CACUBO Webinar Series on:

**ESG (Environmental, Social, and Governance) and Other Trends Impacting 403(b) Plans Today**

July 14, 2022

We will begin shortly. Thanks for joining!

***Please consider attending the CACUBO Annual Meeting on September 25-27 in St. Louis and the CACUBO Leadership Institute on August 8-9 in Kansas City. Registration and other information can be found on the CACUBO website. These events provide professional development opportunities for accountants, administrators and staff of all levels, in addition to providing CPE credits.***

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- This is the 22nd monthly webinar CACUBO has hosted since the pandemic began. Hard copies and recordings of these presentations can be found on the CACUBO website.
- Today, we will hear from panelists who will provide us an update on the utilization of ESG investments in 403(b) Plans as well as other topics impacting 403(b) Plans today.
- This webinar is eligible for CPE. If you are interested in receiving CPE credit for this webinar, please e-mail me (Marty Mickey) at mmickey@nl.edu now. During the webinar, there will be three check in questions for you to answer. **In order to receive CPE, you must answer all three of these questions.**
- We will send out a survey afterwards to solicit thoughts and topics for future webinars.
- If you would be willing to present in a future webinar, please e-mail me at mmickey@nl.edu.

# ESG and Other Trends Impacting 403(b) Plans Today

The Central Association of College and University Business Officers (CACUBO)
Thursday, July 14 – 1:00pm CT

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Nuveen

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TIAA

TIAA

# What is (and isn't) ESG and Why Does it Matter?

# Different names; similar goals

ESG
Sustainable Finance
Business Ethics
Community Investing
Responsible Investing
Microfinance
SRI
Program Related Investing
Mission Related Investing
Triple Bottom Line
Environmental
Place Based Investing
Governance
Social
Stewardship
Transparency
Impact Investing
Sustainability

# ESG has been an essential part of our history and future

## 1970s

<u>As a principle</u>

- Investors align around key social concerns (i.e. South Africa, Vietnam War)
- Pioneering institutions are created (IRRC, ICCR)

## 1980s

- Dedicated industry networks are formed (Ceres, USSIF)
- Increased emphasis on corporate governance and the environment

## 1990s

<u>As a product</u>

- Social indices launched & universe of funds expands
- Business case for sustainability and reporting

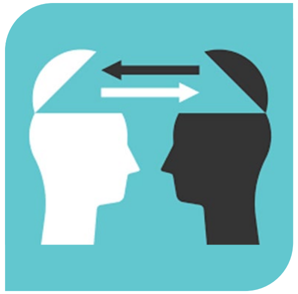
## 2000s

- Investor convergence on climate issues
- Global investor networks formed

## 2010s

<u>As a process</u>

- ESG approaches expand across asset classes
- Expansion of ESG data and reporting & greater focus on outcomes



## 2020s

- Greater emphasis on "S" from COVID-19 and racial equity issues
- Scrutiny and regulation to combat "greenwashing"
- Urgency around climate change

With a commitment to ESG that dates back over five decades, we believe it's possible to achieve better outcomes for our investors, our communities and the planet – without sacrificing performance.

# First Polling Question

**Where is your institution in the scope of considering ESG investments in your 403(b) Plans?**

1. Have ESG options in place for our participants
2. Deem ESG options to be important but haven't added anything yet
3. Don't plan to add ESG options

# Our Responsible Investing principles

**Responsible investing (RI): An investment approach that incorporates Environmental, Social and Governance (ESG) factors into investment analysis, portfolio construction and ongoing monitoring across asset classes with the objective of enhancing long-term performance, managing risk and creating opportunity.**

## ESG Integration

- Incorporate material ESG factors into the investment processes using ESG data, research and tools.[1]

## Stewardship

- Use tools as an investor to influence company policies and actions.
- Partner with stakeholders across the market to establish and follow RI best practices.

## Impact

- Measure, manage, and drive positive environmental and social impact through investing practices.
- Accelerate investor demand and the reallocation of capital to areas that contribute to the UN Sustainable Development Goals (SDGs).

1. ESG integration incorporates financially relevant ESG factors into investment research in support of portfolio management for actively managed strategies. Financial relevancy of ESG factors varies by asset class and investment strategy. Applicability of ESG factors may differ across investment strategies. ESG factors are among many factors considered in evaluating an investment decision, and unless otherwise stated in the relevant offering memorandum or prospectus, do not alter the investment guidelines, strategy or objectives.

# ESG factors are considered alongside financial factors and can be integrated into the investment process across all asset classes and sectors

## Environmental

- Natural resource usage, including water
- Waste management
- Deforestation
- Climate change

## Social

- Employee relations
- Diversity
- Supply chain management
- Health and safety

## Governance

- Board quality
- Executive compensation
- Public policy
- Business ethics (bribery and corruption)

## Examples

**Real Assets**
Weather changes and drought can reduce productivity value of farmland

**Fixed Income**
Climate regulation can result in bond market shifts for corporate bonds in carbon-intensive sectors

**Equity**
Policy changes can impact profitability for carbon-intensive companies (carbon tax/price, equipment upgrades

**Real Estate**
Rising sea levels will threaten the viability and property prices in major coastal cities

# ESG ties to TIAA mission and enterprise strategy

ESG strategy aligns with TIAA's goal of achieving the best possible investment outcomes for our clients while differentiating our investment capabilities

### Improve Long-Term Returns

ESG integration may enhance the long-term financial performance of companies

**~90% of market value[1]**

of the S&P 500 is now comprised of intangible assets affected by ESG factors[2]

### Manage Risk

Incorporating ESG allows us to manage downside risk

**5 of top 5 global risks**

identified by the World Economic Forum are categorized as environmental or social[3]

### Uncover Opportunity

Uncover new investment opportunities through targeted social and environmental impact

**$26T across 65MM new jobs**

could be unlocked by investment in the low carbon transition and inclusive growth by 2030 (using 2011 baseline)[4]

### Meeting Participant Demand

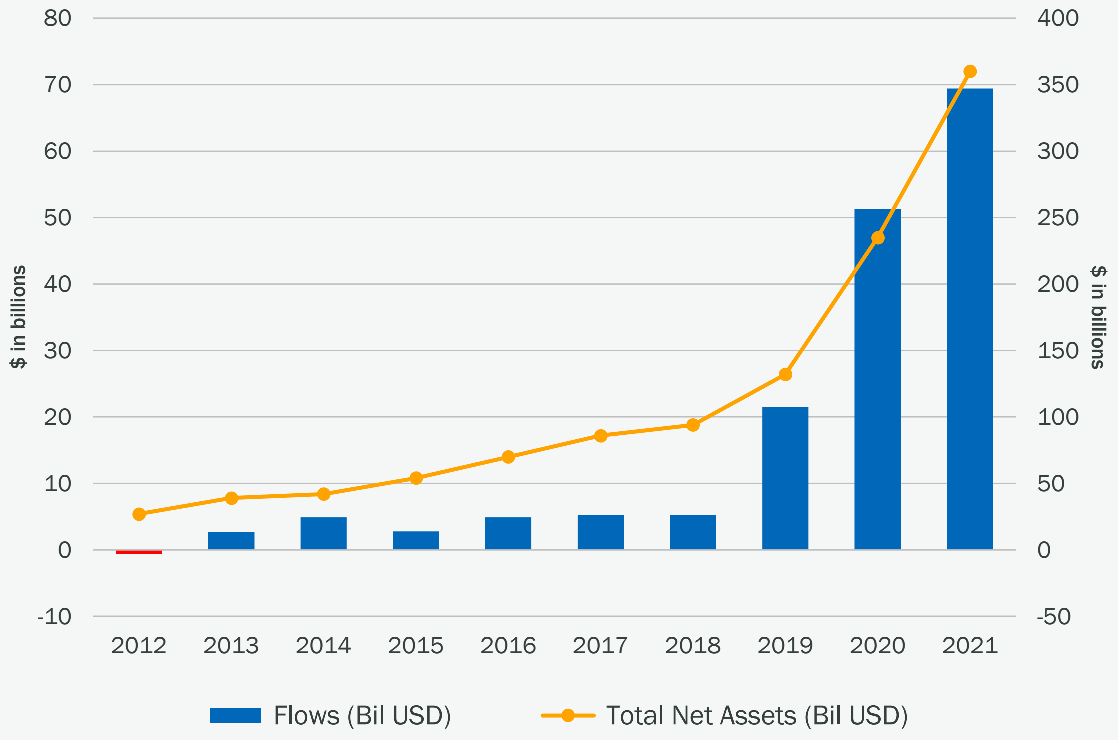
**65% of employees**

would be loyal to their employer based on the availability of having responsible investment retirement plan options[5]

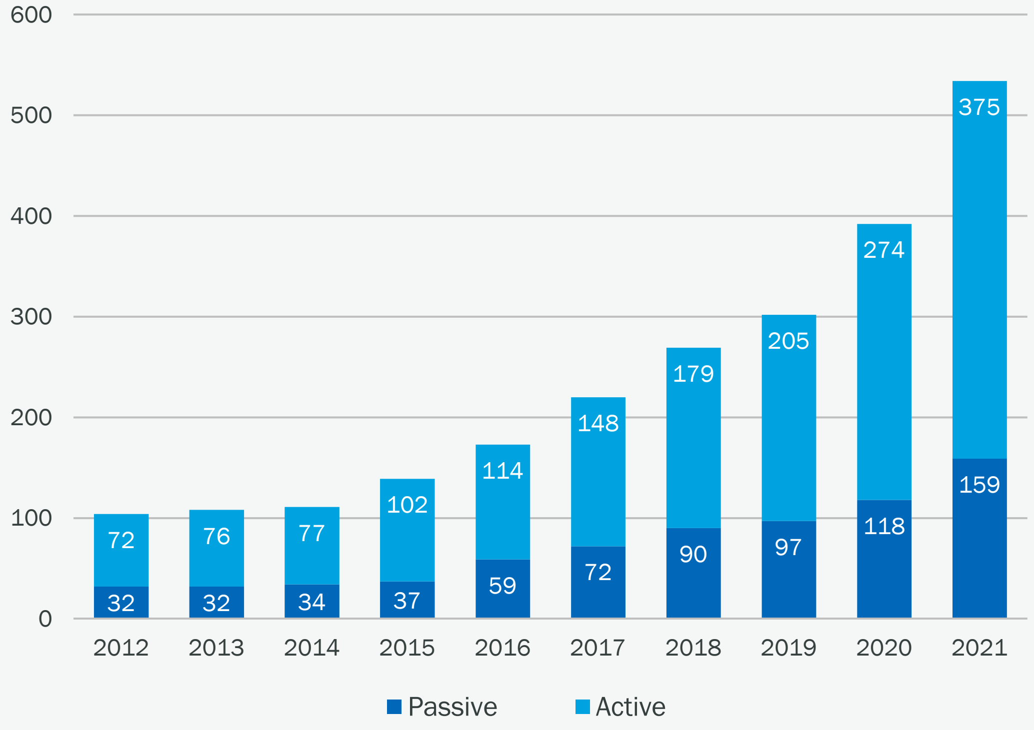
1. Ocean Tomo, Ocean Tomo Intangible Asset Market Value Study, 2020.
2. Ponemon Institute, Intangible Assets Financial Statement Impact Comparison Report, 2019.
3. World Economic Forum, The Global Risks Report, 2022.
4. Cambridge Econometrics: Unlocking the Inclusive Growth Story of the 21st Century: Accelerating Climate Action in Urgent Times, 2018
5. Nuveen Sixth Annual Responsible Investing Survey, 2021

# ESG fund demand continues to increase market-wide

## U.S. sustainable funds annual flows and assets




## The U.S. sustainable funds universe




Source: Morningstar. Data as of 12/31/2021. Includes Sustainable Funds as defined in Sustainable Funds U.S. Landscape Report, Feb. 2021. Includes funds that have been liquidated; does not include funds of funds.

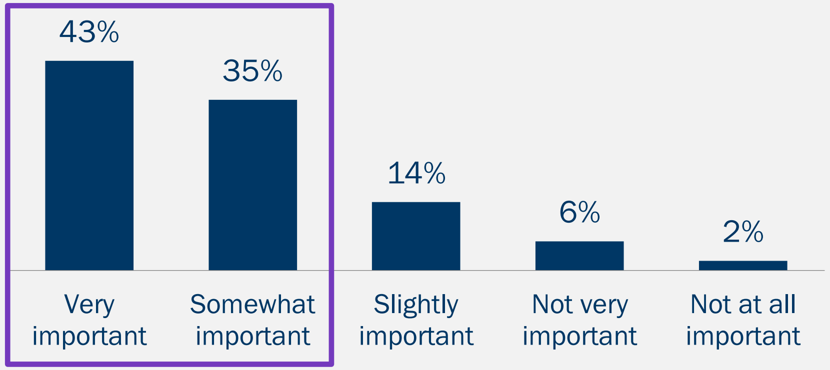
Source: Morningstar Direct. Data as of Dec. 31, 2021. Note: Includes funds that have been liquidated during this period.

# Growing demand among TIAA participants and plan sponsors

## ESG is a key differentiator

### Plan Participants

*How important is it to you that your retirement provider invests responsibly?*

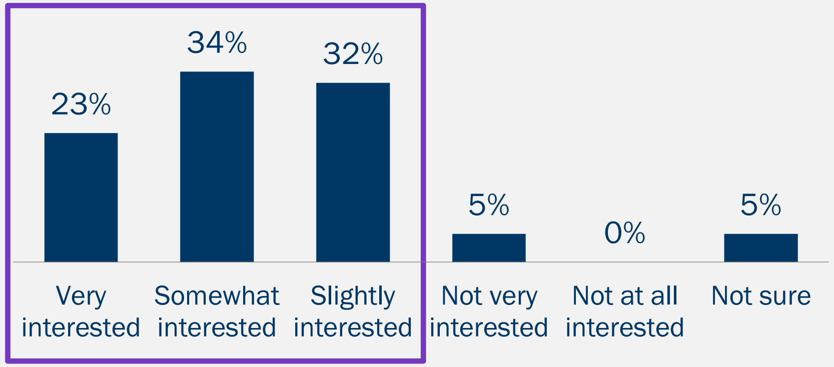



...78% of participants believe it is somewhat or very important that their **retirement provider invests responsibly...**

ESG enables the alignment of values with investments

### Plan Sponsors

*How interested do you think employees would be in having more or different Responsible Investing products on your plan menu?*



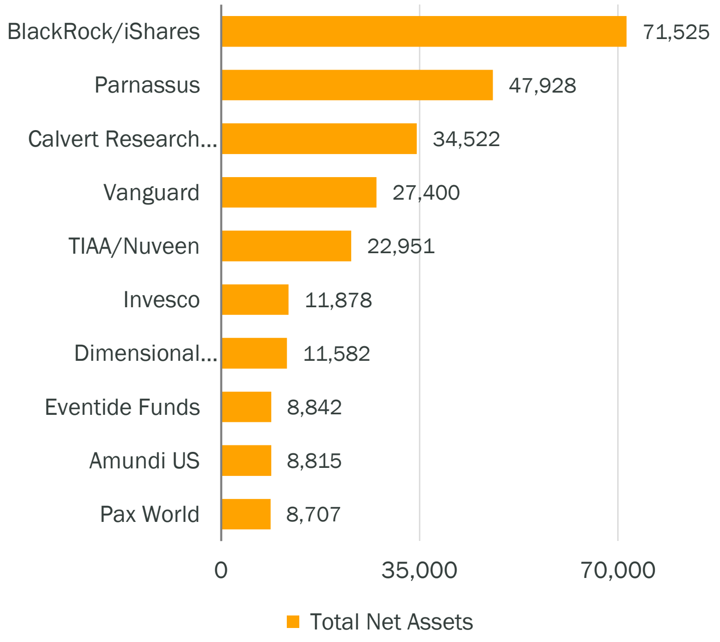

...9 in 10 plan sponsors are interested in **more or different ESG products...**

ESG options can aid in client retention

TIAA Survey of plan sponsor and plan participant client , September 2021

# More options for total portfolio solutions given continued growth and diversification in ESG focused funds

## Top 10 asset managers by sustainable fund assets




Source: Morningstar Sustainable Funds U.S. Landscape Report, Feb. 2022. Morningstar Direct. Data as of 12/31/2021

## Top 10 ESG investments on TIAA Plan Menus

| Investment | Category | AUM[1] $Millions | Assets recordkept on TIAA plan menus[2] $Millions |
|---|---|---|---|
| **Parnassus Core Equity** | Large Blend | 32,265 | 63 |
| **CREF Social Choice Account** | Balanced | 19,753 | 19,243 |
| **Vanguard FTSE Social Index** | Large Blend | 16,053 | 400 |
| **Parnassus Mid-Cap** | Mid-Cap Blend | 8,664 | 31 |
| **TIAA-CREF Social Choice Equity** | Large Blend | 7,752 | 4,328 |
| **Brown Advisory Sustainable Growth** | Large Growth | 7,380 | 34 |
| **TIAA-CREF Core Impact Bond** | Core Bond | 7,273 | 634 |
| **Calvert Equity** | Large Growth | 6,414 | 46 |
| **DFA US Sustainability Core** | Large Blend | 5,856 | 19 |
| **Parnassus Endeavor** | Large Value | 5,417 | 24 |

1. Source: Morningstar Direct as of 12/31/2021.
2. Source: TIAA as of 12/31/2021.

# Second Polling Question

**After hearing the information just presented, are you more apt to:**

1. Not change anything with respect to the offerings in your 403(b) Plans
2. Consider adding ESG options for participants
3. Consider adding more ESG options for participants

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# Key Retirement Policy Developments

# Retirement legislation timeline

Numerous individual retirement provisions introduced (2006–2016)

Regulations developed for guidance on SECURE 1.0 (2020–2022)

- **2006** — Pension Protection Act becomes law
- **2016** — SECURE 1.0 introduced
- **2019** — SECURE 1.0 becomes law; Retirement Security and Savings Act introduced ("SECURE 2.0")
- **2020**
- **2021** — SECURE 2.0 introduced
- **2022** — SECURE 2.0 activity
- **2023** — TBD

# Retirement reform policy goals

Promote the value of in-plan lifetime income solutions (Guarantee Gap)

Facilitate increased savings rates (Savings Gap)

Improve access to employer-sponsored retirement plans (Access Gap)

Ease administration (Regulatory)

# SECURE 2.0: Where are we now?

**Securing a Strong Retirement Act of 2022**

45 provisions

Focus on access, savings, lifetime income, administration

**Retirement Security & Savings Act**

Over 50 provisions

Focus on access, savings, lifetime income, administration

Ways & Means Committee ✓ | Ed & Labor Committee ✓ → House Vote ✓

Senate Finance Committee ✓ | Senate HELP Committee ✓ → Senate Vote

→ Conference Committee → Vote on final bill to become law → President signs

# Key SECURE 2.0 provisions

MANDATORY

## Expanded access & additional investment options

- Expands auto-enrollment and auto-escalation policies for new plans
- Long-term part-time workers will be eligible to contribute after 2 years (401(k) plans only, but could be expanded)

## Increased savings & income preservation

- Boosts annual cap on catch-up contributions for older savers
- Increases RMD age to 75 by 2032
- Addresses certain barriers to annuitization

## Simpler plan administration

- Creates retirement savings lost & found

OPTIONAL

**Expanded access & additional investment options**

- Increases participation incentives
- Employers may join forces in 403(b) multiple employer plans (MEPs) or 403(b) pooled employer plans (PEPs)
- Would allow collective investment trusts (CITs) in 403(b) plans

**Increased savings & income preservation**

- Would allow employers to make matching plan contributions equal to an employee's student loan payments

**Simpler plan administration**

- Would permit merging 401(a) and 403(b) plans
- Eliminates some notices for unenrolled employees
- Would permit 403(b) participants to self-certify hardships

## Additional key provisions

- Require catch-up contributions to be made as in-plan Roth contributions (mandatory)
- Permit rollovers from Roth IRAs to defined contribution plans (optional)
- Treatment of employer matching contributions as Roth contributions (optional)

# Proposed Department of Labor ESG Rulemaking

## Background

New proposed ruling empowers plan fiduciaries to consider climate change and other environmental, social, and governance (ESG) factors when they make investment decisions and when they exercise shareholder rights.

## Key Takeaways

- Climate change and other ESG factors may be considered
- Removed language from the 2020 rule that prohibited ESG from default plans, or QDIAs
- Clarified application of the tie-breaker test
- Removed provisions that may have dissuaded fiduciaries from proxy voting and exercising shareholder rights

## TIAA View

- We strongly support the DOL's proposed amendments to clarify the duties that apply to ERISA retirement plan fiduciaries when selecting investments for plan menus and exercising shareholder rights such as proxy voting.
- We commend the DOL for proposing amendments that give fiduciaries greater comfort and confidence in including ESG factors when evaluating investment options for plan menus and in proxy voting.

## Next Steps

Continue to work with the DOL as they finalize this regulation to ensure plan sponsors have the flexibility to design investment plan menus in a way that leads to best interest and possible outcomes for participants.

# Third Polling Question

**What percentage of your employees participate in your 403(b) Plan**

1. Greater than 90%
2. 80%-90%
3. 70%-80%
4. Less than 70%
5. I don't know

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**Responsible investing incorporates Environmental Social Governance (ESG) factors that may affect exposure to issuers, sectors, industries, limiting the type and number of investment opportunities available, which could result in excluding investments that perform well.**

**You should consider the investment objectives, risks, charges and expenses carefully before investing.**
**Please call 877-518-9161 or go to www.TIAA.org/prospectuses for current product and fund prospectuses that contain this and other information. Please read the prospectuses carefully before investing.**

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# Thank you for attending!

# Q&A

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