TIAA-CREF Asset Management

# Socially responsible investing: Strong interest, low awareness of investment options

Survey of TIAA-CREF retirement plan participants—2014

## Executive summary

- Interest in Socially Responsible Investing is *strong.*
- Knowledge is *limited* about options, but financial advisors could help fill the need.
- Most investors look for competitive returns from SRI funds, but also *won't give up return* for social outcomes.
- Investors show strong preference for *ESG leadership* and *impact investing* strategies over the more widely used *exclusionary screening* approach.
- Investors prefer SRI strategies with *broad focus,* encompassing environmental and social issues vs. a *single-issue emphasis.*

## Survey results

Interest in Socially Responsible Investing (SRI) continues to grow. SRI is an approach that explicitly includes environmental, social and governance (ESG) criteria in the investment decision-making process. This approach looks beyond simple financial return, allowing individuals and institutions to express their personal values and pursue social goals with their investments.

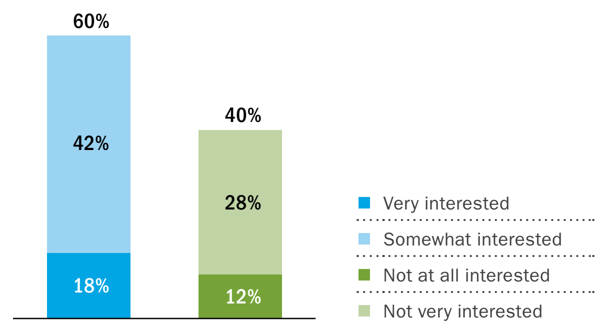
To better understand this trend and specific investor preferences, TIAA-CREF conducted a survey of its retirement plan participants, assessing individual investors' perceptions of SRI and their holdings in SRI funds.[1] The January 2014 survey asked 1,000 TIAA plan participants about their awareness of, and interest in SRI funds and approaches. The survey polled both participants who held SRI funds, defined as the firm's CREF Social Choice Account, and those who did not.[2]

### There is *strong* interest in Socially Responsible Investing ...

- 64% of those polled were interested in investing, or investing more money, in SRI fund options, and 22% said they were "very interested."
- Among investors who were not already invested in SRI funds, some 60% expressed interest in them, including 18% who were "very interested."

### Figure 1: High level of interest among investors new to SRI options

**Percent of respondents not invested in SRI funds who were interested in investing in SRI options**




There is a fairly high level of interest in SRI strategies, even among survey respondents who were not invested in SRI funds. The results tend to indicate broad appreciation of the issues underlying social responsibility among participants generally.

TIAA CREF
Financial Services

### … but investor awareness of options is limited.

- Most investors (61%) not invested in SRI funds were unfamiliar with the fund options available.
- That number jumps to 71% among those under the age of 35.

A major obstacle to participants investing in SRI funds is their lack of familiarity with options. Unless survey respondents had already invested in an SRI fund, they were unlikely to be aware their retirement plan offered such funds, despite their high level of interest.

### Financial advisors can help raise awareness, but are missing opportunities.

- 77% of respondents reported an advisor had **never** spoken with them about SRI opportunities.
- For investors with no SRI funds, only 18% reported an advisor talking to them about SRI options.
- If survey respondents were already invested in SRI funds, they were much more likely to have discussed such options with an advisor: 64% reported having a conversation.

A major reason why more investors aren't investing in SRI funds may be that they have never been asked about them. Given the interest in social responsibility issues, financial advisers have an opportunity to meet their clients' need for information about available investment options.

### Most respondents believe SRI funds can deliver competitive returns …

- 81% of investors in SRI funds said they believe it's possible to earn good returns *and* achieve positive social outcomes.
- Among those not invested in SRI funds, a healthy 55% had the same positive opinion.
- When asked about performance, 77% of those holding SRI funds judged their performance as "average" or "better than average" compared to conventional fund options.
- Even among those not invested in SRI funds, 71% rated their performance similarly.

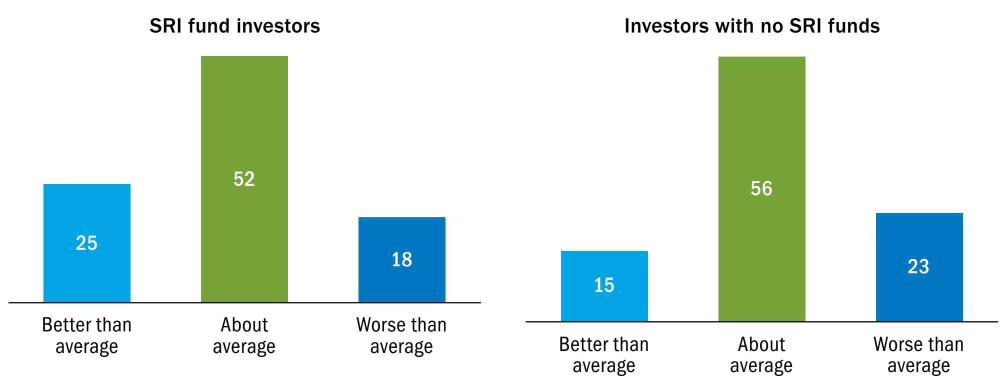
Most respondents have faith in the "double bottom line," or at least feel they don't have to sacrifice returns for improved social outcomes — confidence that rises for those already invested in SRI funds.

### … but investors generally will not give up financial returns to achieve social outcomes.

- More than half (56%) of all respondents said "investment returns" were most important vs. 43% who rated "personal values about social and environmental concerns" as their primary goal.
- For respondents without SRI funds, 54% said they were "unwilling to accept a lower return in making SRI investments."
- However, if assured of steady, long-term growth, 59% of those not invested in SRI funds were "willing to accept lower return in the short term."

Most, but not all, respondents identified financial return as their most important consideration when making investment decisions. Those already invested in SRI funds leaned more on values, but even those without SRI funds were willing to accept a lower return over the near term when assured that SRI strategies could achieve steady and stable growth over the long run. With this assurance, acceptance levels jumped 15%.

Figure 2: Investors believe a "double bottom line" is achievable.




**Question:**
How would you rate the financial performance of socially responsible investments compared to investments that do not take environmental and social criteria into account?

## Millennials and women most interested in SRI investing … but least familiar with options

- 76% of those under age 35 were "interested" or "very interested" in SRI options vs. 64% for the survey population overall.
- By gender, 70% of women were interested in investing money — or investing more money — in SRI strategies vs. 55% for men.
- Higher interest did not translate into greater awareness among those not already invested in SRI funds.
- 71% of Millennials and 67% of women under 50 were unfamiliar with SRI options vs. 61% of respondents overall

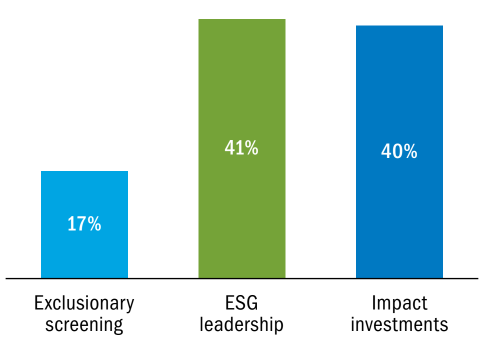
Interest in SRI varies considerably across age, gender and retirement status. Younger investors were particularly interested in SRI funds despite being the least familiar with options and their interest increased as they learned more through the survey process. There was less interest among investors who were older and closer to retirement. The gap between knowledge and interest highlights the need for greater investor education.

## Investors prefer rewarding ESG leaders over exclusionary screening.

- 41% of respondents prefer strategies that favor leaders in *ESG performance*, while 40% prefer *impact investments* targeting specific environmental and social outcomes.
- Only 17% favor exclusionary screening of objectionable industries or companies.
- Investors tended to believe ESG leadership produces *higher returns*, but that impact investments produce *better social outcomes*.

### Figure 3: *ESG leadership* and *impact investing* strategies most appealing

**Which approach to SRI investing is most appealing? (%)**




*ESG leadership* strategies favor companies who are leaders among their peers on a set of environmental, social and governance issues most relevant to their sector or industry, while *impact investing* targets specific environmental and social outcomes. The more positive, performance-oriented approach of ESG leadership in creating incentives for continuous improvement may account for the higher level of interest and perception of higher returns. Impact investing's appeal may be that its environmental and social outcomes are more clearly defined and measurable, such as direct investment in affordable housing or solar energy.

### Focus Group: In-depth opinions mirror survey results for investor preferences.

Survey preferences for ESG leadership and impact strategies over exclusionary screening echoed more in-depth discussion of a companion focus group study of TIAA participants.[3]

**"[ESG Leadership] seems like the approach that would affect the most change. It is oriented towards positive results as opposed to just avoiding companies that produce negative products. Rewarding those that choose to deliver a social good could inspire other companies to adopt similar practices."**

*— Focus Group participant, Non-SRI investor*

**"The positive approach seems superior to the negative/screening approach in that it might be less controversial; rather than figuring out who is bad (and by which standards) we can perhaps more easily agree on what/who is doing good."**

*— Focus Group participant, Non-SRI investor*

## Investors prefer a *multi-dimensional view* of ESG performance vs. a single-issue focus …

- 70% of investors were interested in a broad, multi-issue approach to SRI vs. 28% preferring to focus on one or two issues most important to them.

This scope has widened over time as investors increasingly recognize that corporate responsibility can be multidimensional and their expectations of responsible behavior evolve. High-profile global issues and events such as climate change, resource scarcity and human rights concerns have raised investors' awareness of how environmental, social and governance issues may be interconnected. Interest in broader approaches that comprehensively evaluate a firm's overall performance on a range of ESG issues is not surprising. Conversely, respondents showed less interest in more narrowly targeted, single-issue funds.

### … but certain issues generate more investor interest.

- Investors ranked these issues as important: Natural resource usage, human rights, climate change and fair treatment of employees
- Younger investors put much more emphasis on human rights, followed by natural resource usage.

### Figure 4: Resource stewardship and human rights top investor concerns

**Ranking of investors' top two issues when thinking about SRI investing (%)[4]**

| | Total | SRI | Non-SRI | Young Non-SRI |
|---|---|---|---|---|
| Natural resource usage | 39 | 41 | 38 | **48** |
| Human rights | 38 | 40 | 37 | **55** |
| Climate change | 22 | 28 | 22 | 23 |
| Fair treatment of employees | 22 | 25 | 21 | 15 |
| Business ethics and fraud | 19 | 17 | 19 | 9 |
| Supply chain management | 17 | 21 | 17 | 25 |
| Objectionable products (tobacco, firearms) | 11 | 9 | 12 | 10 |

Survey respondents highlighted environmental and social issues, with natural resource management (including water management and land use) topping the list. Notably, investors seemed to differentiate between this issue, with its broader approach to environmental stewardship, and climate change. This breadth of interest overall mirrors respondents' expressed preference for a broader, multi-issue approach to SRI investing. Millennials' strong interest in human rights is noteworthy and may represent a generational attitude that impacts investing preferences more generally.

## Conclusion

Investor interest in SRI fund strategies is strong, even if individuals may be unfamiliar with available fund options. Financial advisors have a unique opportunity to fill this information gap, especially as it varies by age and gender. For particular strategies, individual investors have shown a strong preference for ESG leadership and impact investing over the exclusionary screening approach more widely used by institutional investors. Individuals also prefer broadly focused strategies, encompassing environmental and social issues vs. a single-issue emphasis.

Learn more at **Nuveen.com** or call **800 752-8700**.
Nuveen operates as a separate subsidiary of TIAA-CREF.

[1] The survey addressed participants invested in and not invested in TIAA-CREF Social Choice Account, a variable annuity. The annuity is part of a suite of socially responsible investing (SRI) products that include two mutual funds, TIAA-CREF Social Choice Equity Fund and TIAA-CREF Social Choice Bond Fund. Text references to "SRI Funds" are intended to include the full suite of TIAA-CREF SRI products, including mutual funds and the annuity.

[2] Greenberg Quinlan Rosner conducted an online survey among 1,000 TIAA-CREF participants, from December 5, 2013 to January 21, 2014. The proportion of Social Choice Account, non-Social Choice Account and Individual Advisory Services (IAS) components were weighted to reflect the proportion of each group in the total TIAA-CREF participant base. In addition, demographic weights were applied to reflect known demographic variables. As is the case with all online surveys, this survey did not use a probability-based sample and traditional rules of margin of error do not apply.

[3] Greenberg Quinlan Rosner conducted three online focus groups among TIAA-CREF participants without Social Choice accounts, TIAA-CREF participants with Social Choice Accounts and prospects. The group was recruited to ensure a mix of age, gender and geography proportionate to overall population of all three groups represented.

Note: qualitative research (for example, focus groups) is not intended to be statistically projected or generalized. Their goal is to explore issues in a depth that would be impossible to accomplish in a broader, representative survey.

[4] Investors identified other issues as well but the table here excludes issues that garnered less than 10% interest among participants.

**Consider the investment objectives, risks, charges and expenses carefully before investing. Please call 877 518-9161 or go to tiaa-cref.org for product and fund prospectuses that contain this and other information. Read the prospectuses carefully before investing.**

**Investment, insurance and annuity products are not FDIC insured, are not bank guaranteed, are not bank deposits, are not insured by any federal government agency, are not a condition to any banking service or activity, and may lose value.**

Certain products and services may not be available to all entities or persons. Past performance does not guarantee future results.

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.

TIAA-CREF Asset Management provides investment advice and portfolio management services to the TIAA-CREF group of companies through the following entities: Teachers Advisors, Inc., TIAA-CREF Investment Management, LLC, TIAA-CREF Alternatives Advisors, LLC and Teachers Insurance and Annuity Association of America® (TIAA®). TIAA-CREF Alternatives Advisors, LLC is a registered investment advisor and wholly owned subsidiary of Teachers Insurance and Annuity Association of America (TIAA).

TIAA-CREF Individual & Institutional Services, LLC, Teachers Personal Investors Services, Inc., and Nuveen Securities, LLC, Members FINRA and SIPC, distribute securities products. Annuity contracts and certificates are issued by Teachers Insurance and Annuity Association of America (TIAA) and College Retirement Equities Fund (CREF), New York, NY.



TIAA CREF
Financial Services

C18108
141008417

344821_429319
A14379 (05/15)