



# PROMOTING SOCIAL GOOD. – INCORPORATING SOCIALLY RESPONSIBLE INVESTMENTS

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# TAKING THE PULSE

## QUICK YES OR NO QUESTIONS



IN LAST 12 MONTHS, YOU'VE MET WITH A STUDENT GROUP REGARDING THE INSTITUTION'S SUSTAINABILITY EFFORTS ?

1. Yes
2. No



TRUSTEES, ALUMNI, INVESTMENT COMMITTEE ...  
ARE PRESSING FOR MORE ALIGNMENT BETWEEN  
INVESTMENT PHILOSOPHY AND YOUR INSTITUTIONAL  
MISSION?

1. Yes
2. No



# YOU HAVE AN ACTIVE SUSTAINABILITY COMMITTEE ON CAMPUS?

1. Yes
2. No



# YOU KNOW YOUR INSTITUTION'S STARS RATING?

1. Yes
2. No



# RESPONSIBLE INVESTING - RELATED TERMINOLOGY



# RESPONSIBLE INVESTMENT (RI) DEFINED

## ESG Integration

The explicit and systematic consideration of environmental, social and governance (ESG) factors in fundamental investment analysis and portfolio construction.

## Active Ownership

Investors using their formal rights (e.g. proxy voting) and informal influence (e.g. engaging through dialogue) to influence companies' ESG-related performance.

**Responsible Investment (RI)** is an evolving discipline that dually promotes financial and nonfinancial value creation.

## ESG-focused / SRI Funds (public markets)

Historically known as Socially Responsible Investing (SRI) funds, portfolios that explicitly apply ESG criteria in their investment decision-making process, often in the development of an investable universe

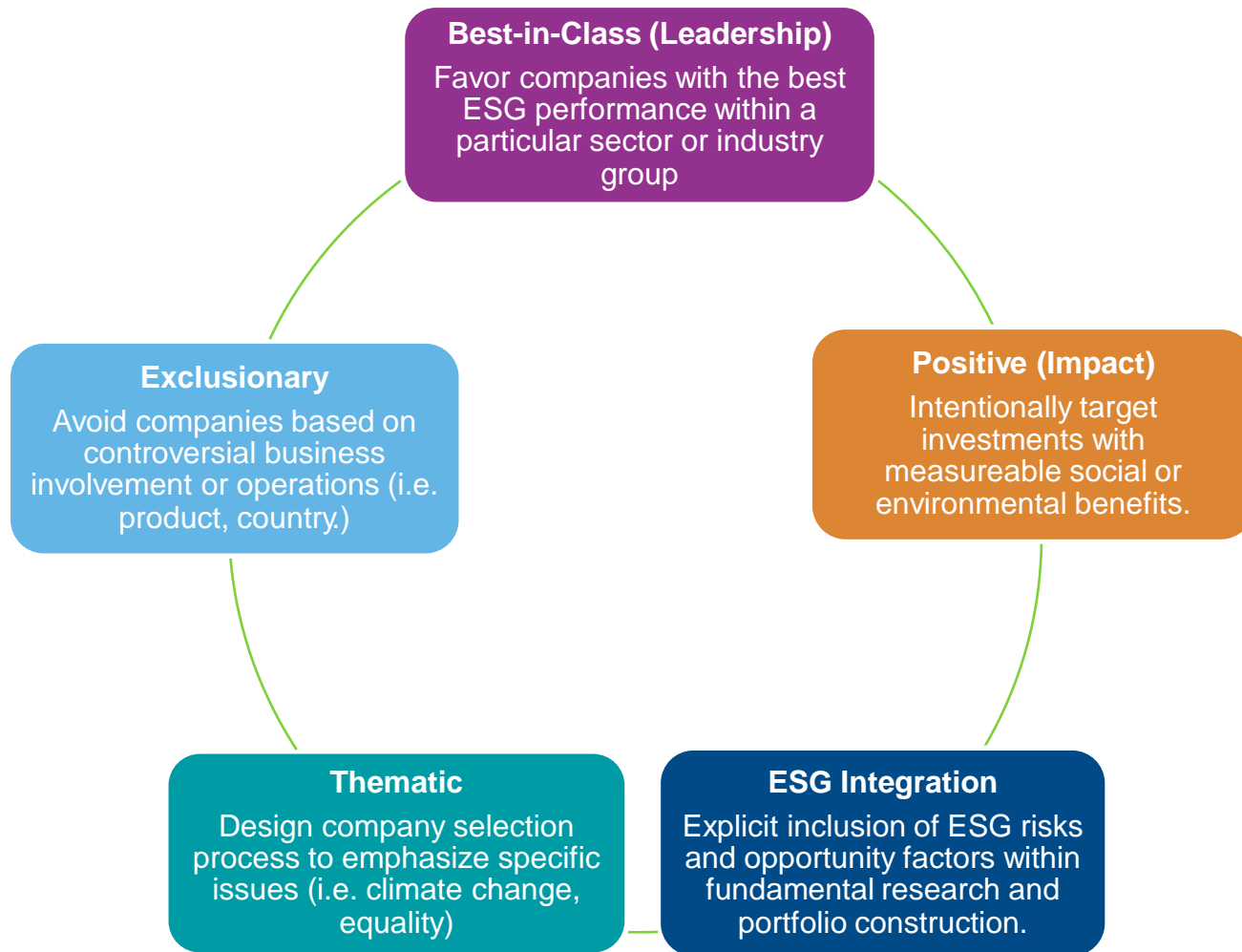
## Impact Investing (private markets)

Private market or real estate investments made in projects, companies and funds with the dual intention of generating financial return alongside measureable social or environmental benefits.





# ESG-FOCUSED/SRI FUND OPTIONS ARE DIVERSE



# NACUBO INSTITUTIONS' RESPONSE TO ESG

**14%**

of NACUBO-Commonfund Study of Endowments® (NCSE) participants said they seek to include in their portfolios investments that rank high on environmental, social and governance (ESG) criteria.

**25%**

said they exclude or screen out investments that are inconsistent with the institution's mission

**15%**

said they allocate a portion of the endowment to investments that further the institution's mission

**6%**

of institutions said their board had voted to exclude responsible investing

considerations, while **75%** of respondents said their board had not taken similar action



# RESPONSIBLE INVESTING ON THE RISE AMONG ENDOWMENTS AND FOUNDATIONS

More than half of asset owners are either pursuing impact investing or plan to consider it.

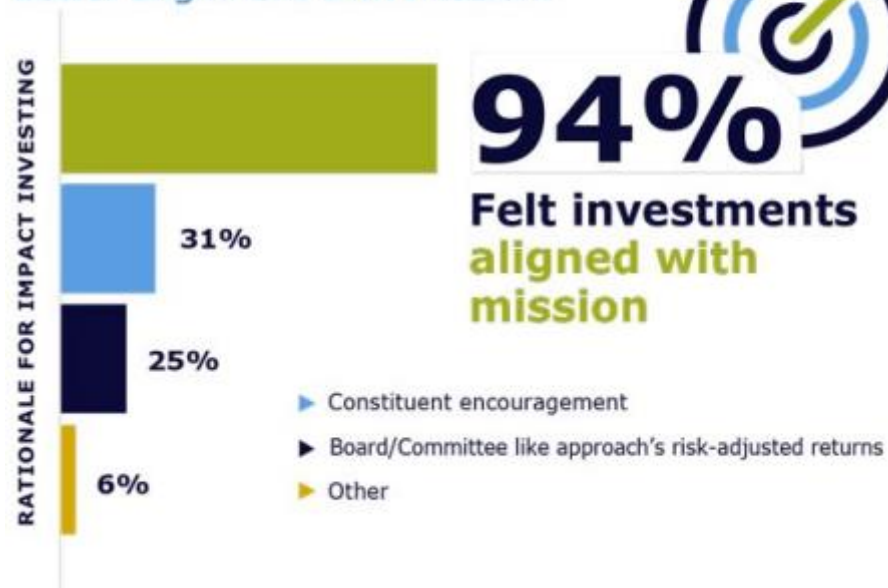


# 86%

OF INVESTORS SAID  
THEY **DON'T EXPECT TO**  
**SACRIFICE RETURNS**  
WITH IMPACT  
INVESTING.

## Among those who have implemented impact investing programs:

Almost all say impact investing offers  
better alignment with mission.



Source: [NEPC, LLC Study on Endowments and Foundations, May 2016](#)



# TIAA PLAN SPONSORS & CLIMATE CHANGE

Climate Change related activism is prevalent on campuses across the country with divestment being a focus. Examples of plan sponsors who have considered divestment include:

Plan Sponsor	Type of Divestment	Decline Divestment
CITY UNIVERSITY OF NEW YORK		X
CORNELL UNIVERSITY		X
GEORGETOWN UNIVERSITY	Partial	
NYU		X
STANFORD UNIVERSITY	Coal only	
SYRACUSE UNIVERSITY	Full	
THE NEW SCHOOL	Full	
UNIVERSITY OF DAYTON	Full	
UNIVERSITY OF MAINE SYSTEM	Coal only	
UNIVERSITY OF MASSACHUSETTS	Coal only	
UNIVERSITY OF MICHIGAN		X
UNIVERSITY OF VERMONT		X
UNIVERSITY OF WASHINGTON	Coal only	
YALE UNIVERSITY	Partial	



Additionally, 58 plan sponsors have signed the American College & University Presidents Climate Commitment, which commits the school to measure and reduce its carbon footprint.



# RESPONSIBLE INVESTMENT AT TIAA

## SEEKING COMPETITIVE RETURNS WHILE MAKING A POSITIVE IMPACT

We are one of the largest managers of Responsible Investment (RI) assets in the U.S. across multiple asset classes.<sup>1</sup>

We have five decades of experience in RI, starting with development of shareholder proposal voting policies in the 1970's.

We actively participate in global networks that lead, educate and advocate for strong RI standards.



# EVOLUTION OF RESPONSIBLE INVESTMENT

1970s

- Exclusions and shareholder advocacy emerge as tools for aligning mission and investment management practices
- Emphasis on equality issues – South Africa Anti-Apartheid (“Sullivan Principles”) and community investing
- Pioneering firms and networks: Interfaith Center on Corporate Responsibility, Investor Responsibility Research Center, Council on Economic Priorities, Shorebank, Pax World, Calvert

1980s

- Dedicated firms and networks: Social Investment Forum, KLD Research & Analytics, EIRIS (UK), Ceres
- Increased emphasis on corporate governance (Council of Institutional Investors)
- Increased emphasis on environmental responsibility (Bhopal, Exxon Valdez, Chernobyl)

1990s

- First social indices launched (Domini Social Index) and universe of SRI funds expands
- Dedicated firms and networks: Jantzi Research, Innovest, UNEP Finance Initiative,
- Investors organize to advance business case for sustainability and reporting – Global Reporting Initiative (GRI)

2000s

- Investor convergence on climate issues – Carbon Disclosure Project, Investor Network on Climate Risk, Trucost
- Global alignment under UN Principles for Responsible Investment (PRI) Initiative (individual RI approaches, “ESG”)
- Dedicated firms and networks: Global Impact Investing Network

2010s

- Investors organize to promote accounting for sustainability and materiality reporting – International Integrated Reporting Council (2010), Sustainability Accounting Standards Board (SASB)
- “Mainstreaming” of ESG data – Bloomberg ESG
- Asset managers increasingly subject to RI/ESG commitment/capability assessments (UNPRI, Mercer ESG Ratings)



# RESPONSIBLE INVESTING (RI) IS A GROWING MARKET

**\$21.4T**

Assets in ESG strategies globally as of early 2014<sup>1</sup>

**61%**

Growth rate of RI assets globally, 2012-2014<sup>1</sup>

**60%**

TIAA participants surveyed interested in funds that incorporate ESG<sup>2</sup>

## Motivations for Responsible Investing

Values alignment

Competitive advantage

Risk management

Reputational advantage

Fiduciary duty

<sup>1</sup> [2014 Global Sustainable Investment Review](#), Global Sustainable Investment Alliance.

<sup>2</sup> [Greenberg Quinlen Rosner Research on behalf of TIAA-CREF. Phone survey of 751 TIAA-CREF retirement plan participants, December 2013-January 2014. \\$6.7 trillion RI assets in the US as of early 2014, 76% growth rate of RI assets in the US, 2012-2014, GSIR Review, 2014](#)



# KEY TRENDS THAT WILL DRIVE FURTHER CLIENT INTEREST AND GROWTH

RI principles are permeating across the entire asset management industry – beyond just SRI funds

Key regulatory gatekeepers are evolving their viewpoints on the relevance of including ESG factors within investment decision-making – i.e. October 2015 DOL Guidance

Global attention on prominent sustainability challenges – water, carbon, gender – is driving client demand for new investment products, and clients are asking for more evidence of positive social & environmental outcomes from SRI funds

The launch of more portfolio-level tools are giving individual investors greater ability to scrutinize their investment options on ESG performance than ever before (i.e. Morningstar Sustainability Ratings, MSCI ESG Ratings)

Demand from affluent, millennial and women investors is on the rise





# GROWTH OF ESG INTEGRATION

Although negative / exclusionary screening still dominates, ESG integration represented the largest increase (117%) in terms of AUM from 2012-2014 globally

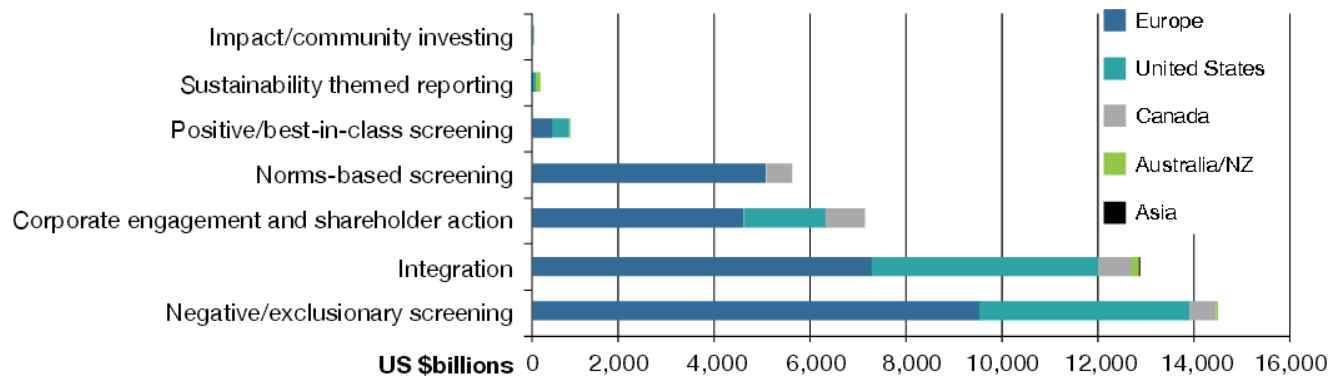
**300% rise in ESG integration AUM in US:** \$4.7 billion in 2014 vs. \$1.2 billion in 2012

Client demand, returns, and risk management serve as demand drivers for ESG incorporation based on surveys from PRI, USSIF, PWC and others

**Fig. 2.12: Reasons Managers Report Incorporating ESG Factors**

Reason	Total	% of Managers Responding
Client Demand	95	80%
Mission	92	77%
Returns	90	76%
Risk Management	87	73%
Social Benefit	82	69%
Fiduciary Duty	74	62%
Regulatory Compliance	33	28%
<b>Total Responding</b>	<b>119</b>	

**Figure 2: SRI Assets by Strategy and Region**

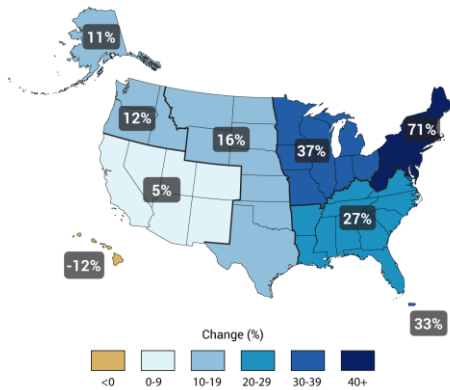


# THE RISE OF CARBON AS AN INVESTMENT THEME

## Driving Factors

Evidence of climate change impacts

Observed Change in Very Heavy Precipitation



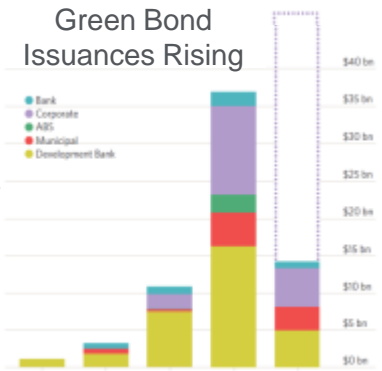
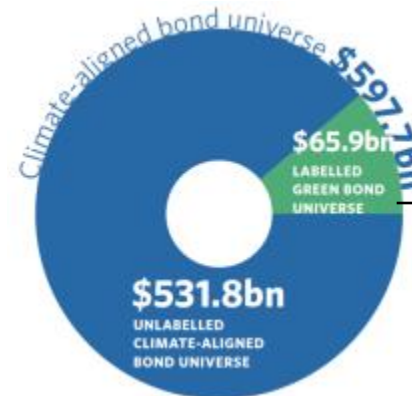
Source: [Global Change 2014](#)

Current and future carbon regulation



## Market Responses

Investments supporting the transition to a low carbon economy



Source: [Climate Bonds Initiative, Bonds and Climate Change 2015](#). All data as of June 1, 2015

Fossil fuel divestment/reinvestment campaigns



# DOL GUIDANCE UPDATE

## The new RI guidance: key points to remember

DOL's longstanding position: a "fiduciary may not use plan assets to promote social, environmental, or other public policy causes at the expense of the financial interests of the plan's participants and beneficiaries."

Responsible Investments are not "inherently suspect"

Environmental, social and governance (ESG) factors can be integral parts of the economic analysis performed by plan fiduciaries when considering any investment.

[A Cure for the "Cooties": New DOL Guidance Encourages More Retirement Plans to Offer Responsible Investing Options](#)

Derek Dorn, Vice President, Associate General Counsel and Head of Public Policy TIAA



# MORNINGSTAR SUSTAINABILITY RATING <sup>TM</sup>

- Morningstar teamed up with Sustainalytics who is a global leader in ESG research and analysis to provide investors the tools they need to better understand the sustainability characteristics of their portfolio.
- Morningstar is seeking to fill an information gap in what they viewed as “a lack of information and tools that investors can use to help evaluate investments on a sustainability basis, particularly at the portfolio level.”\*
- The Morningstar Sustainability Rating <sup>TM</sup> is a measure of how well the holdings in a portfolio are managing their
  - **E**nvironmental
  - **S**ocial
  - **G**overnancerisks and opportunities relative to their Morningstar Category peers.

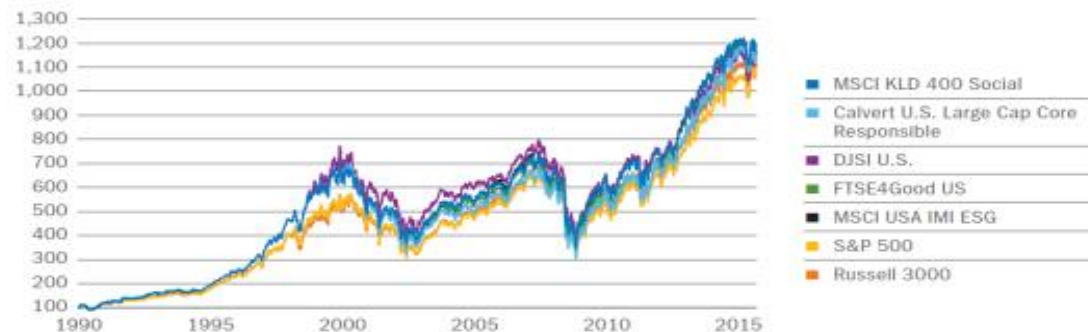


# DOES RESPONSIBLE INVESTMENT COMPROMISE PERFORMANCE?

**Conclusion:** Our analysis found little difference in RI index returns compared to the two broad market benchmarks. In other words, RI can achieve comparable performance over the long term without additional risk, despite using a smaller universe of securities meeting ESG criteria.

Exhibit 1: Comparing returns of RI indexes and broad market indexes

Cumulative returns: Five U.S. RI indexes vs. S&P 500 and Russell 3000 indexes



Data through 12/31/15. Series indexed to 100, inception dates: S&P 500, Russell 3000, and MSCI KLD 400 Social, 5/4/1990; DJSI U.S., 1/1/1999; Calvert U.S. Large Cap Core Responsible, 4/28/2000; MSCI USA IMI ESG, 12/22/2000; and FTSE4Good US, 1/3/2003. MSCI Indexes include aggregated, multisource histories prior to acquisition on 9/1/2010. It is not possible to invest in an Index. Performance for indices does not reflect investment fees or transactions costs.

Exhibit 2: RI index returns were comparable to broad market indexes

Index average annual returns (as of 12/31/2015)	■ Top performer ■ Bottom performer			
	1 Yr	3 Yr	5 Yr	10 Yr
MSCI USA IMI ESG	-1.56%	13.90%	11.11%	6.82%
MSCI KLD 400 Social	0.94%	15.72%	12.26%	7.22%
Calvert U.S. Large Cap Core Responsible	1.44%	16.47%	13.31%	7.49%
FTSE4Good US	2.14%	16.61%	13.39%	7.37%
DJSI U.S.	-1.17%	13.53%	10.60%	6.05%
Range top/bottom performer	3.70%	3.08%	2.79%	1.44%
S&P 500	1.38%	15.13%	12.57%	7.31%
Russell 3000	0.48%	14.74%	12.18%	7.35%

Based on daily returns for periods ending 12/31/15.  
Sources: FactSet, Morningstar, MSCI, and TIAA



# DEMAND FROM MILLENNIALS AND WOMEN INVESTORS



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

- 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
- 71% of Millennials and 67% of women under 50 were unfamiliar with SRI options vs. 61% of respondents overall

[Greenberg Quinlen Rosner Research on behalf of TIAA-CREF. Phone survey of 751 TIAA-CREF retirement plan participants, December 2013-January 2014](#)

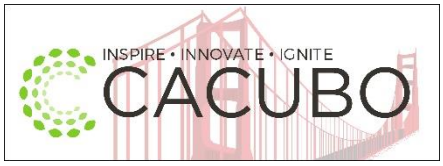


# DEMAND FROM AFFLUENT AND MILLENNIAL INVESTORS

Millennial investors are more likely to say the following environmental attitudes closely describe them

Social responsibility matters to affluent investors	Millennial	Non-Millennial
<ul style="list-style-type: none"> <li>Millennials are more likely (90%) to be interested in RI than other generations (73%).</li> </ul>	90%	73%
<ul style="list-style-type: none"> <li>73% want to work for an employer that makes a positive social impact.</li> </ul>	91%	68%
<ul style="list-style-type: none"> <li>76% would like their investments to deliver competitive returns while also promoting positive social and environmental outcomes.</li> </ul>	88%	67%
	86%	66%
	86%	55%
	82%	54%
	81%	42%
	76%	42%

Source: [Second Annual Practice Management Study, Responsible Investment: Advisor and investor interest is rising. However old myths still exist., TIAA Global Asset Management, 2016](#)





# INSIGHTS FROM INVESTORS

Major obstacle to participants investing in SRI funds is their lack of familiarity with options. 61% of those not invested in SRI funds were unfamiliar with fund options available; 71% for those under 35

Advisors have an opportunity to engage and educate millennials, especially around the framework of responsible investing, in order for them to incorporate their personal interests into their investment decisions

Retirement Plans: 66% of participants whose workplace retirement plan includes RI options express high satisfaction with their plan

Better perceived potential for investments: 72% of individual investors believe good ESG practices can lead to higher profitability and are better long-term investments

Critical component to decision making: 50% of high net worth investors consider social and environmental impact an important part of investment decision making

1 [Greenberg Quinlen Rosner Research on behalf of TIAA-CREF. Phone survey of 751 TIAA-CREF retirement plan participants, December 2013-January 2014](#)

2 [Proving Worth: The Value of Affluent Millennials in North America, Oppenheimer Funds/Campden Wealth Research 2015](#)

3 [8 Acre Perspective on behalf of Calvert Investments, August 2015](#)

4 [Morgan Stanley Institute for Responsible Investing, Sustainable Signals, February 2015](#)

5 [2014 U.S. Trust Insights on Wealth and Worth@, ustrust.com/survey](#)





THANK YOU



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To measure the efficacy of RI strategies versus the broad market, we compared risk and return measures of RI indexes to appropriate benchmarks. We selected indexes with track records of at least 10 years. We focused on RI equity strategies because indexes with longer-term track records are readily available and represent the bulk of RI assets. Our data came from FactSet Research Systems Inc., Morningstar, Inc., and MSCI Inc. and consisted of the daily, weekly and monthly total returns (gross of fees) for five widely followed U.S. RI indexes and the S&P 500 and Russell 3000 indexes. The analysis showed that differences were more likely the result of random variation, rather than systematic causes. We calculated t-statistics to determine if there was a difference in mean returns, pairing an RI index with either S&P 500 or Russell 3000 index as appropriate. We assumed the two samples were independent, approximately normally distributed, and drawn from a population with the same underlying variance. We also calculated an F-distribution to test if return variances were the same. Analysis was for the period beginning when weekly performance data was first available for each RI index through 12/31/15.

Investments in Responsible Investment Funds are subject to the risk that because social criteria exclude securities of certain issuers for non-financial reasons, investors may forgo some market opportunities available to those that don't use these criteria.

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