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The insurance experience: perspectives on impact investing in institutional portfolios

Effective 15 January, 2022 Emilia Wiener succeeded Nick Liolis as Chief Investment Officer of the TIAA General Account. The content herein continues to reflect the views of TIAA, Nuveen and the TIAA General Account.

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TIAA's chief investment officer and Nuveen's head of responsible investing discuss how the General Account has built its targeted impact investing program while incorporating direct, measurable environmental and social goals across the portfolio.

Institutional investors are at varying stages of their journeys when it comes to generating social impacts and addressing climate change via their investments. European investors' collective leadership in these areas has been widely publicized, but differences exist across asset owner types as well.

Nuveen's 2022 EQuilibrium survey of institutional investors globally showed that insurance companies in every region surveyed are more focused on the environmental and social attributes of their investments than their corporate and government pension fund counterparts.

Survey findings: insurance companies are more focused on the environment and social impact themes than other institutional investor types

Source: Nuveen 2022 global institutional investor study

It's not surprising the insurers are more focused on the environment given that climate change and extreme weather events create physical threats that affect how insurers underwrite risk. It is noteworthy, however, that insurers also indicated the strongest commitment to generating social impacts, and to diversity, equity and inclusion (DE&I).

To learn more about how insurance companies are approaching impact investing, we spoke with Nick Liolis, the chief investment officer of TIAA's nearly $300 billion[1] General Account, and Amy O'Brien, the global head of responsible investing at TIAA's asset manager, Nuveen.

How does TIAA define impact investing?

Amy: In any discussion like this, defining impact investing is extremely important. While it has been called different things over the years, the concept of creating impact through investments has a long history and is still evolving. At TIAA and Nuveen, we define impact investing as investments that are made because they have an intentional, direct and measurable positive effect on environmental or social outcomes, in addition to generating a competitive risk-adjusted return.

Nick: There are questions across the asset management industry about how broadly or narrowly to define impact investing. Narrowly defined, impact investing refers to projects where the link between the investment and the positive social or environmental outcome is immediate and tangible. For example, think lending to an affordable housing project or private equity for a microfinance company to support female business owners growing their incomes and building wealth. According to this definition, TIAA's General Account has about $4 billion allocated to impact investments.[2]

In addition to our direct, intentional impact investment program, we realize that all our investments potentially have an impact on society and the environment. So while our entire portfolio is focused on achieving investment return targets, we are also developing ways to evaluate it through an impact lens. This will help us understand what the social and environmental effects may be and identify ways we can enhance the positive impact of our investments and help mitigate the negative impact.

Looking at our portfolios through a new lens has parallels to our climate risk work, based on our belief that climate change risk is investment risk. This process led to our net zero carbon commitment for the General Account by 2050.

How does TIAA's experience help explain why insurers in general tend to be more focused on impact investing than other types of asset owners?

Nick: As insurers and long-term investors, mitigating risk — in all its forms — is central to everything we do. When we think about impact investing, the primary consideration is enhancing the General Account's risk-adjusted returns and fulfilling our fiduciary responsibility. As investors, we believe that climate change and inequality are systemic risks to our portfolio and to the entire financial system. Investing in companies and assets that provide solutions to these problems can mitigate these risks and strengthen our portfolio. We also know that our impact investments have delivered very competitive returns historically and added diverse exposures to the General Account.

There are also regulatory considerations that have influenced our impact orientation. Insurance companies are heavily regulated at the state level in the U.S. Several large, populous states, namely California and New York, have been not only pushing insurance companies to report on the impact of their investments since the 1990s, but to rally the industry to pursue more social and environmental impact investment opportunities.

We also care a great deal about being a good corporate citizen, and I know that TIAA isn't alone in this regard among our peers. Insurance companies often are major employers with a vast number of clients, and they play a vital role in the functioning of the overall economy. Impact investing can help build a strong and resilient society, and that benefits everyone.

Finally, our increased focus on impact has been driven by our constituents. Many of the people we serve are teachers, professors and other professionals involved in the education system. Educators, in general, have been at the forefront of promoting responsible investing, in all its forms. Impact investing is a natural extension of our corporate ethos.

Amy: In addition to these considerations that oriented TIAA's General Account toward impact, the ideas that shaped our impact approach have come from across our organization. There wasn't just one person or group that was advocating for impact. We solicited ideas from TIAA's management and board, the General Account's investment committee, our asset management partners at Nuveen and our clients. It's truly been a collaborative effort.

How has TIAA's approach to impact investing changed over the past several decades?

Nick: Over the past 30 years, the TIAA General Account's impact investing has evolved from a small number of highly targeted investments to a full program that is managed by a dedicated team. The General Account's current, formal impact investing program is built on the success and learnings of various predecessor initiatives over the past several decades.

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When TIAA originally started its impact investing efforts in the late 1980s, much of it focused on domestic affordable housing. In 1998, we were one of six large insurance companies who came together to found IMPACT Community Capital to facilitate the supply of impact-focused investment opportunities that are appropriate for insurance companies' balance sheets, particularly related to affordable housing. In the early 2000s, we launched an initiative focused on financial inclusion in developing countries; this was our first impact investment program outside the U.S.

IMPACT Community Capital: TIAA's role as a founding member

In addition to impact investing in its General Account, TIAA has been a leading advocate for impact investing across the insurance industry. In 1998, TIAA partnered with several other leading U.S. insurance companies to form IMPACT Community Capital. The organization focuses on originating and managing permanent affordable housing mortgages for investors.

These programs were successful in terms of both performance and social impact, so TIAA started thinking about how to scale and expand these efforts around 2006. Also during this time, several key industry groups focused on impact investing were formed, including the Global Impact Investing Network (GIIN) where TIAA was a founding member. After several years of building up our impact capabilities across several initiatives, we launched the General Account's formal impact investing program in 2012. And we have continued to expand this program in terms of its breadth and the depth of our dedicated impact investing teams.

Formalizing our impact program involved creating a discrete allocation strategy dedicated to impact across three categories of investment: affordable housing, inclusive growth and resource effeciency. It also involved building a team dedicated to this allocation and establishing clear impact goals. Since this team and allocation were created, we've managed and evaluated our impact sleeve like we would any other asset class.

Amy: The decision to formalize and scale the General Account's impact efforts required lots of conversations with TIAA's management team and board over many years. As an organization, we had to get cohesion around how we would define impact investing and what the parameters of the program should be. Fortunately, we were able to point to the track record of our existing impact initiatives and use the lessons learned from years of experience to guide the discussions and shape the formal program.

The returns for the General Account's affordable housing and private equity investments have been in line with comparable investments. And the opportunity set of attractive impact investments has expanded dramatically.[3] In fact, the GIIN recently estimated that the worldwide impact investing market is now over $1T. This growing opportunity set makes it easier for us to scale our impact efforts more broadly.

Nick: Over the past decade, we've been focused on taking what we've learned in affordable housing and financial inclusion and applying it to different asset classes and across the capital stack. The General Account now has investments in farmland, timberland, infrastructure, public fixed income, private credit and a host of other asset classes that have measurable positive impacts. This is where having an investment partner like Nuveen is particularly helpful because it has a track record with impact investing, broad expertise across asset classes and strong measurement and reporting structures.

It took time to build our guidelines and figure out our processes for goal setting, screening, monitoring, reporting and many other capabilities that go into impact investing. And Nuveen's guidance has been hugely helpful in these areas. Now that the foundation is in place and we have a track record we can point to, we're focused on expanding those capabilities across all asset classes and capitalizing on the growing opportunity set.

What have TIAA's guiding principles been in determining your impact focus areas?

Amy: When it comes to impact investing, nothing happens without intentionality. We realized that we needed to identify specific areas of impact that aligned with TIAA's culture and Nuveen's investment capabilities — and then be laser-focused on those areas.

We started by looking at the overlap among global macro challenges, existing and well established asset classes in the General Account, the expertise across Nuveen and areas that presented attractive investment opportunities. On top of this, we did a lot of research with our constituents to find out what areas of impact were most meaningful to them.

The UN Sustainable Development Goals (SDGs) have been very helpful as we've refined the General Account's impact efforts and developed our reporting structures. There has been significant progress made in the asset management industry around measurement and management of impact. But variation does exist across the industry around the concept of "impact" and its nomenclature,

Case study: A community-centric approach to affordable housing in the U.S.

In a region where quality affordable housing is in short supply, the Villas at Langley apartment complex strives to offer individuals and families a place to live, pursue opportunities and build community. Located in Hyattsville, MD, just northeast of Washington, DC, the Villas' 590 affordable units offer easy access to employment centers, commercial areas, schools and public transportation.

Nuveen and the TIAA General Account committed $41.5 million in equity funding in April 2020 for this high-impact project through a partnership with real estate developer Jair Lynch.

Net impact score is a proprietary reporting tool that Nuveen developed to measure the positive and negative impact externalities of a private investment over its full lifecycle. This tool helps the TIAA General Account assess an investment's net social and environmental impact in terms of alignment with the UN SDGs.

Net Impact Score – The Villas at Langley

1 NO POVERTY	955 low-income tenants housed	+3
2 ZERO HUNGER	Distribute free fruits and vegetables in partnership with a local non-profit	+2
3 GOOD HEALTH AND WELL-BEING	An on-site non-profit provides health assistance and medical interpretations for residents	+2
4 QUALITY EDUCATION	Building a 21st century library on-site	+2
5 GENDER EQUALITY	>60% of tenants are women	+2
6 CLEAN WATER AND SANITATION	Water and energy efficiency improvement are underway	+1
7 AFFORDABLE AND CLEAN ENERGY	Building energy audit completed and energy efficiency improvement underway	+1
8 DECENT WORK AND ECONOMIC GROWTH	Employment placement for on-site improvements and other off-site opportunities	+2
10 REDUCED INEQUALITIES	19% discount to average market rents	+3
11 SUSTAINABLE CITIES AND COMMUNITIES	590 units of naturally occurring affordable housing, with 50% deeply affordable units (<60% AMI)	+3
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	Adopting and reporting on sustainability practices	+1
13 CLIMATE ACTION	Plans to reduce building carbon footprint and halve utility usage	+2
	NET IMPACT SCORE	24

Source: Nuveen. For further discussion of the net impact score and how it can be used in portfolio modeling, read Think impact investing: Optimizing for impact with private equity and real assets: A guide to integrating impact into financial analysis of alternative assets.

and challenges still remain in articulating how a company's impacts relate to global macro challenges. The SDGs are incredibly valuable in providing a common set of goals and common language to orient investors' efforts.

How do you handle impact investing from a portfolio construction perspective?

Nick: We treat our more narrowly defined impact investments, like affordable housing and impact private equity, as a carve out allocation in the General Account. Measurement and reporting are paramount with impact investing, and having a separate impact allocation gives us more clarity about the outcomes of those investments.

But when you broaden the lens, you realize the importance of considering the social and environmental impact of the entire portfolio and the social and environmental risks affecting all our investments. As we discussed earlier, we believe that climate change risk needs to be managed as an investment risk. Similarly, economic inequality, housing instability and the lack of financial inclusion in underserved communities are risks that we need to think about at the portfolio level too.

That is why we're expanding our impact lens across the General Account with a focus on inclusive growth. We believe that addressing inequality by providing access to resources and opportunities in underserved communities grows the economic pie for everyone. These dynamics, in turn, reduce risk across the portfolio and can uncover opportunities for creating a positive impact while meeting financial objectives.

What advice do you have for other insurers that are looking to start or scale their impact investment programs?

Amy: The most important thing is to just get started. There is a lot of groundwork that needs to be laid and lessons that need to be learned before you can start scaling your impact programs, so the sooner you get started building that track record, the better.

Fortunately, you don't have to go it alone in moving up this learning curve. You can build on the learnings of insurance companies and other asset owners with more established impact programs. It also helps to get involved with organizations such as the UN Principles for Responsible Investment (PRI), the Global Impact Investing Network (GIIN) and the Global Investors for Sustainable Development Alliance (GISD). And you can use the UN SDGs to help orient your conversations, focus your efforts and organize your reporting.

Nick: Look for areas where impact can be a natural extension of your existing investment strategies. Rather than trying to launch a standalone impact program, find an asset class or sector that is already a strength for you and your investment managers; then, apply an impact lens to those efforts. Nuveen's strength in real estate, private equity and fixed income made those obvious places for us to start.

Once you find those areas, be clear about what impact you're trying to achieve. Specific goals will be much more valuable in organizing your efforts than more general impact goals.

Finally, set high standards and keep them high. Hold your impact deals to rigorous standards, and don't compromise those standards just to put capital to work in something that checks an impact box. The opportunity set in impact investing continues to expand and become more attractive. Commit to doing the work to source and evaluate deals that deliver the financial returns as well as the social or environmental impacts you seek.

Hold your impact deals to rigorous standards, and don't compromise those standards just to put capital to work in something that checks an impact box.

How will impact investing continue to evolve over the next decade?

Nick: We expect that more asset owners will start thinking about impact across their entire portfolio, as we are working to do, in addition to continuing to grow their targeted impact programs.

Impact may follow a similar trajectory as environmental, social and governance (ESG) investing. A decade ago, many asset owners had siloed ESG initiatives; they weren't integrated into the broader portfolio. Today, more and more asset owners are treating ESG as another factor that is fully integrated into their overall investment decisions, regardless of asset class. It's possible that impact could follow a similar path and become another factor in all investment decisions. Our goal is to assess the impact opportunity set across all asset classes, building on the lessons we've learned in private equity, fixed income and real estate. This will involve creating an impact measurement framework and key performance indicators for each asset class and investment type in the General Account and investing in those asset classes with intentionality.

We also think that leading impact investors will start finding ways to play a bigger role in driving outcomes through their investments and doing more than just providing capital. For example, at TIAA, we believe that we are uniquely situated to make affordable housing projects more effective and impactful for underserved communities. These investments can go beyond just providing housing opportunities to also include ancillary resources such as affordable health care and quality education that can create vibrant and resilient communities.

The General Account's experience in real estate combined with Nuveen's expertise across both real estate debt and equity and the size of our real estate portfolio give us a valuable perspective on housing markets globally. We are focused on finding ways to drive the conversation about advancing and elevating affordable housing efforts around the world.

Amy: Given the magnitude of the social and environmental issues facing the world, the private sector will need to play a major role in providing capital to fund these efforts. According to the UN, \$3.3 trillion–\$4.5 trillion need to be mobilized each year to achieve the 2030 Agenda for Sustainable Development, so capital from institutional investors is needed to help fill this gap.

The good news is that the opportunities and financial rationale for impact investing are stronger than ever. We've seen in the TIAA General Account and across Nuveen's strategies that it's possible to achieve competitive risk-adjusted returns while having a direct, measurable and positive impact on social and environmental goals.

Case study: America's Thrift Stores—where profitability is directly tied to impact

Material waste from the fashion industry results in roughly 4% of global emissions* throughout the value chain, making clothing resale and reuse essential. America's Thrift Stores is a circular economy clothing company operating in the Southeastern United States, diverting more than 50M pounds of textile and home goods waste from landfills every year. The company is also a large employer of hourly workers and provides access to quality secondhand clothing at affordable rates to low income consumers.

Alignment with SDGS:

Key differentiators for America's Thrift Stores

- Data-driven company with financial incentives to find productive end markets for textile and household waste
- Customer base that demands transparency on social and environmental performance

Deal Dynamics	
Investment	$20M
Date of Investment	January 2022
Stage	Later stage equity
Georgraphy	Southeastern United States

*https://www.mckinsey.com/~/media/McKinsey/Industries/Retail/Our%20Insights/Fashion%20on%20climate/Fashion-on-climate-Full-report.pdf

TIAA and Nuveen: Partners in impact

Nuveen is the asset manager for TIAA, one of the world's most highly rated and financially stable insurance companies that provides retirement solutions for employees in the education, research, health care and other service industries in the U.S. Nuveen is responsible for managing investment portfolios for individual and institutional investors around the world, including the TIAA General Account and its participants.

Nuveen has been instrumental in advising on and implementing the impact program for TIAA's General Account. Nuveen offers a range of responsible investing products, which include ESG-integrated products, thematic products aligned with specific environmental and social issues and intentional impact investments — all of which are designed to have a market-rate financial return.

Highlights of Nuveen's impact capabilities:

- 30-year+ track record of achieving competitive, risk-adjusted returns through investments that contribute to a positive impact
- $10 billion+ deployed in impact strategies
- Founding participant of the International Finance Corporation's Operating Principles for Impact Management in 2020
- 2022 global fixed income report was named "Impact report of the year" by *Environmental Finance*
- Invested in groundbreaking impact bonds focused on water sustainability (blue bonds), gender equality (orange bonds), wildlife (rhino bonds) and COVID-19 relief bonds.
- Private markets impact portfolio invested on behalf of the TIAA General Account since 2012 and is now offered to third-party investors

Additional resources

Think EQuilibrium 2022 global institutional investor survey

TIAA's net zero carbon commitment

Think impact investing: Optimizing for impact with private equity and real assets: A guide to integrating impact into financial analysis of alternative assets

Nuveen impact and sustainability reports

- Farmland sustainability report
- Timberland sustainability report
- Agribusiness sustainability report
- Clean energy ESG report
- Natural capital sustainability report
- Global fixed income impact report
- Private markets impact report
- Real estate ESG report

Responsible investing organizations and publications

- Principles for Responsible Investment (PRI)
- Global Impact Investing Network (GIIN)
- Global Investors for Sustainable Development Alliance (GISD)
- United Nations 2030 Agenda for Sustainable Development
- IMPACT Community Capital
- International Finance Corporation's Operating Principles for Impact Management

For more information, visit nuveen.com.

Endnotes

1 As of June 30, 2022.

2 As of June 30, 2022.

3 https://www.nuveen.com/global/insights/alternatives/an-introduction-to-carbon-markets-for-land-based-investments

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