



TIAA Investments

Proactive Social Investments

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A proprietary framework for investing with impact in public fixed-income markets

Not too long ago, responsible investment opportunities for individuals were focused almost exclusively on the securities of publicly listed companies with strong environmental, social and governance (ESG) performance records. Such companies might be exemplary stewards of the environment, committed to fair labor standards and practices, dedicated to producing safe, high-quality products, and/or generally free of controversial business involvement.

As the concept of responsible investment has evolved, so too, have opportunities for investors. TIAA Investments, a leader in responsible investment since the 1970s, has been on the forefront of this evolution. Today TIAA Investments offers a suite of ESG-focused investment products (including Social Choice products) that give investors the opportunity to build complete, responsible and ESG-focused core portfolio solutions.

Among our innovations in this area is the development of TIAA Investments' proprietary framework for identifying and selecting Proactive Social Investments (PSI)—a fixed-income category that builds on traditional responsible investment approaches. PSI's focus is to make investments in social and environmental outcomes with an emphasis on competitive, risk-adjusted return potential and clear and measurable social or environmental benefits. Examples may include a municipal bond to build a clean water project, a U.S. agency security to fund low-income development projects or a corporate bond that finances the development of a solar farm.

All of TIAA Investments' responsible fixed-income strategies include a dedicated targeted allocation to PSI. Outlined in the following sections, a closer look is focused on the evolution of PSI and how TIAA Investments' leadership in this specialized area of fixed-income investing offers opportunities that can benefit investors, issuers and society alike.

An evolution in purpose and approach

In the late 2000s, opportunities emerged in private equity and fixed-income markets, embodied in a concept now best known as "impact investing." Impact investments focus on capital solutions to address core societal needs—such as access to education, availability

BUILT TO PERFORM.

CREATED TO SERVE.

of financial services to underserved populations, housing, healthcare and climate change. As this concept was gaining traction, portfolio manager, **Stephen M. Liberatore, CFA**, who is responsible for TIAA Investments' responsible fixed-income mandates, began to see potential synergies between public fixed-income securities and the world of impact investing.

Unlike an investment in equities, which invests capital in a company, a fixed-income security has many dimensions. Such an investment may involve basic funding needs for a corporation or other issuer, but it may also be more solutions-oriented, in some cases providing capital to fund specific projects that deliver a clearly defined societal benefit. A growing number of issuances of this type, particularly in the municipal bond and agency sectors, prompted Steve to consider the possibility of a separate category of fixed-income investments that generate clear and measurable social or environmental impact along with a financial return.

At the same time, **Amy O'Brien**, head of TIAA Investments' Responsible Investment team, began to see new developments related to impact investing—specifically, increasing client demand for investments that are solution- and outcome-oriented, rather than those that simply use traditional exclusionary approaches (i.e., excluding securities based on ESG criteria alone). The Responsible Investment team is responsible for the development, enhancement and oversight of the process through which investments become eligible for inclusion in TIAA Investments' responsible-investment products. The team employs rigorous and transparent independent research to maintain ESG best-practice standards. Amy also began to monitor and evaluate the increased availability of ESG information that could support the requirements of this new category of investments.

Historically, research in the area of ESG metrics has focused primarily on methodologies to evaluate public-company ESG performance, which are not necessarily adaptable to all dimensions of public fixed-income securities. Developing an eligible investment universe for the new category of securities presented new research needs and considerations. Depending on the security, the ESG evaluation could involve not only public companies, but also private companies, countries, municipalities, agencies, issuers and, of course, individual projects. Amy and her team ultimately determined that the optimal solution was to develop a proprietary framework for identifying and classifying investment opportunities by combining emerging ESG research available in the marketplace with in-house expertise.

The PSI framework

Amy and Steve combined their efforts in 2007 and further refined their work in 2012, implementing a formal mechanism by which TIAA Investments' responsible fixed-income strategies could include proactive social investments. Both agreed that such a framework was needed for clients to clearly understand the range of social and environmental impacts TIAA Investments planned to target.

The framework also provides a useful tool for communicating expectations with issuers, when considering investments in the PSI category. As Steve identifies investment opportunities in the marketplace, he may measure them against the PSI framework, which sets parameters for classification based on the issuer's mission, ESG performance quality, and/or the project to be funded. As a portfolio manager focused on excess returns—i.e., performance above industry-standard benchmarks—Steve operates on the premise that both positive societal impact and positive relative value for investors are necessary criteria for including a security in the PSI category.

Four thematic areas of investment

Based on extensive engagement with investors and an in-depth survey of participants in TIAA Investments’ Social Choice products, four thematic areas were identified and targeted in the PSI framework:

1. **Affordable housing:** investments that support the financing of low- and moderate-income housing loans, transit-oriented development, walkable communities or mixed-use development projects.
2. **Community and economic development:** investments that support financial services, hospital/medical services, educational services, community centers, urban revitalization, humanitarian, disaster and international aid services, inclusive of underserved and/or economically disadvantaged communities.
3. **Renewable energy and climate change:** securities that finance new or expand existing renewable energy projects (including hydroelectric, solar and wind, geothermal, and energy from waste, etc.), smart grid and related projects designed to make power generation and transmission systems more efficient, and other energy efficiency projects that result in a reduction of greenhouse gas emissions.
4. **Natural resources:** investments that support land conservation, sustainable forestry and agriculture, remediation and redevelopment of polluted or contaminated sites, sustainable waste management projects, water infrastructure (including improvement of clean drinking water supplies and/or sewer systems) and sustainable building projects.

Within these four areas, investments are made across a diversified array of publicly traded fixed-income securities. Security types include agency debt, asset-backed securities, commercial mortgage-backed securities, corporate bonds, mortgage-backed securities and municipal bonds.

Theme: Affordable housing

These investments support the financing of low- and moderate-income housing loans, transit-oriented development, walkable communities or mixed-use development projects.

Example 1: HUD

Security type	Government Related—Agency
Issuer	U.S. Department of Housing and Urban Development (HUD) Issues support the financing of the Community Development Block Grant Program. <ul style="list-style-type: none"> ▪ Grants are used to address critical and unmet community needs such as housing rehabilitation, public facilities, infrastructure, economic development, public services and more.
Mission/projects	<ul style="list-style-type: none"> ▪ The primary objective is to develop viable urban and rural communities by expanding economic opportunities and improving the quality of life, principally for persons of low- and moderate-income. ▪ From fiscal years 2005-2016, more than 1.3 million households have been rehabilitated for low- and moderate-income homeowners and renters.¹

Example 2: Massachusetts Housing Finance Agency

Security type	Municipal bond
Issuer	Massachusetts Housing Finance Agency (MassHousing)
Mission/projects	<p>MassHousing is an independent, quasi-public agency charged with providing financing for affordable housing in Massachusetts.</p> <ul style="list-style-type: none"> ▪ The agency raises capital by selling bonds and lends the proceeds to low- and moderate-income homebuyers and homeowners, and to developers who build or preserve affordable and/or mixed-income rental housing. ▪ The agency is recognized as one of the premier housing finance agencies in the country, and has won numerous national awards for creativity and innovation in affordable housing. ▪ Since its inception in 1966, MassHousing has provided more than \$19 billion for affordable housing.¹

Theme: Community and economic development

These investments support financial services, hospital/medical services, educational services, community centers, urban revitalization, humanitarian, disaster and international aid services, inclusive of underserved and/or economically disadvantaged communities.

Example 1: Inter-American Development Bank (IADB)

Security type	Government Related—Agency
Issuer	Inter-American Development Bank—Education, Youth and Employment (EYE) bonds
Project(s)	<p>The Inter-American Development Bank is the oldest regional multilateral development institution. Owned by 48 member countries, IADB is the largest government-owned regional source of development finance for Latin America and the Caribbean. EYE bonds provide financing for programs to increase productivity and improve social inclusion of young people throughout key intervention stages, as well as support for job creation and worker development, employability, mobility and productivity.</p> <ul style="list-style-type: none"> ▪ Mexico: Multiphase Training and Employment Support Program <ul style="list-style-type: none"> – Goal is to benefit 1,200,000 people through job training and support for self-employment – 4 million job placements expected by the project's completion ▪ Brazil: Accelerate Educational Progress in Amazonas State <ul style="list-style-type: none"> – Goal is to engage more than 30,000 school-aged children and young adults and improve academic performance and outcomes ▪ Panama: Educational Facilities and Learning Quality <ul style="list-style-type: none"> – Goal is to improve access to and quality of education in the indigenous zones (comarcas) – Project includes the construction of 2 new schools and the renovation of 46 – Goal is to improve net enrollment rate and student retention rate <p>For additional information: iadb.org/investors</p>

Example 2: New York City Public Library

Security type	Municipal bond
Issuer	New York City Public Library
Project(s)	<p>The New York Public, Astor, Lenox and Tilden Foundations (Library) is a not-for-profit education cooperation operating in New York City. The Library is one of the nation's largest public library systems, featuring a combination of four scholarly research centers and 88 neighborhood branches.</p> <ul style="list-style-type: none"> ▪ The Library hosts nearly 18 million visitors a year in its research centers and neighborhood branches, and millions online. It holds more than 51 million items, from books, ebooks and DVDs to research collections used by scholars from around the world. Altogether, the Library offers more than 67,000 free programs annually, and via its public website offers worldwide viewing access to over 800,000 items. ▪ Capital upgrades include a major renovation of the Mid-Manhattan Library, the most heavily used circulating branch; the creation of more public space and amenities at the iconic Stephen A. Schwarzman Building; and a superior and expanded storage environment for the Library's world-renowned research collections beneath Bryant Park. ▪ New programs and services include expanded resources and classes for the Library's broad array of users. This will include services and spaces for researchers, scholars and creators; areas for adult education, English language classes, technology training and employment help; and educational resources for families, students and teachers.

Theme: Renewable energy and climate change

This investment theme focuses on securities that finance new or expand existing renewable energy projects (including hydroelectric, solar and wind, geothermal, and energy from waste, etc.), smart grid and related projects designed to make power generation and transmission systems more efficient, and other energy efficiency projects that result in a reduction of greenhouse gas emissions.

Example 1: Toyota Green Bond

Security type	Asset Backed Security (ABS)
Issuer	Toyota Auto Receivables
Project	<p>This security is a public auto loan securitization. Proceeds are used to fund consumer purchases of green vehicles.</p> <ul style="list-style-type: none"> ▪ The collateral pools consist of a diversified pool of prime new and used motor vehicle installment loans for qualifying Toyota and Lexus vehicles. ▪ Qualifying vehicles are either hybrid or use alternative fuel, have fuel efficiency of 35 MPG and are designated as zero emission, partial-zero emission or super low-emission vehicles. ▪ Vehicles funded by green bonds could save more than 10.8 million gallons of gas per year. ▪ Toyota estimates that since 1997, its hybrids have reduced CO₂ emissions by 66 million tons compared to comparable gas-powered vehicles. This is equivalent to taking 14 million cars off the road.³

Example 2: ExGen Renewables I, LLC

Security type	Leveraged loan
Issuer	ExGen Renewables I, LLC (ExGen is an indirectly wholly owned subsidiary of Exelon Corporation (EXC))
Project(s)	<p>ExGen Renewables I, LLC (ExGen) indirectly owns a diversified portfolio of 13 operating wind generation assets with total capacity of 667 megawatts (MW)</p> <ul style="list-style-type: none"> ▪ Located throughout the United States in 5 well-known and proven wind regimes. ▪ The projects are all currently in operation and located in 6 states: Idaho, Kansas, Michigan, New Mexico, Oregon and Texas. ▪ Between January 2013 and October 2013, the projects collectively generated 1,614 gigawatt hours (GWhs) of electricity—enough to power approximately 195,000 average homes on an annualized basis.¹ ▪ The power generated by the portfolio will displace 1.6 million tons annually of CO₂ equivalents, which is equivalent to taking 234,207 cars off the road.²

Theme: Natural resources

These investments support land conservation, sustainable forestry and agriculture, remediation and redevelopment of polluted or contaminated sites, sustainable waste management projects, water infrastructure (including improvement of clean drinking water supplies and/or sewer systems) and sustainable building projects.

Example 1: The Florida Forever Trust

Security type	Municipal bond
Issuer	Florida State Department of Environmental Protection (DEP)
Project	<p>Proceeds from this issue were used for acquisition and improvement of land, water areas and related property interests and resources in urban and rural settings in the state of Florida. The goals are 1) environmental restoration, 2) enhancement of public access and recreational enjoyment, and 3) water resource development.</p> <p>Since the inception of the Florida Forever program in July 2001, the state has purchased more than 710,144 acres of land, adding to the roughly 1.8 million acres purchased under a predecessor program.¹</p> <p>Examples of protected areas include:</p> <ul style="list-style-type: none"> ▪ 604,460 acres of habitat conservation areas ▪ 568,000 acres for rare and endangered species ▪ 708,810 acres of ecological greenways ▪ 725,330 acres important to significant water bodies ▪ 382,560 acres of natural floodplains ▪ 8,900 acres of fragile coastlines ▪ 305,990 acres of functional wetlands and ▪ 375,730 acres of sustainable forestland

Example 2: Regency Centers L.P.

Security type	Corporate green bond
Issuer	Regency Centers L.P.
Project	<p>This security represents the inaugural green bond issued from the Real Estate Investment Trust (REIT) sector.</p> <ul style="list-style-type: none"> ▪ Net proceeds will be used to fund projects which have received or are anticipated to receive a Leadership in Energy and Environmental Design (LEED) certification or a LEED equivalent certification. ▪ The LEED certification process encourages the design and construction of energy-efficient, water conserving buildings that use sustainable resources and materials. ▪ The bond funded the construction of 9 retail properties in California, Washington, Oregon, Illinois and North Carolina. As of March 31, 2016, these properties received LEED ratings of Gold (2), Silver (5), Certified (1), with one property continuing in the process of getting certified. ▪ In addition to company management attestation regarding use of proceeds, a report from an independent accountant in accordance with American Institute of Certified Public Accountants attestation standards is available.¹

Proactive social investments (PSI) is TIAA Investments' proprietary classification of fixed-income securities. The security descriptions included here are for informational, illustrative purposes only and should not be viewed as an endorsement or a guarantee of performance. Nothing in this document should be construed or relied upon as legal or financial advice. They may not reflect actual investments. None of this information should be relied upon without independent verification.

TIAA Investments: A leader in socially responsible fixed-income investing

Since introducing our proactive social investments framework in 2007, TIAA Investments has seen growing interest among individual and institutional investors who want to focus on solutions to social and environmental needs. The diversity of investors interested in these opportunities has also grown, as these investments increasingly appeal not only to socially responsible investors but also to “mainstream” investors.

To meet this growing demand, an increasing number of fixed-income issuers across sectors have responded, which TIAA Investments believes is a positive trend. By participating in these opportunities, TIAA Investments is helping to directly lower the cost of capital for issuers, thereby increasing their long-term viability and potential societal impact.

As a leading fixed-income manager and a recognized leader in socially responsible fixed-income investing, TIAA Investments is the asset manager many of these entities turn to for guidance. Team members meet frequently with prospective issuers to discuss how to structure bonds, what characteristics are needed to satisfy investor demand, and the appropriate level and quality of subsequent disclosure around the use of proceeds.

A commitment to responsible investment, in general and proactive social investments in particular, is consistent with TIAA Investments' experience, track record and demonstrated leadership in this strategic and rapidly growing area of asset management.



Learn more at [TIAA.org](https://www.tiaa.org)
or call 800-842-2252

Opportunities for investors

TIAA Investments is one of the largest managers of responsible investment assets in the United States, including more than \$17 billion in ESG-focused products. Of these assets, more than \$2 billion are allocated to proactive social investments (PSI), fixed-income securities that offer competitive risk-adjusted return potential along with measurable social and environmental benefits. PSI holdings represent approximately 40% of all fixed-income assets held in TIAA's ESG-focused products available to investors.



1. *Regency Centers Green Bond Issuance: Use of Proceeds Attestation Report of Independent Accountants*, March 31, 2017
2. Source: Exelon Corporation and US EPA, 2016.
3. Toyota Motor Corporation, *Environmental Report*, March 31, 2016.

Before investing, carefully consider fund investment objectives, risks, charges and expenses. For this and other information that should be read carefully, please request a prospectus or summary prospectus from Nuveen at 800-752-8700 or visit [nuveen.com](https://www.nuveen.com)

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Because ESG criteria excludes some securities, investments in ESG-focused products may not be able to take advantage of the same opportunities or market trends as products that do not use such criteria. Investment products in general may be subject to market and other risk factors. For more information, please visit [Nuveen.com](https://www.nuveen.com) for more details.

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