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.

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**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 measurable social or environmental benefits.

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**CACUBO**
ESG-focused/SRI fund options are diverse

**Best-in-Class (Leadership)**
Favor companies with the best ESG performance within a particular sector or industry group.

**Exclusionary**
Avoid companies based on controversial business involvement or operations (i.e. product, country).

**Positive (Impact)**
Intentionally target investments with measureable social or environmental benefits.

**Thematic**
Design company selection process to emphasize specific issues (i.e. climate change, equality).

**ESG Integration**
Explicit inclusion of ESG risks and opportunity factors within fundamental research and portfolio construction.
14% of NACUBO-Commonfund Study of Endowments® (NCSE) participants said they seek to include 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.

Among those who have implemented impact investing programs:

86% of investors said they don’t expect to sacrifice returns with impact investing.

Felt investments aligned with mission

Rationale for impact investing

- 31%: Constituent encouragement
- 25%: Board/Committee like approach’s risk-adjusted returns
- 6%: Other

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:

<table>
<thead>
<tr>
<th>Plan Sponsor</th>
<th>Type of Divestment</th>
<th>Decline Divestment</th>
</tr>
</thead>
<tbody>
<tr>
<td>CITY UNIVERSITY OF NEW YORK</td>
<td></td>
<td>x</td>
</tr>
<tr>
<td>CORNELL UNIVERSITY</td>
<td></td>
<td>x</td>
</tr>
<tr>
<td>GEORGETOWN UNIVERSITY</td>
<td>Partial</td>
<td></td>
</tr>
<tr>
<td>NYU</td>
<td></td>
<td>x</td>
</tr>
<tr>
<td>STANFORD UNIVERSITY</td>
<td>Coal only</td>
<td></td>
</tr>
<tr>
<td>SYRACUSE UNIVERSITY</td>
<td>Full</td>
<td></td>
</tr>
<tr>
<td>THE NEW SCHOOL</td>
<td>Full</td>
<td></td>
</tr>
<tr>
<td>UNIVERSITY OF DAYTON</td>
<td>Full</td>
<td></td>
</tr>
<tr>
<td>UNIVERSITY OF MAINE SYSTEM</td>
<td>Coal only</td>
<td></td>
</tr>
<tr>
<td>UNIVERSITY OF MASSACHUSETTS</td>
<td>Coal only</td>
<td></td>
</tr>
<tr>
<td>UNIVERSITY OF MICHIGAN</td>
<td></td>
<td>x</td>
</tr>
<tr>
<td>UNIVERSITY OF VERMONT</td>
<td></td>
<td>x</td>
</tr>
<tr>
<td>UNIVERSITY OF WASHINGTON</td>
<td>Coal only</td>
<td></td>
</tr>
<tr>
<td>YALE UNIVERSITY</td>
<td>Partial</td>
<td></td>
</tr>
</tbody>
</table>

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.¹

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

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 61% 60%

Assets in ESG strategies globally as of early 2014¹

Growth rate of RI assets globally, 2012-2014¹

TIAA participants surveyed interested in funds that incorporate ESG²

Motivations for Responsible Investing

Values alignment
Competitive advantage
Risk management
Reputational advantage
Fiduciary duty

¹ 2014 Global Sustainable Investment Review, Global Sustainable Investment Alliance.

### Key Trends that will drive further client interest and growth

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

<table>
<thead>
<tr>
<th>Key regulatory gatekeepers are evolving their viewpoints on the relevance of including ESG factors within investment decision-making – i.e. October 2015 DOL Guidance</th>
</tr>
</thead>
<tbody>
<tr>
<td>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 &amp; environmental outcomes from SRI funds.</td>
</tr>
<tr>
<td>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)</td>
</tr>
<tr>
<td>Demand from affluent, millennial and women investors is on the rise</td>
</tr>
</tbody>
</table>
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.

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**Table: Reasons Managers Report Incorporating ESG Factors**

<table>
<thead>
<tr>
<th>Reason</th>
<th>Total</th>
<th>% of Managers Responding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Client Demand</td>
<td>95</td>
<td>80%</td>
</tr>
<tr>
<td>Mission</td>
<td>92</td>
<td>77%</td>
</tr>
<tr>
<td>Returns</td>
<td>90</td>
<td>76%</td>
</tr>
<tr>
<td>Risk Management</td>
<td>87</td>
<td>73%</td>
</tr>
<tr>
<td>Social Benefit</td>
<td>82</td>
<td>69%</td>
</tr>
<tr>
<td>Fiduciary Duty</td>
<td>74</td>
<td>62%</td>
</tr>
<tr>
<td>Regulatory Compliance</td>
<td>33</td>
<td>28%</td>
</tr>
<tr>
<td><strong>Total Responding</strong></td>
<td>119</td>
<td></td>
</tr>
</tbody>
</table>
**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**
  - Source: [Climate Bonds Initiative, Bonds and Climate Change 2015](#)

### Market Responses

- **Investments supporting the transition to a low carbon economy**
  - Green Bond Issuances Rising
  - Source: [Climate Bonds Initiative, Bonds and Climate Change 2015](#), All data as of June 1, 2015

- **Fossil fuel divestment/reinvestment campaigns**
  - Source: [Climate Bonds Initiative, Bonds and Climate Change 2015](#)
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™

- 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™ is a measure of how well the holdings in a portfolio are managing their
  - Environmental
  - Social
  - Governance
  risks and opportunities relative to their Morningstar Category peers.
**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.
DEMAND FROM MILLENNIALS AND WOMEN INVESTORS

- 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

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

Greenberg Quinlan 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

<table>
<thead>
<tr>
<th>Social responsibility matters to affluent investors</th>
<th>Millennial</th>
<th>Non-Millennial</th>
</tr>
</thead>
<tbody>
<tr>
<td>Millennials are more likely (90%) to be interested in RI than other generations (73%).</td>
<td></td>
<td></td>
</tr>
<tr>
<td>73% want to work for an employer that makes a positive social impact.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>76% would like their investments to deliver competitive returns while also promoting positive social and environmental outcomes.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| I'd like my investments to deliver competitive returns while promoting positive social and environmental outcomes | 90% | 73% |
| I'd like to work for an employer that makes a positive social impact on the world | 91% | 68% |
| I prefer to use reusable bags, rather than paper or plastic, because it is more environmentally sustainable | 88% | 67% |
| I'd like to work for an employer that makes a positive environmental impact on the world | 86% | 66% |
| I prefer to shop for brands that have environmentally sustainable business practices | 86% | 55% |
| I grew up learning to care for the environment from TV shows, books and my parents | 82% | 54% |
| I check labels for sustainability packaging claims at the grocery store before buying a product | 81% | 42% |
| I care more about having a positive impact on society than doing well financially | 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

<table>
<thead>
<tr>
<th>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</th>
</tr>
</thead>
<tbody>
<tr>
<td>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</td>
</tr>
<tr>
<td>Retirement Plans: 66% of participants whose workplace retirement plan includes RI options express high satisfaction with their plan</td>
</tr>
<tr>
<td>Better perceived potential for investments: 72% of individual investors believe good ESG practices can lead to higher profitability and are better long-term investments</td>
</tr>
<tr>
<td>Critical component to decision making: 50% of high net worth investors consider social and environmental impact an important part of investment decision making</td>
</tr>
</tbody>
</table>

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](#)
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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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