

TIAA-CREF: Leadership in

# Responsible Investing

2014 REPORT



Financial Services



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## A commitment to responsible investing

As one of the world's leading institutional investors, TIAA-CREF is committed to conducting our business in ways that promote the financial well-being of our investors while also promoting the economic, social and environmental well-being of the world in which we operate. This is what drives our embrace of responsible investment principles. By emphasizing long-term value creation, we believe that we can deliver economic, social and environmental sustainability alongside robust, long-term investment returns.

Our \$569 billion in assets under management as of March 31, 2014 are entrusted to us by our clients, who look to TIAA-CREF to help them achieve lifelong financial well-being. As we strive to make a difference in their lives, we work hard to develop investment strategies and approaches that consider environmental, social and governance (ESG) factors without sacrificing financial return. Our Social Choice products, with nearly \$16 billion in assets under management as of March 31, 2014, are the most visible representation of this commitment – and they make us one of the largest managers of responsible investing assets in the U.S.

This report highlights some of the activities we undertook in 2013. Notably, TIAA-CREF Asset Management became a founding member of the Investment Leaders Group, a three-year project in which 11 leading global investment institutions are working to shift the investment chain toward responsible, long-term value creation. We also continued our work as a signatory to the United Nations Principles for Responsible Investment, the international network of investors seeking to incorporate ESG issues into investment practices across asset classes.

TIAA-CREF is proud of our four-decade commitment to responsible investment principles and of the progress we have helped make possible. We continue to lead and evolve our program. Like everything else we do, it is grounded in our commitment to the financial well-being of the remarkable people and institutions we serve.

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

Robert Leary  
EVP, President of Asset Management



# Our responsible investment approach

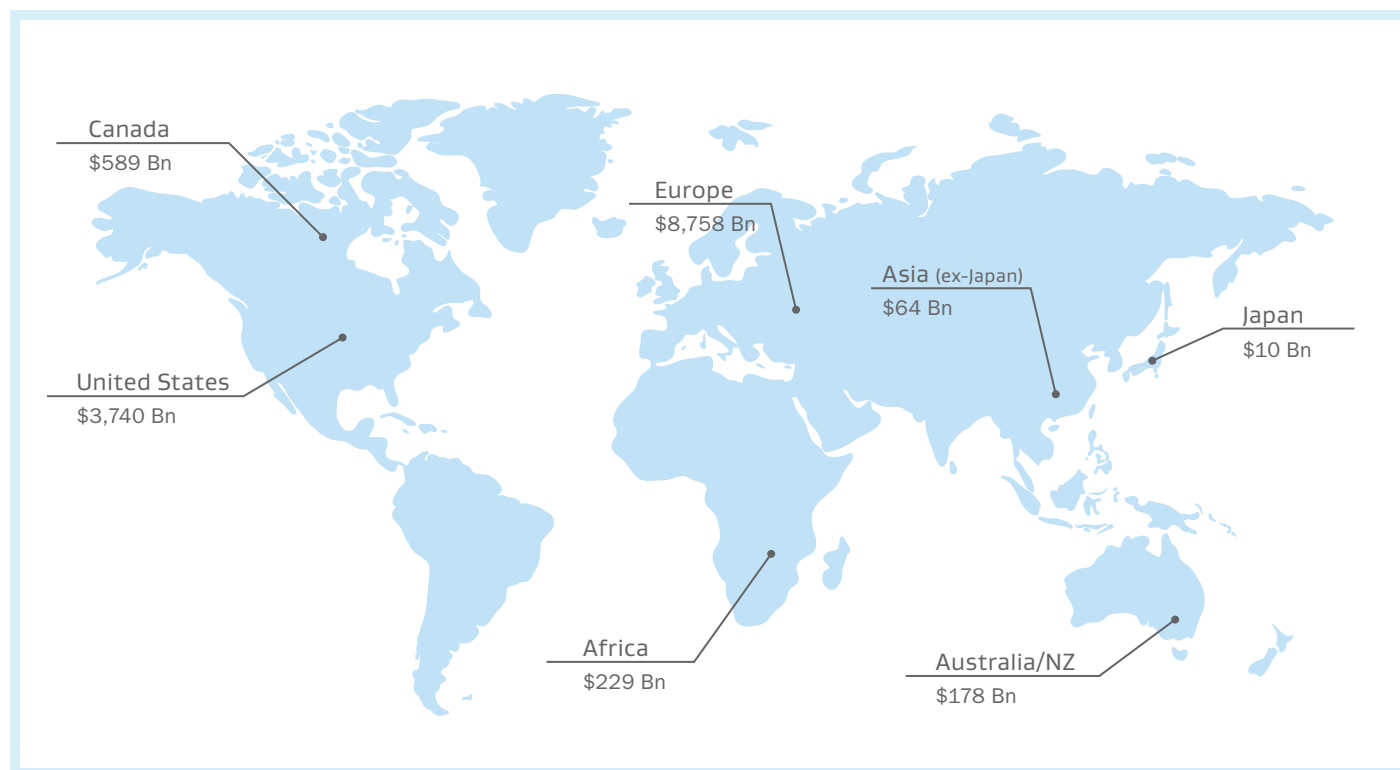
In our nearly 100-year history, TIAA-CREF has focused on providing the best investment outcomes for our clients. We believe that the consideration of ESG criteria can produce competitive, long-term financial returns for our clients while also contributing to positive societal outcomes, broader economic development and a healthy environment for future generations.

According to statistics compiled by the Global Sustainable Investment Alliance, at least \$13.6 trillion of professionally managed assets incorporate ESG concerns into their investment profile. This represents 21.8% of the funds under management in the regions surveyed, demonstrating the scale and scope of this trend.

Responsible investment encompasses a wide range of approaches that incorporate ESG factors into investment decision-making and ownership practices. This isn't just about investing with conscience. It is an investment discipline that covers a wide range of investment analysis, due diligence and ongoing monitoring of our portfolios.

As responsible investment becomes a more important feature of the global financial landscape, it is increasingly clear that success in this area comes from organizational commitment as well as specific actions. At TIAA-CREF, we are committed to implementing these principles at the firm, asset class and product levels, always with the focus on achieving competitive returns and value.

## Responsible investing grows globally



Source: GSIA 2012 Report

The market for investments that take into account ESG considerations is significant and growing globally. These statistics cover a range of responsible investing approaches, including ESG leadership, impact and community investing, ESG integration, corporate engagement and shareholder action.

### Committed to responsible investing leadership

Within TIAA-CREF Asset Management (TCAM), Managing Director Amy O'Brien leads a team dedicated to providing both strategic leadership and implementation guidance for our responsible investment initiatives. "Among our team's primary mandates are to establish and manage the ESG strategy used in our Social Choice investment fund suite and related products," says Amy. "Through TIAA-CREF's Social Impact Investment program, we also make private market and real estate investments in projects, companies and funds that seek to generate a financial return while delivering measurable social and/or environmental benefits to low-income populations. Additionally, in partnership with TIAA-CREF portfolio management and research groups, our team oversees the development and execution of relevant ESG integration frameworks, policies and processes across asset classes."





## Achievements in 2013/2014



### Outcomes:

In 2013, we **cut greenhouse-gas emissions** across our real estate portfolios by approximately **54,500 metric tons** through improved efficiencies, which lowered utility costs by an estimated \$15 million.



### Commitments joined:

TIAA-CREF became a founding member of the **Investment Leaders Group**, a three-year project designed to influence mainstream thinking on investment towards responsible, long-term value creation.

TIAA-CREF joined the **Global Real Estate Sustainability Benchmark** organization, an international initiative that seeks to evaluate and improve sustainability best practices in the global real estate sector.



### Awards:

TIAA-CREF was the **2013 aiCIO Industry Innovation Award winner** in the category “Strategy & Tactics: SRI/ESG strategies”, for our company-wide push – from fixed income to real estate – toward responsible investing techniques. Presented annually, these awards recognize the most innovative and positive work being done for, and at, the world’s largest pensions, endowments, foundations and sovereign wealth funds.

TIAA-CREF received the U.S. Environmental Protection Agency’s **2014 ENERGY STAR Partner of the Year award** for the seventh consecutive year, and for the fifth consecutive year at the Sustained Excellence level—the program’s highest honor.



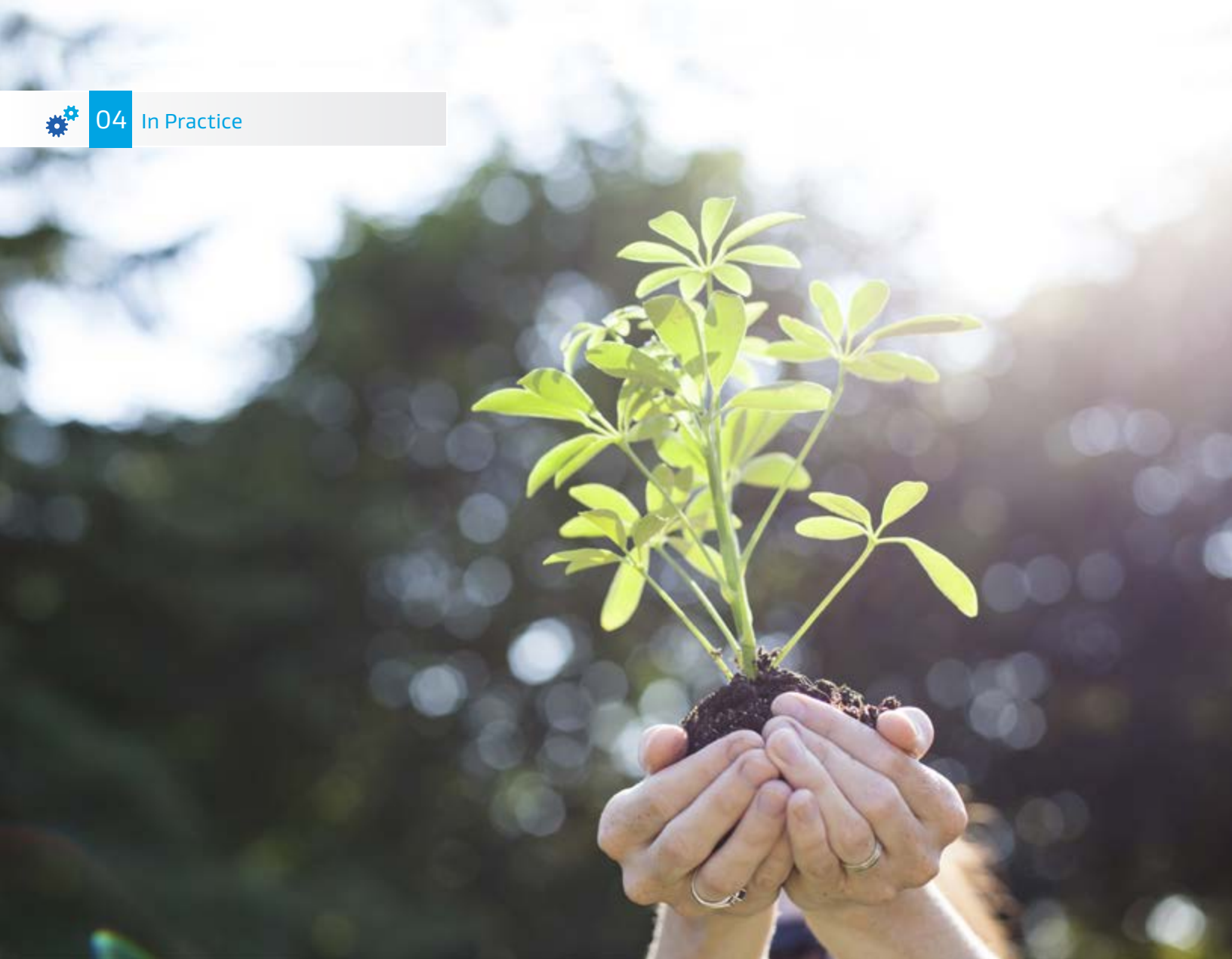
### Size of influence:

Managed **\$15.7 billion in assets across our Social Choice product suite**,<sup>1</sup> making TIAA-CREF among the largest managers of invested assets incorporating ESG criteria.

Allocated over **\$1 billion to Proactive Social Investments**,<sup>2</sup> which is TIAA-CREF’s proprietary framework for identifying public fixed-income securities that provide potentially competitive risk-adjusted returns alongside measurable social and environmental benefits.

TIAA’s General Account Social Impact Investment Program portfolio totals **\$700 million** as of March 31, 2014. In 2014, we made investments totaling nearly \$66 million focused on low-income communities that provided investment support in areas such as affordable housing, financial inclusion and basic services like childcare, education, healthcare and environmental improvements.

Through our nearly **\$5 billion farmland platform**,<sup>1</sup> we direct capital to land maintenance and development, and integrate sustainable farming best practices into our investment management process.



## Responsible investing in practice

TIAA-CREF has a longstanding history of actively supporting the development of responsible investment principles. Our commitment is a multi-faceted effort and involves the following key approaches: developing and advancing responsible investment practices; incorporating ESG factors in investment decisions; engaging with our portfolio companies and other stakeholders; and promoting transparency and accountability. Consistent with those areas, we have organized our report around the following four themes:

- Providing thought leadership and collaborating with our peers
- Incorporating ESG factors across our portfolios
- Promoting active ownership
- Achieving accountability through reporting



## Providing thought leadership and collaborating with our peers

The landscape of responsible investing is evolving quickly, with new initiatives emerging frequently. Collaboration with peers to identify and develop new areas of responsible investment practice is one expression of our organizational commitment. Our efforts range from addressing ESG issues at the asset class, expanding and enhancing ESG disclosure, providing research and analysis that underpin specific investment and ownership strategies, and providing leadership to initiatives that seek to advance industry best practice and standards.

TIAA-CREF knows first-hand that putting principles into practice can be challenging. In order to contribute to the advancement of this evolving investment discipline, in 2013 we became one of the founding members of the **Investment Leaders Group (ILG)**, a three-year project designed to promote understanding of how investors can realize positive long-term investment returns by understanding and managing for environmental and social factors. The group, comprised of 11 global asset owners and managers, is working together to explore the degree to which economic, social and environmental factors can influence long-term value creation and become a more integral part of the investment process. In May 2014, the ILG released its first report, *The Value of Responsible Investment*, outlining the business case for taking action.<sup>3</sup>

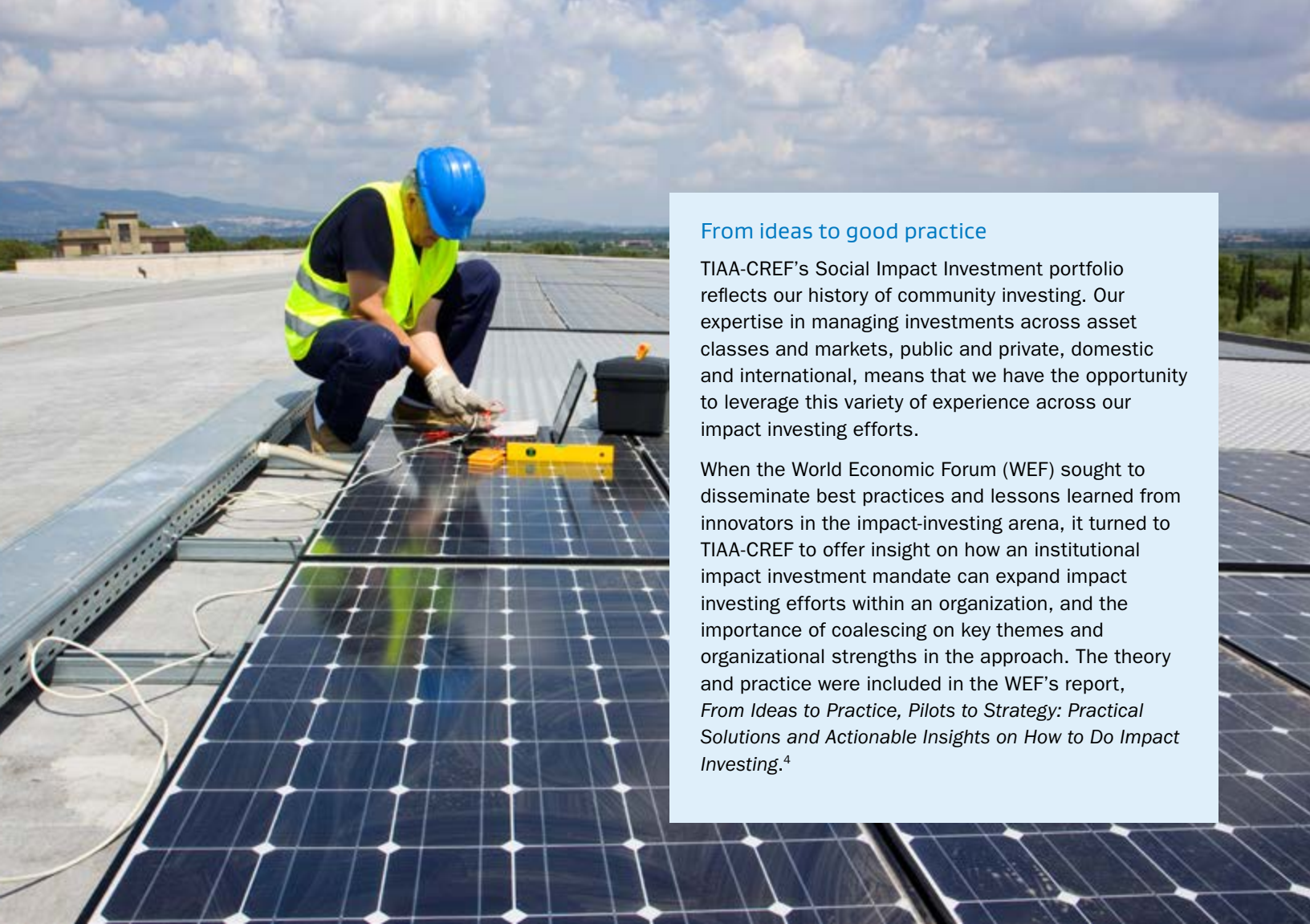
This initiative complements TIAA-CREF's involvement with the UN Principles for Responsible Investment (UN PRI), which we joined in 2009, the international network of investors seeking to incorporate ESG issues into investment practices across asset classes. We continue to serve on the steering committee of the Principle for Investors in Inclusive Finance, which provides a framework for responsible investment in inclusive finance and focuses on expanding to affordable and responsible financial products and services for low-moderate income communities and underserved populations.

Collaboration is an integral element of our responsible investing commitment. We serve in a leadership role in:

- **Global Impact Investing Network Investor Council**, an organization dedicated to increasing the scale and effectiveness of impact investing
- **Principles for Responsible Investment in Farmland**
- **Global Initiative for Sustainability Ratings**, a multi-stakeholder initiative to design and steward the development of a global ESG ratings standard







### From ideas to good practice

TIAA-CREF's Social Impact Investment portfolio reflects our history of community investing. Our expertise in managing investments across asset classes and markets, public and private, domestic and international, means that we have the opportunity to leverage this variety of experience across our impact investing efforts.

When the World Economic Forum (WEF) sought to disseminate best practices and lessons learned from innovators in the impact-investing arena, it turned to TIAA-CREF to offer insight on how an institutional impact investment mandate can expand impact investing efforts within an organization, and the importance of coalescing on key themes and organizational strengths in the approach. The theory and practice were included in the WEF's report, *From Ideas to Practice, Pilots to Strategy: Practical Solutions and Actionable Insights on How to Do Impact Investing*.<sup>4</sup>

In addition, we are institutional members of:

- **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
- **Greenprint Center at Urban Land Institute**, an industry program to develop an international benchmarking protocol to track and report on energy, emissions, water and waste as a means to improve environmental performance
- **Global Real Estate Sustainability Benchmark (GRESB)** organization, an international initiative that seeks to evaluate and improve sustainability best practices in the global real estate sector
- **Council of Institutional Investors**, an association of pension funds, employee benefit funds, endowments and foundations that works to educate members and the public on effective corporate governance, shareholder rights and related investment issues

- **International Corporate Governance Network (ICGN)**, an investor-led organization of governance professionals, ICGN's mission is to inspire and promote effective standards of corporate governance to advance efficient markets and economies worldwide

Many responsible investment approaches depend upon improving the quantity and quality of ESG metrics and data available to investors. TIAA-CREF is committed to supporting ESG disclosure frameworks and the work of standard-setting bodies across asset classes.

TIAA-CREF also seeks to engage individual investor clients on responsible investing issues. Earlier this year, we conducted a survey of our retirement plan participants, assessing individual investors' perceptions of responsible investing and their holdings in socially responsible funds to better understand investor preferences and trends in this area. This research serves to advance broader investor education and awareness of the field.

## Incorporating ESG factors across our portfolios

At TIAA-CREF, we pursue opportunities across asset classes that provide competitive returns for our clients. Within specific strategies, we may consider ESG criteria to inform the analysis of and due diligence on investment opportunities we choose to pursue, and to guide the management and monitoring of our holdings. We incorporate ESG factors across our portfolio through three primary approaches:

- ESG-focused funds
- Impact-investing strategies
- ESG integration across asset classes

### ESG-focused funds

Our Social Choice portfolios aim to provide competitive, long-term performance through investments in public securities that meet specific ESG criteria. Combined, these products hold \$15.7 billion as of March 31, 2014, offering equity, fixed income and balanced strategies. The CREF Social Choice Account annuity was launched over 20 years ago and was one of the first balanced annuities to incorporate ESG criteria into the investment process. All of these strategies use both proprietary and independent third-party research to identify eligible securities.

#### Assessing opportunities for Social Choice portfolios

When considering investments in public companies for our Social Choice portfolios, we evaluate companies on the most relevant ESG issues related 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. Companies considered for inclusion are leaders among their peers on ESG performance, which should reflect a company's positive and negative impacts on their key stakeholders – their employees, communities, customers, suppliers and the planet. We also consider a company's involvement in any ESG-related controversies. We continually evaluate and refine these standards, as informed by new ESG research and evolving best practices. Consideration is given to the following:

- Environmental: climate change, energy consumption, waste management and ecological impact
- Social: labor relations, human rights practice, product safety and community impact
- Governance: business ethics, governance quality, public and governmental policy

#### The role of ESG criteria and evaluating risk and opportunities in fixed income

Stephen M. Liberatore, CFA, Lead Portfolio Manager for the TIAA-CREF Social Choice Fixed Income strategies, manages his portfolios, which are subject to comprehensive ESG criteria, with the objective of achieving competitive risk-adjusted returns as compared to the broad fixed-income market. "Our primary goal is to identify bonds that have the potential to outperform over time," says Liberatore. "It's a misperception that you have to give up performance when incorporating ESG criteria. The use of these measures in fundamental investment analysis can help to show how well an entity is managed and operated. So, in addition to helping to indicate opportunities for positive performance, the integration of these metrics can also help identify and manage potential risks."



### Achieving competitive returns alongside direct and measurable outcomes with public fixed income

TIAA-CREF's proprietary Proactive Social Investment (PSI) framework combines TIAA-CREF's expertise in public market fixed-income investing with our experience and leadership in responsible investing.

The PSI framework focuses on:

- Affordable housing: investments that support the financing of low- and moderate-income housing loans, transit-oriented development, walkable communities, or mixed-use development projects.
- Community and economic development: investments that support financial, medical, or educational services, community centers, urban revitalization and humanitarian, disaster, and international aid services, focusing on underserved and/or economically disadvantaged communities.

- Renewable energy and climate change: securities that finance new or expand existing projects in renewable energy (including hydroelectric, solar, wind, geothermal and energy from waste), smart grid and related systems that make power generation and transmission more efficient, and other energy-efficient ways to reduce greenhouse gas emissions.
- Natural resources: investments in projects or programs that support land conservation, sustainable forestry and agriculture, remediation and redevelopment of polluted or contaminated sites, sustainable waste management, water infrastructure (such as improving clean drinking water supplies and upgrading sewer systems), and sustainable building.

Investments are made in a variety of publicly traded fixed-income securities, including agency debt, asset-backed securities, commercial mortgage-backed securities, corporate bonds, mortgage-backed securities and municipal bonds.

### Impact-investing strategies

Within TIAA's General Account, the investment portfolio supporting our guaranteed fixed-annuity products, we use the Social Impact Investment Portfolio to direct capital to quality investment opportunities that also create measurable social outcomes. As of the end of 2013, this portfolio had made \$700 million in total investments and commitments across three investment themes that benefit low- to moderate-income communities globally: affordable housing, financial inclusion and community and economic development.

The community and economic development theme is the most recent extension to the portfolio's mandate and seeks to invest in projects and companies that provide enhanced access to essential services such as childcare, education, healthcare and environmental improvements, all targeted at low- to moderate-income populations.

In 2013, TIAA made an innovative \$10 million investment in Aavishkaar India II, an India-focused private equity fund that invests in enterprises serving rural and underserved Indian communities on a commercially sustainable basis. A recent investment of this fund is mHealth Ventures India, which has developed a 'call-a-doctor' service for 40 million households in India's Hindi-speaking regions that have mobile phones but lack easily accessed, quality medical advice. The company seeks to provide quality, accessible and affordable healthcare as an alternative for poor, rural households that regularly choose ineffective home remedies, postpone care or seek out unqualified practitioners to manage their needs.

### Sourcing opportunity

If you ask Rekha Unnithan, Director, Global Social and Community Investing, what is hampering the development of impact investing, she will tell you categorically that the issue is information asymmetry in the market combined with lack of understanding about investment potential supporting products and services targeting the underserved consumer. The way around these barriers is to focus on sourcing deals in-market and effectively partnering with on-the-ground experts. TIAA-CREF has developed a clear, measurable and intentional thesis around the TIAA General Account Social Impact Investment Portfolio. Unnithan is tasked with finding appropriate projects that meet the goals of the portfolio, where positive social impact is a necessary pre-condition. Her canvas is global, with a target of 30-40% in emerging markets. With such a broad mandate, Unnithan seeks key partners on the ground that share TIAA-CREF's mission. "The information flow is asymmetric in emerging markets, so we work with investors and

operators who bring operational expertise and local know-how for solving basic needs problems faced by low-income communities."

In the U.S., Unnithan sees immense opportunity in providing equity financing for existing affordable housing projects that are approaching the end of their Low-income Housing Tax Credit (LIHTC) terms. "We help address the need for a new source of capital to preserve the existing inventory of multifamily housing. Preserving and recapitalizing affordable properties is essential to fostering vibrant, healthy and diverse communities. The existing inventory of affordable multifamily housing throughout the United States can be preserved in a way that provides a risk-adjusted return to TIAA as an investor while maintaining reasonable levels of affordability, improving the assets' physical condition to ensure long-term stability, reducing the environmental footprint of the property through green retrofits, and helping to stimulate economic development in the surrounding community," says Unnithan.

### ESG integration across asset classes

ESG integration considers relevant ESG risks and opportunities in conventional investment analysis and portfolio construction. Approaches for integrating ESG vary across asset classes and strategies, and different techniques may be used by investment managers to facilitate the incorporation of ESG information within their research and decision-making processes.

TIAA-CREF's approach to the incorporation of ESG factors into investment decisions is broader than its ESG- and impact-focused investment solutions. We believe that the consideration of ESG factors by investors can enhance the long-term economic value of their investments and produce competitive, long-term financial returns for our clients.

#### Farmland and timber

We believe that investing in farmland and timber in a responsible and sustainable manner can contribute to helping the world address increasing water, food and fiber scarcity concerns. ESG considerations are reviewed in the initial stages of investment decisions, with dedicated teams in land management and engineering performing environmental due diligence to identify the ESG risks and opportunities associated with each investment.



As long-term investors, we want to be good stewards of the land we own and manage in ways that promote the long-term performance of our assets. We work with our asset managers, tenants and custom operators to promote sound agricultural management practices, and seek to meet or exceed environmental standards and labor regulations. 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 these assets.

As a founding member and signatory to the Principles of Responsible Investment in Farmland, TIAA-CREF is proud of its leadership in responsible investing in global farmland. We are committed to integrating the Farmland Principles into our responsible investment strategy and reporting on our activities. As part of our commitment, we publish an annual report that can be viewed at [www.tiaa-cref.org/public/pdf/farmland-sustainability-report.pdf](http://www.tiaa-cref.org/public/pdf/farmland-sustainability-report.pdf).

We support farmland research and education in order to provide transparency and advance investment knowledge in this asset class. Our effort continues through the organization's sponsorship of the TIAA-CREF Center for Farmland Research at the University of Illinois which, among its many objectives, seeks to develop standard and transparent data to help investors understand and evaluate the asset class.

We uphold similar principles of sustainability in our timber investments, including:

- Identifying priority issues of concern related to the economic, social and environmental risks and impacts
- Providing practical guidance relevant to the day-to-day management of timberland field operations
- Ensuring consistency of our policies with accredited forest certification programs, as appropriate
- Communicating to our stakeholders our commitment to sustainable forestry practices

TIAA's timberland investments are managed according to third-party certification programs, such as the Forest Stewardship Council and the Programme for the Endorsement of Forest Certification, both of which reflect high social and environmental standards.



#### A clear business case: sustainability in farmland

Sustainability isn't an afterthought in farmland investing. As a leading investor in and manager of global farmland, TIAA-CREF brings a broad perspective to evaluating the various ways sustainability and investment outcomes may be aligned. We consider not only quantitative economic impacts, but also the qualitative concerns of a diverse stakeholder base that includes our participants, clients and the broader community. For example, Biff Ourso, Senior Director, TCAM Private Markets and TIAA-CREF's global agriculture portfolio manager, is no stranger to water conservation methods and management of input costs. "In agriculture, the sustainability and return arguments are pretty well aligned," he says. "Value creation comes from managing costs, be they for water or fertilizers." He cites a current opportunity where the replacement of furrow irrigation, or field flooding, with micro-sprinklers will significantly improve irrigation efficiency. Evaporation will be minimized, and water will be applied when and where needed, significantly lowering water usage.



### Real estate

TIAA-CREF has developed a range of internal and external approaches to sustainability. One of the most visible is the Global Real Estate Sustainability Initiative (GRESI), established in 2007 to define the environmental and responsible investing practices that we expect of ourselves and our real estate partners. The framework integrates sustainability criteria into both the investment decision-making process and the ongoing management of a property. GRESI seeks formally to promote energy efficiency, encourage water conservation and implement waste reduction techniques. GRESI mandates benchmarking against independent and measurable standards as a method of tracking performance and ensuring that benefits are achieved.

As a result of these efforts:

- TIAA-CREF received recognition from the U.S. Department of Energy for our Innovation Model, a part of our commitment as a Better Buildings Challenge Partner.
- In 2014, TIAA-CREF received the U.S. Environmental Protection Agency's ENERGY STAR Partner of the Year award for the seventh consecutive year, and for the fifth consecutive year at the Sustained Excellence level—the program's highest honor.
- In 2013, 15 investments held the U.S. Green Building Council's LEED certification, including two Platinum certifications, the highest level.
- BOMA International, an industry advocacy and education organization, recognized 13 of our investments with the BOMA360 designation, indicating industry-leading performance in seven key areas, including sustainability and tenant relations.

### Improving the green solution

When it comes to enthusiasm for green real estate practices, TIAA-CREF has no better advocate than Nick Stolatis, Senior Director, Head of Global Sustainability. In 2007, he and his team developed the GRESI platform to implement, track and report on energy efficiency, water conservation and reduction of waste across the TIAA-CREF real estate portfolio, which had \$37 billion in assets under management as of March 31, 2014. By demonstrating leadership in the field, this groundbreaking platform has meant that the firm has won ENERGY STAR Partner of the Year Award for seven years running, a record that no other financial services company can match. As Stolatis says, "To become Partner of the Year isn't just a matter of resting on your laurels. Each year, we've had to show how our practice has evolved, where and how we've implemented new methodologies to achieve improved performance."

The starting point for TIAA-CREF's approach to integrating ESG into real estate, explains Stolatis, is the firm's role as a fiduciary. "Environmental savings translates to the bottom line," he says. "So we always look to financial considerations and ESG metrics. On average, our portfolio is 17% more energy efficient than it was in 2007. Last year, we saved \$15 million of energy expense – that's 54.5 metric tons of carbon dioxide not released into the atmosphere."



## Active ownership

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. Known as active ownership, these are increasingly being applied by institutional investors across asset classes. Investors can use their formal rights such as proxy voting, and informal influence by engaging through dialogue, to encourage companies held in their portfolios to improve management systems, ESG-related performance or stakeholder engagement.

### In public markets:

TIAA-CREF is a long-term investor. We believe that sound governance practices and responsible corporate behavior contribute significantly to the long-term performance of public companies. As shareholders, TIAA-CREF engages with portfolio companies on many issues, including executive compensation and environmental impact. The strategies employed can range from classic proxy voting to our preferred method, ‘quiet diplomacy’, where we engage privately with portfolio companies to discuss potential shortcomings in ESG policies. In general the level of involvement ranges from:

- Proxy-related engagements during annual meeting season
- Intermediate engagements designed to alleviate concerns about particular ESG issues
- Targeted engagements with several companies in an industry or sector focused on a single ESG issue

In 2013, TIAA-CREF participated in the World Bank Green Bond Symposium, an industry dialogue among investors,

issuers and intermediaries, to share perspectives and advance thinking on the evolving green bond market—bonds whose proceeds are earmarked for environmentally beneficial projects or activities. Other examples of our active ownership include dialogue with issuers of green bonds when structuring these issuances for guidance on characteristics needed to satisfy investor demand in regard to the appropriate level and quality of subsequent disclosure around the use of proceeds.

### In private markets:

As one of the world’s largest real estate investors, TIAA-CREF has long influenced the sustainability characteristics of the properties we own. Through our Global Real Estate Sustainability Initiative (GRESI), we look to influence energy efficiency, water conservation and waste reduction in our properties, whether managed by us or by third parties. Our Property Management Governance platform allows us to provide oversight over our third-party property management firms in a manner that helps drive continuous performance improvement.

TIAA-CREF is a signatory to and serves in a leadership capacity for the Principles for Investors in Inclusive Finance (PIIF). We work to encourage our investee companies in inclusive finance to integrate responsible investment practices into their operations, such as integrating ESG factors into their reporting, providing transparency in their operations, and integrating client protection into their policies and practices. At TIAA-CREF, our \$200 million inclusive finance investments are part of the Social Impact Investment portfolio. Our inclusive-finance effort seeks to make affordable financial services available to low- and moderate-income populations and small- and medium-sized enterprises globally.

### Shareholder advocacy in Japan

We continue to be advocates for more transparent corporate governance in Japan. Our specific focus on encouraging the appointment of independent directors to the boards of public Japanese companies is coming to fruition. Based on our advocacy, and that of others, Toyota Motors announced the appointment of its first independent director in 2013. Other large Japanese companies like Canon Inc., Toshiba Corp, Honda Motors and Fujifilm Holdings have followed suit. At the same time, more Japanese companies are seeking us out to discuss a variety of corporate governance issues.





## Accountability through reporting and transparency

Responsible investing starts at home. 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. It also includes our efforts to improve the quality and quantity of information available to investors regarding ESG issues.

As part of our effort to be transparent, we disclose our responsible investment practices and activities each year:

- Reporting annually on our progress against the PRI's six principles of responsible investment,
- Disclosing our efforts to reduce energy consumption in our real estate portfolio through ENERGY STAR,
- Disclosing – and taking action to reduce – the environmental impact of our own operations through the Carbon Disclosure Project,
- Producing this report, *TIAA-CREF: Leadership in Responsible Investing 2014*.





## A favorable future: growth in responsible investing

At TIAA-CREF, we take responsible investment seriously—as seriously as we take our role as stewards of other people’s assets. We believe these two ideas need not function in opposition. It is possible to achieve competitive financial returns while still influencing positive change in the environment, society and the wider economy over the long term.

We are always looking for new ways to integrate these principles into our business practice. Because we know that responsible investing is the way forward, we will continue to refine our practices and remain a leader in this area.





## Addressing climate change

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 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.

## Real estate

TIAA-CREF's Global Real Estate group applies responsible investment principles to its property 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:

- In 2013, we reduced the energy intensity, which is the amount of energy used per square foot, across our real estate portfolios by 17.5% (office), 15% (multifamily) and 15.7% (retail) over their respective baseline performance metrics.
- In 2013, we cut greenhouse-gas emissions by approximately 54,500 metric tons through improved efficiencies, which lowered utility costs by an estimated \$15 million.
- In 2013, across our office portfolio alone, we achieved electricity consumption savings of approximately 111 million kilowatt hours and cut 50,233 metric tons of greenhouse-gas emissions—comparable to removing roughly 9,800 cars from the nation's roads for one year.

From mandating LEED certification for all new development projects to pursuing ENERGY STAR certification for all eligible properties, our continuing efforts in sustainability help address the risks and opportunities of climate change.

## Natural resources and infrastructure

The TCAM 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.

## The Social Choice Funds

For investors wishing to limit their exposure to fossil fuels, our Social Choice Funds have historically offered reduced exposure to companies in the fossil-fuel industries, relative to their respective benchmarks.

Companies considered for inclusion in these Funds are leaders in their respective sectors according to a broad and industry-specific set of ESG factors. Companies from the fossil-fuel industries eligible for inclusion typically have programs to protect biodiversity and address community concerns; environmental management systems; a



commitment to mitigate the adverse impacts of their operations; established employee health and safety management programs; and policies to manage carbon and toxic emissions.

Through our Proactive Social Investments (PSI) framework within the Social Choice Bond Fund (see page 10), we invest in projects and entities that directly benefit the environment, in keeping with our investment themes of “Renewable Energy and Climate Change” and “Natural Resources.” To date, Social Choice strategies have invested over \$500 million in Green Bonds—bonds whose proceeds are earmarked to support environmentally beneficial projects or activities. Issuance of these bonds used to be the exclusive domain of the multilateral development banks, but now a growing variety of issuers are bringing deals to the market. Within the past 18 months, we have invested in the first municipal Green Bond, issued by Massachusetts, as well as the first U.S. corporate Green Bond from Bank of America, the first asset-backed Green Bonds from Toyota Financial Services and Solar City, and a leveraged loan Green Bond from ExGen Renewables.



## Active ownership

TIAA-CREF seeks to use our influence as shareholders in public companies to influence their environmental practices to help protect the long-term value of our participants' investments.

- We encourage companies to take a responsible and proactive approach to measuring, reporting 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.

### Investing in clean energy

In May 2014, TIAA-CREF acquired 50% of the Catalina Solar project, a 143 MW clean energy project located in California's Mojave Desert. The plant is the sixth-largest photovoltaic operation in the U.S., providing electricity to approximately 35,000 homes. The investment underscores our commitment to developing long-term environmentally sustainable energy.



## Bringing solar and wind on stream

Historically, energy companies have looked to the bond markets to fund the development of new projects. Today, climate change initiatives and legislation are proving to be a driver of public fixed-income issuances, as bonds are particularly well suited to providing capital for long-term environmental infrastructure projects. This focus on developing renewable energy projects is creating opportunities for fixed-income investors. For our Social Choice Bond Fund, we identify securities supporting the development, enhancement or operations of solar and wind energy projects.

Examples include:

- Topaz Solar Farm in San Luis Obispo County in California, due for completion in 2015 with a capacity of 550 MW
- Amanecer Solar, SpA, a project to build a 100MW solar photovoltaic power plant in Chile's Atacama Desert

Upon completion, combined, these projects will provide enough power on an annualized basis for 189,000 homes, displacing 633,500 tons of CO<sub>2</sub> equivalents— comparable to removing 123,000 cars from the road.

- SolarCity, America's largest solar power provider securitized a portfolio of assets with an estimated annual production of 47MW, making clean energy available to homeowners, businesses, schools, non-profits and government organizations
- ExGen Renewables I, LLC, which indirectly owns a diversified portfolio of 13 operating wind generation assets with a combined capacity of 667 MW in five well-known and proven wind regimes

On an annualized basis, combined, these projects provide enough power for 203,000 homes, displacing 1.66 million tons of CO<sub>2</sub> equivalents – comparable to removing 246,200 cars from the road.



<sup>1</sup> As of March 31, 2014

<sup>2</sup> As of year-end 2013

<sup>3</sup> <http://www.cisl.cam.ac.uk/Business-Platforms/Investment-leaders-group.aspx>

<sup>4</sup> <http://www.weforum.org/reports/ideas-practice-pilots-strategy-practical-solutions-and-actionable-insights-how-do-impact-inv>

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](http://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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