GENERALLY SPEAKING

CONVERSATIONS ABOUT TIAA'S GENERAL ACCOUNT

OCTOBER 2024

Under the hood of the TIAA General Account.

How CIO Emilia Wiener is thinking about the Fed's recent rate cut.

TIAA's General Account, or GA, is the investment engine that powers our promise to provide lifetime income to millions of people. The GA is purpose-built to generate income for savers and retirees who participate in TIAA retirement products. TIAA Traditional,[1] our flagship annuity, has long delivered lifetime income in 403(b) plans and, in recent years the GA started to support lifetime income in the larger 401(k) marketplace.

Every few months, for the benefit of consultants and plan sponsors, we pull up with Emilia (Emily) Wiener, chief investment officer for TIAA's $296 billion[2] GA, or a member of her team, to get under the hood of the GA and kick around insights. Wiener became the GA's CIO in 2023 after joining TIAA as head of fixed income for the GA in 2016. She's spent most of her career managing insurance company investment portfolios.

We checked in with Emily after the U.S. Federal Reserve cut its short-term interest rate target from the highest level in 23 years. Emily talked about how the GA works, what sets it apart from competitors and how the GA adapts to evolving economic conditions.

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EMILIA WIENER

Thanks for chatting with us, Emily. For starters, can you give a high-level overview of how TIAA's General Account works and what's inside the portfolio?

The GA is a global, highly diversified, multi-strategy portfolio of investments. We are a liability-driven investor, so we focus on generating predictable, stable income from our investment portfolio to provide participants access to lifetime income through TIAA Traditional and other TIAA retirement products.

About 85% of the GA portfolio is invested in fixed income strategies that produce predictable, recurring income through scheduled coupon interest payments. The balance of the portfolio is invested in real estate equity and alternatives.

Our anchor allocations within fixed income are investment-grade securities, including public and private bonds and high-grade commercial mortgage loans. We also include allocations to high-yield fixed income, structured credit, and "safe haven" assets, such as U.S. Treasuries and agency bonds.

Our strategy is to maximize risk-adjusted returns within our risk appetite, and we invest in fixed income with the intention of holding to maturity. We don't actively trade the portfolio to beat any total return benchmark.

What's different about TIAA's General Account?

One thing that sets TIAA's GA apart is that we have, by far, the largest capital base in the industry—meaning we have a financial surplus well in excess of our liabilities. This financial underpinning, combined with the inherent stability of our liabilities, earns TIAA one of the highest credit ratings among U.S. insurance companies.[3]

This positioning allows us flexibility to allocate more to alternative investments than many of our insurance company peers. Alternatives can offer opportunities for diversification and higher long-term risk-adjusted returns not available in traditional markets.

We generally hold around 15% of the GA portfolio in real estate, private equity and real assets, including timber, infrastructure and farmland—think almonds, pistachios and grapes used for wine from Napa, Monterey, Sonoma and Madera counties in California. There are many other examples.

We've been able to invest more in alternatives and maintain our strong financial risk profile by leaning into the deep expertise of Nuveen, TIAA's wholly owned asset management subsidiary.

I should also mention that, unique to TIAA Traditional, we can pass on additional crediting rates and dividends to our participants after we pay our minimum guaranteed rates, expenses and outlays. TIAA has credited above our minimum rate guarantees every year for more than 75 years, a streak made possible through careful portfolio construction and diligent capital management.[4]

The big news in financial markets is that the Fed cut interest rates—in what ways does this affect the General Account?

This most recent interest rate change was clearly telegraphed, and expectations around the size of the cut were priced into the markets. We are disciplined investors in terms of our overall asset allocation and proactive about our exposures and risk, so at the end of the day we can manage through all different market environments, regardless of the prevailing level of rates.

> "Lower prevailing rates are positive for credit fundamentals and generally support valuations in asset strategies like real estate and alternatives."
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> EMILIA WIENER

Programmatically investing cash and creating a resilient portfolio require having the right risk-management discipline and maintaining appropriate levels of capital and surplus.

Despite last month's cut, we are still in a period of relatively high rates, which is a welcome change from the nearly 15-year period of ultra-low interest rates. We are still able to reinvest new money flows and portfolio turnover at higher yields than we could a few years ago for the ultimate benefit of our participants.

In what other ways does an interest rate cut matter to investments within the General Account portfolio?

Lower prevailing rates are positive for credit fundamentals and generally support valuations in asset strategies like real estate and alternatives.

The flip side is that, when rates are cut, reinvestment rates decline on fixed income assets. That said, on top of the minimum guaranteed rates we provide to participants, the GA has demonstrated the capacity to generate additional dividends for participants even during low-rate environments. This is the value of having a well-diversified, global portfolio.

Understanding that you are long-term investors, are there ways in which the General Account can position for turning points in the economy?

You're right that our long-term strategic asset allocations are designed to meet duration and return targets across a wide range of market environments. But we can work around the edges to defensively position our portfolio in the event market conditions change. For example, in anticipation of a potential turn in credit conditions, we have favored private credit with strong covenant protections and demonstrated higher recovery rates in the event of default over the past several years.

Inflation is a consideration. Real estate and real assets can offer something of a natural inflation hedge since tangible assets have intrinsic value that generally holds up well in inflationary periods. They also generate income, which can adjust to keep pace with inflation. Examples of adjustments include escalator clauses that raise rents, or rising almond or grape prices.

Remember that the GA's portfolio is mostly made up of investment-grade bonds without significant credit concerns. During economic turns, some bonds may get downgraded to lower quality; we work closely with Nuveen to detect early signs of credit stress and take appropriate defensive actions. And while our disciplined risk framework and financial strength ensure our ability to weather downturns, they also allow room to take advantage of market dislocations and buy when others are selling.

Thanks so much for your time, Emily.

For more information about how annuities work and what sets TIAA apart, please visit **tiaa.org/public/learn/lifetime-income**

TIAA

1. TIAA Traditional is issued by Teachers Insurance and Annuity Association of America (TIAA), New York, NY.
2. As of June 30, 2024.
3. For its stability, claims-paying ability and overall financial strength, Teachers Insurance and Annuity Association of America (TIAA) is a member of one of only three insurance groups in the United States to currently hold the highest rating available to U.S. insurers from three of the four leading insurance company rating agencies: A.M. Best (A++ as of 7/24), Fitch (AAA as of 8/24) and Standard & Poor's (AA+ as of 5/24), and the second-highest possible rating from Moody's Investors Service (Aa1 as of 10/24). There is no guarantee that current ratings will be maintained. The financial strength ratings represent a company's ability to meet policyholders' obligations and do not apply to variable annuities or any other product or service not fully backed by TIAA's claims-paying ability. The ratings also do not apply to the safety or the performance of the variable accounts, which will fluctuate in value.
4. TIAA may share profits with TIAA Traditional retirement annuity owners through declared additional amounts of interest and through increases in annuity income throughout retirement. These additional amounts are not guaranteed other than for the period for which they were declared. Since 1948, TIAA has credited interest above the guaranteed minimum on one or more contracts every year.

Annuity contracts may contain terms for keeping them in force. We can provide you with costs and complete details.

TIAA Traditional is a fixed annuity product issued through these contracts by Teachers Insurance and Annuity Association of America (TIAA), 730 Third Avenue, New York, NY, 10017: Form series including but not limited to: 1000.24; G-1000.4; IGRS-01-84-ACC; IGRSP-01-84-ACC; 6008.8.

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Nuveen, LLC provides investment solutions through its investment specialists.

TIAA-CREF Individual & Institutional Services, LLC, Member FINRA and SIPC , distributes securities products. SIPC only protects customers' securities and cash held in brokerage accounts. Annuity contracts and certificates are issued by Teachers Insurance and Annuity Association of America (TIAA) and College Retirement Equities Fund (CREF), New York, NY. Each is solely responsible for its own financial condition and contractual obligations.

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