Separate Account Managers in Sustainable and Responsible Investing

TIAA-CREF Social Choice Fixed Income

About This Strategy

Assets Under Management (AUM): $94M (in US$ millions)

Required Minimum: $50 million

Benchmark used: Barclays Capital US Aggregate Bond

Strategy type: Bond (Fixed Income)

Strategy description: The TIAA-CREF Social Choice Bond Fixed Income Strategy reflects TIAA-CREF’s historical commitment to responsible investing. We believe our approach embodies our clients’ values and is consistent with our nonprofit heritage. The TIAA-CREF Social Choice Fixed Income Strategy’s underlying philosophy is to provide the potential for competitive fixed income investment returns while offering investors an opportunity to align their portfolios with their values. Benchmarked to the Barclays U.S Aggregate Bond Index, the Strategy is a core fixed-income offering designed to provide broad exposure while giving special consideration to certain Environmental, Social, and Governance (ESG) criteria. This actively managed strategy focuses primarily on undervalued, investment-grade securities and seeks to add value through duration and yield-curve positioning, sector allocation and security selection including proactive social investments. We draw on the experience of our portfolio managers and senior investment professionals to assess portfolio positioning and relative value across sectors and on the strength of our credit and structured credit research teams to identify undervalued securities within sectors and industries. Portfolio construction includes both a top down asset allocation overlay and bottom up fundamental analysis for individual security selection. The broader asset allocation goals are determined by the Lead Portfolio Manager with input from the Sector Portfolio Managers taking the following into consideration: macro-economic analysis, relative valuations and fundamental developments within each sector, spreads and credit trends along with supply and demand factors. Helping to frame the Lead and Sector Portfolio Managers’ thought processes are risk analytics reports that compare the portfolio’s positioning versus the benchmark. Security selection is determined through a detailed, bottom-up company analysis, taking into account not only fundamentals, but also issuer/issue liquidity, capital structure placement, and relative value along the issuer’s credit curve. The Strategy’s corporate holdings, as well as some agency and sovereign securities, are comprehensively screened to evaluate the environmental, social and governance (ESG) records of their issuers. Additionally, the Strategy has a10% target for proactive social investments (PSI) that target companies and/or individual projects that provide a direct social benefit. TIAA-CREF defines a PSI investment as providing a double bottom line of competitive risk-adjusted returns, alongside clear social and environmental benefits and outcomes. These investments are made in public fixed income securities including agency debt, asset-backed securities (ABS), commercial mortgage-backed securities (CMBS), corporate bonds, mortgage-backed securities (MBS) and municipal bonds. 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. It is critical to note that once a PSI investment opportunity has been identified, it is subjected to the same relative value framework as all other potential investments. TIAA-CREF’s fixed-income proactive social investment (PSI) framework is a significant differentiating feature of our Social Choice Funds (Social Choice Account, Social Choice Bond). The PSI framework is a proprietary strategy that was initially developed in partnership between TIAA-CREF’s Global Social & Community Investing Department and TIAA-CREF Global Public Markets Team in 2007, and subsequently updated in 2012.

Strategy web link: External Link

About The Company

Institution Name:
TIAA-CREF Asset Management

**Approach to Sustainable & Responsible Investment:** TIAA-CREF Asset Management is responsible for portfolio management of approximately $502 billion in total assets under management as of December 31, 2012 (both active and quantitative), research and trading within the derivatives, equity, fixed income and real estate markets. The division is focused on delivering tailored investment solutions to its client segment. TIAA-CREF Asset Management has 327 staff members (as of December 31, 2012) located in New York City, Charlotte, NC, San Francisco, Newport Beach, CA, Boston and London. Our aim is to provide consistent, positive risk-adjusted performance that meets your long-term investment objectives. TIAA-CREF Asset Management’s investment philosophy is grounded in our heritage of nonprofit values and reflects a sustained commitment to put our clients’ interests first and foremost. Across the full breadth of our equity, fixed income, and real estate investments that we manage, we apply four basic principles, which include: 1) pure and consistent exposure across the various asset types of investments that we make, to ensure that investment portfolios do not drift from their mandate and leave clients potentially at odds with their intended strategy; 2) close management of costs to allow our clients to most effectively reach their savings and investment goals; 3) disciplined active management primarily based on intensive, company or investment-specific bottom-up analysis; and 4) an emphasis on asset allocation and diversification, frequent rebalancing of risks, and comprehensive risk management.

TIAA-CREF has a historical commitment to Socially Responsible Investing (SRI) encompassing three key approaches: social screening, community investing, and corporate engagement, which we believe embody our clients’ values and are consistent with our nonprofit heritage. In line with that commitment, the TIAA-CREF Global Social and Community Investing Department was formed in July 2006 as a unit within Asset Management to increase the Investment Management area’s focus on several aspects of socially responsible investing. Led by Amy O’Brien, the department works closely with other parts of Investment Management to enhance our existing socially responsible funds (e.g., CREF Social Choice Account), develop new socially responsible investment options, and implement a series of social investment programs in the thematic areas of Affordable Housing, Inclusive Finance, and Community & Economic Development. The department also supports TIAA-CREF Asset Management, the Executive Management team and Trustees on emerging environmental, social, and governance (ESG) issues and their possible impact on asset management.

**Research conducted:** Both internally and externally

**Researcher name:** Global Social and Community Investing Department

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**Specific Screening Information by Category**

**Environment**

- **Climate / Clean Technology:** *Positive Investment* - The ESG assessment process favors companies that show leadership in ESG performance relative to sector peers in climate-related areas such as reducing carbon emissions, improving energy efficiency, reducing product carbon footprint, and exploring environmental opportunities in clean tech, green building, and renewable energy. A best-in-class balanced approach is applied. When ESG concerns exist, the evaluation process gives careful consideration to how companies address the risks and opportunities they face in the context of their industry and relative to their peers. Concerns in one area do not automatically eliminate an issuer from being an eligible fund investment.

- **Pollution / Toxics:** *Positive Investment* - The ESG assessment process favors companies that show leadership in ESG performance relative to sector peers with regards to programs and policies that reduce or control toxic emissions and waste, packaging material waste, and electronic waste. A best-in-class balanced approach is applied. When ESG concerns exist, the evaluation process gives careful consideration to how companies address the risks and opportunities they face in the context of their industry and relative to their peers. Concerns in one area do not automatically eliminate an issuer from being an eligible fund investment.

- **Other Environmental:** *Positive Investment* - The ESG assessment process favors companies that show leadership in ESG performance relative to sector peers in other environment-relevant themes such as Water Stress, Biodiversity and Land Use, and Raw Material Sourcing. A best-in-class balanced approach is applied. When ESG concerns exist, the evaluation process gives careful consideration to how companies address the risks and opportunities they face in the context of their industry and relative to their peers. Concerns in one area do not
automatically eliminate an issuer from being an eligible fund investment.

Social

- **Community Development**: *Positive Investment* - The ESG assessment process favors companies that show leadership in ESG performance relative to sector peers with regards to the extent that company business activities and initiatives support communities by developing infrastructure and capabilities that promote access to products or services in underserved communities, particularly in the areas of: access to communications, access to healthcare, and access to finance. A best â€”in-class balanced approach is applied. When ESG concerns exist, the evaluation process gives careful consideration to how companies address the risks and opportunities they face in the context of their industry and relative to their peers. Concerns in one area do not automatically eliminate an issuer from being an eligible fund investment.

- **Diversity & Equal Employment Opportunity**: *Positive Investment* - The ESG assessment process favors companies that show leadership in ESG performance relative to sector peers in areas related to human capital development, which includes considerations of discrimination and workforce diversity, in addition to other factors such as employee compensation and benefits, and professional development. A best â€”in-class balanced approach is applied. When ESG concerns exist, the evaluation process gives careful consideration to how companies address the risks and opportunities they face in the context of their industry and relative to their peers. Concerns in one area do not automatically eliminate an issuer from being an eligible fund investment.

- **Human Rights**: *Positive Investment* - The ESG assessment process favors companies that show leadership in ESG performance relative to sector peers with regards to policies and practices in place to monitor and mitigate human rights abuses within the supply chain. A best â€”in-class balanced approach is applied. When ESG concerns exist, the evaluation process gives careful consideration to how companies address the risks and opportunities they face in the context of their industry and relative to their peers. Concerns in one area do not automatically eliminate an issuer from being an eligible fund investment.

- **Labor Relations**: *Positive Investment* - The ESG assessment process favors companies that show leadership in ESG performance relative to sector peers in areas of labor management that consider union relations, employee health and safety, compensation and benefits, and professional development. A best â€”in-class balanced approach is applied. When ESG concerns exist, the evaluation process gives careful consideration to how companies address the risks and opportunities they face in the context of their industry and relative to their peers. Concerns in one area do not automatically eliminate an issuer from being an eligible fund investment.

- **Conflict Risk**: *No Investment*

Governance

- **Board Issues**: *Positive Investment* - The ESG assessment process favors companies that show leadership in ESG performance relative to sector peers in Corporate Governance areas that consider board issues such as board independence, board diversity, policies related to corruption or ethical conduct of business, transparency in reporting, compensation/renumeration, and shareholder rights. A best â€”in-class balanced approach is applied. When ESG concerns exist, the evaluation process gives careful consideration to how companies address the risks and opportunities they face in the context of their industry and relative to their peers. Concerns in one area do not automatically eliminate an issuer from being an eligible fund investment.

- **Executive Pay**: *Positive Investment* - While there is no explicit stand-alone indicator for Executive Pay, the ESG assessment process favors companies that show leadership in ESG performance relative to sector peers in Corporate Governance areas that includes considerations of compensation/renumeration among other factors. A best â€”in-class balanced approach is applied. When ESG concerns exist, the evaluation process gives careful consideration to how companies address the risks and opportunities they face in the context of their industry and relative to their peers. Concerns in one area do not automatically eliminate an issuer from being an eligible fund investment.

Products

- **Alcohol**: *Restricted/Exclusionary Investment* - The social and environmental impact of corporate activities related to the production and sale of alcohol are quantified and incorporated into a companyâ€™s overall ESG performance assessment. While not automatically excluded from the strategy, most companiesâ€™ involved in the Alcohol industry are ineligible for investment due to their poor overall ESG performance.

- **Animal Welfare**: *No Screens* - While not part of the core strategy, we have the capability to develop additional exclusions for involvement in animal welfare.

- **Defense/Weapons**: *Restricted/Exclusionary Investment* - The social and environmental impact of corporate activities related to the production and sale of weapons (including both civilian and military weapons) are quantified and incorporated into a companyâ€™s overall ESG performance assessment. While not automatically excluded from the strategy, most companiesâ€™ involved in the Defense/Weapons industry are ineligible for investment due to their poor overall ESG performance.
- **Gambling: Restricted/Exclusionary Investment** - The social and environmental impact of corporate activities related to the production and sale of gambling products/services are quantified and incorporated into a company’s overall ESG performance assessment. While not automatically excluded from the strategy, most companies involved in the Gambling industry are ineligible for investment due to their poor overall ESG performance.

- **Tobacco: Restricted/Exclusionary Investment** - The social and environmental impact of corporate activities related to the production and sale of tobacco are quantified and incorporated into a company’s overall ESG performance assessment. While not automatically excluded from the strategy, most companies involved in the Tobacco industry are ineligible for investment due to their poor overall ESG performance.

**Other**

- **Other/Qualitative:** While not part of the core strategy, we have the capability to develop additional exclusions for involvement in the following issues: Abortion and Contraceptives, Adult Entertainment, Animal Welfare, Diversity, Genetic Engineering, Nuclear Power, Pork, Predatory Lending, Stem Cell

- **Shareholder Engagement - Shareholder Resolutions:** Filed or co-filed with companies on environmental, social or governance issues

- **Shareholder Engagement - Private Dialogue:** Conducted with companies on environmental, social or governance issues

- **Proxy Voting:** Actively voted by my institution for this investment strategy in support of environmental, social or governance issues in accordance with formal guidelines

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