investors.

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