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Views from the
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Building a resilient general account portfolio

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Neither Emilia Wiener nor any other member of the TIAA General Account team are involved in portfolio management decisions for any third-party Nuveen strategies.

What does portfolio resiliency mean to the General Account (GA)?

Resiliency means constructing an investment portfolio designed to withstand a broad range of market environments. The GA needs to be an all-weather portfolio enabling TIAA to meet its obligations. Specifically, the GA is a long-dated, liability-driven portfolio and our investment strategies reflect the nature of our liabilities.

How is your asset allocation designed to meet those liabilities?

Our foundation is maintaining a long-term asset allocation guideline of around 85% fixed income and 15% non-fixed income assets. Our fixed income holdings of mostly investment grade bonds are designed to provide a measure of liquidity, steady, recurring income streams while maintaining as long a duration profile as possible.

The other 15% allows us to diversify our income sources by including investments such as real estate equity, real assets and private equity that have low correlations to fixed income. These allocations support capital creation and higher overall returns in the portfolio than investing in fixed income alone.

How does the GA position itself to navigate potential downturns in the markets?

Our long-term strategic asset allocation objectives should allow us to meet our target returns across a wide range of market environments, but we also work to defensively position our portfolio in the event market conditions change.

For example, we have favored private credit with strong covenant protections and demonstrated higher recovery rates in the event of default. Floating-rate asset classes like loans also help, benefiting from higher-for-longer rates. Alternatives and real assets, like infrastructure, real estate, timber and farmland, offer some inflation protection.

We are also disciplined with risk limits, which mitigates concentration risks. For example, our non-U.S. investments are diversified across industry sectors and geographies, with relatively granular exposures to individual credits.

When used properly, investing in private assets can help reduce surplus volatility for insurance company General Accounts. For example, quarterly valuations of private assets, like private equity, tend to have less observable volatility compared with publicly traded counterparts. However, we're mindful that less observable volatility does not mean less economic volatility, so tracking and monitoring these investments are important.

We're also highly focused on proactively managing credit exposures to minimize the impact of adverse rating migrations, which builds resilience in the portfolio. We view the General Account as a living and breathing entity, which must be tended to continually.

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How has the higher interest rate environment affected how you think about portfolio resiliency?

In many ways, it doesn't. Creating a resilient portfolio means having the right risk management discipline and maintaining appropriate levels of surplus/capital. If we are disciplined about our overall asset allocation, proactive management of exposures and risk management, these practices should translate into the sort of resilience we need to manage through the different market environments — regardless of prevailing level of rates.

That said, higher for longer is a welcome change from the nearly 15-year period of lower for longer. We are able to replace portfolio run-off with higher all-in rates, rebuilding the income generating capacity of the portfolio and helping to address our asset-liability matching needs.

How does the GA ensure that it can deliver income over the medium to long-term when inflationary forces are difficult to assess so far in advance?

Building resilience means including asset strategies with valuations that are likely to rise during higher inflation periods. For example, we invest in real estate and real assets, as they tend to provide a natural inflation hedge. These are tangible assets with intrinsic value that hold up well in inflationary periods.

They also generate income, which can often be adjusted periodically to keep pace with inflation. Most commercial real estate leases, for example, have built-in rental increases, and apartment leases constantly reset to market pricing, allowing the ability to respond to higher price levels. They have the potential to appreciate in value as the replacement cost of these assets also increases when construction, labor and materials costs rise.

The limited supply of essential real assets, such as agriculture and timberland, can drive up prices. As land values go up, our lease rates go up. And as they produce food and fiber commodities that feed the economy, the assets and their income streams quickly benefit from inflation.

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Debt or fixed income securities are subject to market risk, credit risk, interest rate risk, call risk, tax risk, political and economic risk, and income risk. As interest rates rise, bond prices fall. Credit risk refers to an issuer's ability to make interest payments when due. Below investment grade or high yield debt securities are subject to liquidity risk and heightened credit risk. Non-U.S. investments involve risks such as currency fluctuation, political and economic instability, lack of liquidity and differing legal and accounting standards. These risks are magnified in emerging markets. It is important to review your investment objectives, risk tolerance and liquidity needs before choosing an investment style or manager.

Alternative Investments – Investors should be aware that alternative investments including private equity and private debt are speculative, subject to substantial risks including the risks associated with limited liquidity, the potential use of leverage, potential short sales and concentrated investments and may involve complex tax structures and investment strategies. Alternative investments may be illiquid, there may be no liquid secondary market or ready purchasers for such securities, they may not be required to provide periodic pricing or valuation information to investors, there may be delays in distributing tax information to investors, they are not subject to the same regulatory requirements as other types of pooled investment vehicles, and they may be subject to high fees and expenses, which will reduce profits.

Private equity and private debt investments, like alternative investments are not suitable for all investors given they are speculative, subject to substantial risks including the risks associated with limited liquidity, the potential use of leverage, potential short sales, concentrated investments and may involve complex tax structures and investment strategies.

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Economic and market forecasts are subject to uncertainty and may change based on varying market conditions, political and economic developments. As an asset class, real assets are less developed, more illiquid, and less transparent compared to traditional asset classes. Investments will be subject to risks generally associated with the ownership of real estate-related assets and foreign investing, including changes in economic conditions, currency values, environmental risks, the cost of and ability to obtain insurance, and risks related to leasing of properties.

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