



2011 Socially Responsible Investing Report

Sustainable. Responsible. Accountable.

TIAA
CREF



Financial Services



A growing voice for socially responsible practices

TIAA-CREF reached two particularly meaningful milestones in 2010: the CREF Social Choice Account celebrated its 20th anniversary — and also saw its assets under management top the \$10 billion mark for the first time. We are gratified by both achievements.

We launched the CREF Social Choice Account in 1990 to meet a growing demand from our participants. They were asking for an investment option that would help them achieve their long-term financial/retirement goals while also enabling them to invest in companies that reflected their core values — values that we share. The CREF Social Choice Account was our answer to their requests, and we have been thrilled to see our participants embrace it.

It has been even more gratifying to see the increasingly important role that socially responsible investing (SRI) has come to play in the world's marketplace. By the start of 2010, the total amount of assets involved in one or more SRI strategies was \$3.07 trillion, according to the Social Investment Forum, of which TIAA-CREF is a member. That's nearly one-eighth of the total assets under professional management in the United States, according to Thomson Reuters. Notably, since 2005, SRI assets have increased by more than 34%, while the broader pool of professionally managed assets has grown by just 3%.

TIAA-CREF's commitment to socially responsible investing remains as strong as ever. In this report on our SRI activities during 2010, we describe the latest developments in our SRI initiatives, focusing on three issues important to many of our participants:

- Environmental challenges
- Human rights and economic development
- Executive compensation and corporate accountability

In addressing these issues, we employ three distinct but complementary strategies, each with its own dedicated resources, while engaging and collaborating with our stakeholders. In our view, this type of integrated, multifaceted approach is the most effective way to enhance long-term financial results while supporting broader social objectives.

We hope you enjoy this year's annual SRI report. For the first time, we are publishing it exclusively on our website. We believe that's the right way to issue a report that covers topics like what we've done to protect the environment and advance other social issues. We hope you'll return to this site often for the latest word on our efforts. In the meantime, thank you for all you've done to help us become a leader in socially responsible investing over the past 20 years.

Roger W. Ferguson, Jr.
President and Chief Executive Officer

TIAA-CREF is a recognized leader in socially responsible investing

- **TIAA-CREF is proud to be a recognized leader in the growing ranks of socially responsible investors.** At the start of 2010, SRI assets in the United States totaled \$3.07 trillion — nearly four times the amount 15 years earlier. During the financial crisis of 2007-2010, the overall universe of managed assets has remained roughly flat, while SRI assets have grown significantly. In 2010 the CREF Social Choice Account topped \$10 billion in assets under management.
- **Our Social Choice portfolios use social screens that favor companies with a “best-in-class” record on environmental, social and corporate governance issues.** The rigor of our screening process is demonstrated by the fact that less than half of the companies in the broad U.S. stock market, as measured by the Russell 3000® Index, are eligible for inclusion in our portfolios. The Social Choice portfolios enable an investor to align their social values with their long-term investment objectives.
- **Our community and impact investing programs promote both economic development and sustainable environmental stewardship.** Total deployed investments and investment commitments for all impact and community investing programs were over \$800 million at the end of 2010.
- **We use our power as a shareholder in proxy votes and in active engagement in companies at home and abroad.** In 2010 we voted in favor of more than 77 shareholder resolutions on social and environmental issues—about one-third of the votes we cast on those proposals. We engaged in dialogues with more than 400 individual companies.
- **TIAA-CREF collaborates with other public and private institutions to strengthen responsible investing practices on a global scale.** We are a signatory to the United Nations Principles for Responsible Investing (UNPRI), a strong supporter of the international Carbon Disclosure Project and part of the Investor Network on Climate Risk (INCR). TIAA-CREF is also an active member of the Social Investment Forum and the Global Impact Investing Network.

Socially Responsible Investing at TIAA-CREF: Putting values to work in the marketplace

During 2010 TIAA-CREF intensified its commitment to socially responsible investing across our three key SRI strategies:

- Social screening
- Community and impact investing
- Shareholder advocacy

All three are designed to help our individual and institutional clients achieve a “double bottom line” of economic and social benefits, adding long-term value to their investment portfolios while seeking the maximum possible impact across a wide range of environmental, social and corporate governance initiatives.

Our Social Choice portfolios use **social screening** to build their portfolios.

We conduct our **community and impact investing programs** within the fixed-income portion of the CREF Social Choice Account and as part of the TIAA General Account, which

supports the guarantees of the company’s fixed annuities.

Shareholder advocacy is a company-wide commitment made in the interest of achieving sustainable, long-term benefits for all our participants and other clients.

Guidance for these strategies comes from the highest levels of TIAA-CREF and has widespread support throughout our organization.

This report highlights the recent efforts we have made and some of the results we have achieved in three main areas:

- Responding to climate change
- Promoting both human rights and economic development
- Ensuring responsible executive compensation and corporate accountability

Social screening >>

Social screening is one effective way of enabling an investor to express his or her values through their investment portfolios, as well as defining standards of corporate social responsibility. Our Social Choice products apply a best-in-class approach to identify leadership companies across a wide range of environmental, social and governance (ESG) factors.

Community and impact investing >>

Through our community and impact investing efforts, we seek to invest in areas that effect social change while also producing financial gains. Our efforts support global microfinance, community bank deposits, corporate social real estate and green building technology. This strategy is funded by the TIAA General Account, which is not available for direct investment but supports the claims-paying ability of our guaranteed annuities, and by the fixed-income segment of the CREF Social Choice Account, a variable annuity.

Shareholder advocacy >>

We use our shareholder rights to promote long-term investment value in numerous ways. They include monitoring our portfolio companies and engaging with them regarding their ESG policies. This strategy embraces the entire TIAA-CREF public equity portfolio, valued at \$179 billion in combined assets under management, as of December 31, 2010.

How SRI affects performance

Some investors may question whether incorporating environmental, social and governance factors into an investment strategy means sacrificing investment performance. The table below shows this is not the case. It suggests that avoiding companies whose records do not meet defined ESG criteria – by focusing investments in ESG leaders – is a credible way of achieving competitive risk-adjusted returns.

An enhanced social screening process at TIAA-CREF

When CREF launched our Social Choice Account 20 years ago, the process of screening potential investments according to social criteria emphasized the exclusion of specific products, such as alcohol, tobacco and weapons, or the avoidance of individual markets, such as South Africa during the days of apartheid.

Many individual and institutional clients now expect a much wider range of environmental,

social and governance issues (ESG) to be considered in choosing investments.

Today the CREF Social Choice Account, the Social Choice Equity Fund and our separately managed institutional offerings invest primarily in companies that meet or exceed certain ESG criteria.

To respond to changing expectations of our investor base, the screening methodology for the Social Choice Account has expanded significantly to cover more companies, especially international companies, and more ESG issues. While the Social Choice Account screens were initially limited to certain kinds of products (e.g., tobacco, weapons), they now incorporate numerous ESG topic areas, including environmental stewardship, labor and human rights, and supply chain responsibility. Investor awareness of companies’ ESG-related consequences is higher than ever, and new screening criteria are constantly being developed.

Average annual total return (as of 6/30/11)

	1 year	5 years	10 years or since inception	Annual operating expenses gross/net	Inception date
Social Choice Equity Fund					
Institutional Class	29.6%	3.7%	3.8%	0.20%/0.20%	7/1/99
Retirement Class	29.3	3.4	3.5	0.45/0.45	10/1/02
Retail Class*	29.5	3.6	3.7	0.38/0.38	3/31/06
Premier Class	29.5	–	2.3	0.35/0.35	9/30/09
Russell 3000 Index	32.4	3.4	3.4	–	

*The fund’s Institutional Class began operations on July 1, 1999. Performance shown prior to the inception of the Retirement and Retail classes is based on the performance of the fund’s Institutional Class. Performance has not been restated to reflect the higher expenses of the Retirement and Retail Class. If the expense differential had been reflected, performance for these periods would have been lower.

The returns in this report show past performance, which is no guarantee of future results. The returns do not reflect taxes that a shareholder would pay on fund distributions or on the sale of fund shares. Returns and the principal value of your investment will fluctuate. Current performance may be higher or lower than that shown, and you may have a gain or a loss when you redeem your shares. For current performance information, including performance to the most recent month-end, please visit tiaa-cref.org.

The objective of the screening process is to favor companies that are:

- Strong stewards of the environment;
- Committed to serving local communities where they operate and to human rights and philanthropy;
- Committed to higher labor standards for their own employees and those in the supply chain;
- Dedicated to producing high-quality and safe products; and
- Managed in an exemplary and ethical manner.

Through partnership with an external research provider that specializes in ESG analysis, we start by identifying an eligible universe of companies from an ESG perspective, and then apply investment processes that are similar to those used in nonscreened funds.

Industry-specific methodologies and metrics are applied for determining a company’s overall ESG rating, which is essential for evaluating an individual company’s ESG performance. The research process incorporates data collected from a diverse range of sources, including direct communications with company representatives, company public documents, governmental and regulatory agencies, international ESG-related organizations, leading nongovernmental organizations and global news sources.

To begin the process of determining which companies will be eligible for inclusion, all of the 2,500 companies in the MSCI USA IMI Index undergo an annual ESG evaluation and are continuously monitored throughout the year. One measure of the rigor with which the social screens operate is that, as of June 2011, they excluded 56% of the companies of the Russell 3000® Index. The excluded stocks represent more than half of the total market capitalization of the index.

What is socially responsible investing?

Socially responsible investors share the same overriding goal with nearly all investors: they want their assets to grow over time, while guarding against unexpected risks. But they have another motivation in mind, too. They want to encourage the companies in which they invest to be better global citizens by improving their practices on environmental, social and governance (ESG) issues. We believe that the adoption of these practices may help companies and markets to achieve sustainable long-term growth and to manage risks.

Individual investors make up an important part of the SRI world, but they’re joined by many institutional investors, including universities, hospitals, foundations, religious institutions, insurance companies, public and private pension funds and nonprofit groups.

And their ranks are growing: SRI continues to expand faster than conventional assets under management. During the financial crisis of 2007-2010, the overall universe of managed assets has remained roughly flat, while SRI assets have grown significantly — to more than \$3 trillion in the United States alone at the start of 2010.

According to the Social Investment Forum, nearly 500 SRI funds and variable annuities were in operation at the end of 2010—more than double the number in 2005. SRI funds are now available in one out of five retirement plans.

To maintain broad diversification, we do not exclude entire sectors from consideration for ESG reasons. The evaluation process takes into account individual companies' ESG strengths and weaknesses, which is a particularly important matter for large public companies with significant and often complex ESG impacts.

We apply a balanced approach that produces a "best-in-class" outcome, in which a company is

evaluated and ranked against its sector peers. Concerns in one area do not automatically eliminate a company from potential inclusion in the Social Choice portfolios. However, most companies whose activities are related to the production and sale of alcohol, tobacco, military weapons, firearms, nuclear power and gambling are unable to meet the minimum criteria because of their poor overall ESG ratings.

**Greater than the sum of its parts:
Collaboration helps TIAA-CREF to advance its SRI goals**

While TIAA-CREF wields substantial influence in the financial marketplace, we have the opportunity to achieve even more through collaboration with other organizations that share many of our objectives. TIAA-CREF participates in a number of initiatives whose purpose is to strengthen responsible investing practices on a global scale.

We are a signatory to the United Nations Principles for Responsible Investing (UNPRI), which provide a framework for investors to address a wide range of issues, including climate change, human rights and corporate governance. These principles reflect the shared view of the signatories that, as fiduciaries, investors should consider ESG issues because they can affect the performance of an investment portfolio.

As of April 2011, over 850 investment institutions around the world have become signatories, representing assets under management of about \$25 trillion.

In June 2011 we became a Founding Partner of the Global Initiative for Sustainability Ratings, an independent, noncommercial initiative whose goal is to develop a world-class sustainability ratings framework to foster investment, procurement and consumer decisions that favor leadership companies. The ratings framework would, in part, reflect a company's commitment to preserving and protecting the environment. It would also develop industry-specific guidance on key performance indicators.

Responding to environmental challenges

Greenhouse gas emissions, the pollution and overuse of water and the unsustainable exploitation of other natural resources present clear-cut challenges to public health. But these environmental challenges also exact a heavy economic price, which may in turn affect the value of investors' portfolios.

According to a 2010 study commissioned by the United Nations Principles for Responsible Investing and the UNEP Finance Initiative, the cost of global environmental damage by human activity during 2008 was \$6.6 trillion. That is the equivalent of more than one-tenth of the world's GDP. It is also greater than the decline in the value of the developed world's pension assets during the global financial crisis of 2007 and 2008.

According to this report, one-third of this damage was caused by the activities of the 3,000 largest public corporations in the world, based on market capitalization. The greatest environmental damage was caused by three industry sectors: utilities, oil and gas producers and industrial metals and mining. Together these three sectors were responsible for almost \$1 trillion in environmental costs.

Each of TIAA-CREF's SRI strategies addressed these challenges during 2010.

Social screening for a greener planet

Many participants in TIAA-CREF's retirement plans and many investors in TIAA-CREF's mutual funds choose the CREF Social Choice Account or the TIAA-CREF Social Choice Equity Account because their portfolios are screened according to environmental and other social criteria.

The screens used by TIAA-CREF are designed to favor companies that are strong stewards of the environment. Companies are ranked according to their overall ESG performance,

comparing them within their industry sector peer group, using industry-specific criteria.

The environmental stewardship component of the screening methodology includes an assessment of policies and programs related to management systems, products and services, natural resource use, climate change and waste emissions.

Companies such as utilities, oil and gas producers and mine operators face particular challenges in meeting the minimum screening criteria. Those that measure their greenhouse gas emissions, set targets for their reduction, use renewable energy and participate in programs such as the Carbon Disclosure Project generally score higher in the ranking process.

During 2010, three of the world's largest oil companies, ExxonMobil, Britain's BP and France's Total, all failed to meet the minimum standards for inclusion in the Social Choice portfolios. However, we maintained exposure in the important energy sector through numerous investments in smaller companies, including Apache Corporation and Devon Energy. Excluded companies in other industries included British mining company Rio Tinto, German electronics manufacturer Siemens and Swiss food giant Nestlé.

Shareholder advocacy for more responsible energy use

During 2010 TIAA-CREF repeatedly used its shareholder rights to influence companies' environmental policies. We cast proxy votes, introduced shareholder resolutions and communicated directly with companies' management to express our views on this issue. Our shareholder advocacy enables us to work together with other stakeholders to preserve and protect our planet.

We voted in favor of 67% of shareholder resolutions on climate change. These proposals ask a company to take an action, set a policy or disclose a particular activity.

In some of the cases involving climate change or other environmental concerns, we abstained when we were sympathetic to the proponents' views but could not support their resolutions as written. Following some of these abstentions, we met with the company involved to outline our position. We voted against resolutions that we considered inappropriate or unreasonable.

In 2010, we continued to be an investor signatory to the **Carbon Disclosure Project (CDP)** and asked companies to disclose information about their carbon emissions to the CDP. The CDP seeks to put information about carbon emissions at the heart of business, public policy and investment decisions. More than 3,000 organizations in 60 nations now submit reports to the CDP, which acts on behalf of 551 institutional investors with \$71 trillion in combined assets under management. Current information about the project can be found at cdproject.net.

Through our **Climate Change Initiative**, launched in 2009, we continued to engage directly with 10 companies in the steel, airline, real estate and retail industries to discuss their disclosures on climate change risks. Our goal has been to add our influential voice to those encouraging these companies to issue a CDP report if not already doing so, or to improve the quality of any existing disclosures. Of the 10 companies we targeted for this initiative, eight now produce an environmental report.

TIAA-CREF collaborated with other investors and industry partners who share our commitment to address climate change. These include the **Global Warming Working Group** of the PRI, a coalition that advocates for volun-

tary reporting on greenhouse gas emissions and other critical climate change risks. As a part of this group, we were signatories to letters to over 100 companies, asking them to submit a report to the Carbon Disclosure Project.

We are also part of the **Investor Network on Climate Risk (INCR)**, a network of 100 U.S. investors managing nearly \$10 trillion in assets that promotes better understanding of the financial risks and investment opportunities posed by climate change.

Community and impact investing to build a greener future

TIAA-CREF's community and proactive social investment programs, funded through the TIAA General Account, include initiatives that seek to deliver competitive returns while promoting responsible and sustainable environmental stewardship.

TIAA-CREF's **Corporate Social Real Estate Program** maintains investments that include transit-oriented commercial development and sustainable ("green") building technology, consistent with efforts to mitigate the effects of global climate change. At year-end 2010, this portfolio had approximately \$500 million in aggregate commitments and investments.

TIAA-CREF's **Green Building Technology Investments** program is an active partnership with Good Energies, Inc. (GEI), a leading venture capital firm. Together we promote environmental sustainability through venture capital investments in building technologies that meet select criteria, including size of investment and applicability of the technology to TIAA's core global real estate portfolios.

In November 2010 we announced a \$4.5 million investment in Ice Energy, which produces cost-efficient, energy-saving cooling systems for commercial real estate. By storing off-peak

⁴The TIAA General Account is an insurance company account and is not an investment or security offering available to the public.

TIAA-CREF: The 'double bottom line' in action

Energy-efficient properties can deliver investment benefits, reduce carbon footprint

Through an energy benchmarking initiative that was launched in 2007 and continues today, TIAA-CREF's Global Real Estate Group has succeeded in reducing the energy intensity (the amount of energy used per square foot) in its real estate portfolio by 8%. The current goal is to achieve a 15% reduction by 2012. Our experience is a concrete example of how a greener approach to energy use produces direct economic benefits through lower fuel bills.

As one of America's largest institutional real estate investors, TIAA-CREF owns 42 million square feet of office buildings, 10,800 multifamily units, and other properties.

In the office portfolio alone, our savings during 2010 were the equivalent of 109 million kilowatt hours of electricity saved and 79,000 metric tons of greenhouse gas emissions prevented (comparable to removing about 15,200 cars from the nation's roads or planting more than two million trees).

As a result of these efforts, in 2011 TIAA-CREF received the U.S. Environmental Protection Agency's (EPA's) ENERGY STAR Sustained Excellence Award—the ENERGY STAR program's highest honor—for a second consecutive year, for outstanding energy management and reductions in greenhouse gas emissions.

This also marks the fourth consecutive year that TIAA-CREF has been recognized by the EPA, having earned the ENERGY STAR Partner of the Year award each year since 2008.

Ceres ranked TIAA-CREF highest in support of climate resolutions

Ceres is a national coalition of investors, environmental groups and other public interest organizations working with companies to address climate change and other sustainability issues.

Its latest report on 46 leading mutual fund families in the United States, issued in April 2011, showed that there were only eight of those companies – including TIAA-CREF – voted in favor of climate-related shareholder resolutions more than half the time during 2010.

In fact, TIAA-CREF ranked highest, with nearly 83% of its votes supporting such resolutions.

power for daytime use, Ice Energy's equipment can shift up to 95% of a building's daytime power demand to off-peak power, reducing strains on the local grid and lowering energy bills.

We also made proactive fixed-income investments that included American Municipal Power, part of which will provide funding to the Mel-dahl Hydroelectric Project, a three-unit facility being built on the Ohio River, and the Nature Conservancy, which focuses on the conservation of private lands to protect the diversity of plant and animals needed for a healthy and sustainable environment.

In addition, TIAA-CREF is active in the **Urban Land Institute (ULI)**, a global nonprofit organization that provides leadership and promotes best practices in responsible land use. We are represented on the ULI's Responsible Property Investment Product Council, which focuses on the many ways investors can create value by changing the economic, social and environmental consequences of their investments.

Breaking the paper habit at TIAA-CREF

We reached an important landmark in persuading our participants and other clients to replace their paper communications from us with instantaneous and convenient electronic delivery. One million of them have now agreed, and their numbers are growing. If the paper saved so far were laid end-to-end, it would cross the United States nearly eight times.

Participants and clients worried about recordkeeping can sign up for eDelivery and get access to a secure archive of all your historical statements for a period of seven years.

Nine types of documents are now available for eDelivery:

- Quarterly statement
- Prospectuses and supplements
- Transaction confirmations
- Annual and semiannual financial reports
- Tax reporting forms
- Annual privacy notice
- Proxy Information
- Public disclosure and general information
- Other account statements

Promoting both human rights and economic development

Most of our participants are workers themselves, so it's not surprising that many of them name fair labor practices and the respect for other human rights as their top social concerns. As with other social concerns, this one frequently affects a company's bottom line.

Adopting and enforcing fair labor standards and human rights codes across an organization, as well as with suppliers and business partners, where appropriate, can help a company protect its reputation, increase productivity and improve customer loyalty. We also believe that companies should disclose their processes for ensuring respect for human rights, and that includes identifying challenges they face in implementing human rights standards.

Decades of experience have taught us that long-term shareholder engagement with companies is the most powerful way of promoting corporate respect for human rights, but, as a last resort, we will divest from companies that demonstrate a persistent disregard for human rights, as we did in 2009, when we divested holdings in four companies operating in the Sudan because dialogue with them failed to produce results.

We used all three SRI strategies to advance a range of human rights issues during 2010.

Social screening to protect workers and others

Our social screens generally favor companies that have established programs to identify and manage the human rights risks of their operations, as well as strong management practices to protect human rights throughout their supply and distribution chains. This means not only maintaining good relationships with the local communities in which the companies operate but also avoiding complicity in human rights abuses committed by others.

Some of the industries most likely to be affected by human rights concerns might seem obvious: construction companies and companies in extractive industries (oil and gas producers, mining operations, chemical manufacturers) can perform poorly on human rights criteria. Retail companies, whose suppliers are labor intensive enterprises, often face significant challenges within their global supply chains.

But even an IT company can face challenges in this area. Allegations that Apple used vendors in China who repeatedly subjected their workers to dangerous materials—along with the company's response to that controversy—was one of several factors that prevented the company from passing our social screens. ExxonMobil, Chevron and ConocoPhillips were excluded both because of their human rights records and because they received weak ratings on climate change issues.

Our social screens are not designed simply to deny investment dollars to companies whose behavior is objectionable. They also help direct investment to companies whose behavior exceeds that of their sector peers. Companies that provide access to capital where it is most needed or offer products and services that benefit disadvantaged people generally perform better on in our process. The financial services sector is typically most affected by these criteria, along with some homebuilders and real estate investment trusts.

Companies across all sectors that have strong community engagement programs or that have made strategic decisions about the location of their manufacturing operations may also receive favorable ESG ratings.

Shareholder advocacy to advance human rights

During 2010 we voted in favor of 48% of the shareholder resolutions involving human rights issues and abstained on slightly less than one-third. In most cases, we supported resolutions that called on companies to adopt human rights codes or to disclose their compliance, or lack of it, with their existing codes.

We abstained or voted against resolutions that we believed were too prescriptive or those that asked a company to accept responsibility for issues that appeared to lie outside the company's sphere of influence. We also abstained on several resolutions in cases where the company had taken some action to respect human rights; we will, however, review those decisions annually if proposals are re-filed.

We continued to partner with other organizations to create global standards for human rights performance, including the Human Rights Working Group of the Global Reporting Initiative. The working group is seeking to help companies to understand how and why to disclose their human rights policies and practices.

We also engaged in dialogues about human rights practices with several companies, including Nike, Wal-Mart and Coca-Cola. Each of these companies has made significant progress in its respect for human rights, and each will acknowledge that they continue to face challenges in ensuring respect for human rights throughout the supply and distribution chain.

In collaboration with our partners in UNPRI, we are active in promoting respect for human rights in the Sudan. In anticipation of a referendum on independence in Southern Sudan, we asked companies to develop policies to examine how political changes may affect them, and to develop policies to ensure respect for human rights and contribute to a stable operating environment.

While our influence on companies from which we have divested is limited, we continue to engage with companies that remain in our portfolio. We monitor the companies from which we have divested through our partnerships with investors who remain shareholders of these companies.

TIAA-CREF: Leading by example in diversity and inclusion

At TIAA-CREF, we're committed to the standards of equity and nondiscrimination that we ask our portfolio companies to uphold. We earned a top rating of 100% in The Human Rights Campaign Foundation's annual Corporate Equality Index, a report card on lesbian, gay, bisexual and transgender equality in corporate America for two consecutive years. The index assesses corporate practices in areas such as nondiscrimination to benefits for domestic partners.

TIAA-CREF's commitment to a diverse and inclusive workplace is also reflected in our membership in the Business Coalition for Workplace Fairness, which advocates for the passage of the federal Employment Non-Discrimination Act. In addition, we were listed among the "40 Best Companies in Diversity" by Black Enterprise magazine for the fourth year in a row and selected as one of the LATINA Style 50 for 2010.

Community and impact investing to strengthen the world economy

During 2010 our Global Microfinance Investment Program, funded through the TIAA General Account, continued to promote development in all four regions of the developing world: Latin America, Africa, Eastern Europe and Central Asia. The program seeks to promote economic development from the bottom up, includes investments in leading microfinance companies and private equity funds. Our activities capture a wide range of microfinance models and products, including small deposits, micro-insurance, and small and medium enterprise lending. Total deployed investments and investment commitments for all impact and community investing programs were more than \$800 million at the end of 2010.

TIAA-CREF's Community Bank Deposit Program promotes economic development in low-income, economically challenged areas that are often ignored by mainstream financial institutions. Our program provides a stable, competitively priced funding source to several leading U.S. community development banks that operate in these underserved areas. At the end of 2010, we had more than \$20 million placed in FDIC-insured deposits at five community banks. As the economy continues to recover, we expect this program to expand.



Ensuring responsible executive compensation and corporate governance

In July 2010 Congress passed the Dodd-Frank bill, which the Washington Post called “the most ambitious overhaul of financial regulation in generations.” The legislation included a “say-on-pay” provision that requires public corporations to get support for their executive compensation packages through shareholder proxy votes on a regular basis. TIAA-CREF has advocated “say-on-pay” for years, favoring compensation policies that create incentives for prudent risk-taking while rewarding the creation of long-term value.

In general, we believe that good corporate governance is an essential aspect of risk management and responsible investing. Shareholders who vote their proxies and engage in dialogue with a company’s management about compensation and other issues do much more than advance their own views; they may mitigate risks to a company’s performance that management fails to recognize.

Since market crises like those we are now recovering from are often rooted in the actions of individual companies, increased shareholder involvement may also help safeguard the market as a whole from future threats to its integrity.

Over the past year, we built on our long historical commitment to these issues, vigorously implementing our shareholder advocacy and corporate engagement strategies.

Shareholder advocacy for better corporate governance

We seek to promote long-term investment value for all TIAA-CREF participants and clients by exercising our shareholder rights at the companies we invest in. We cast proxy votes, introduce shareholder resolutions and communicate directly with the companies’ man-

agement teams to influence their policies on executive compensation and other critical areas of corporate governance.

During 2010 we engaged in dialogues with more than 400 companies on environmental, social and corporate governance issues. We have used the enactment of Dodd-Frank to have robust discussions with many companies about their executive compensation practices.

While all companies began offering say-on-pay votes in 2011, approximately 130 companies offered these votes in 2010 as a condition of participation in the federal government’s TARP program. Based on this experience, we believe that these votes will encourage more dialogue between shareholders and companies regarding compensation policies, and anecdotal evidence suggests that some companies will seek to be responsive to shareholder concerns. However, it will not be clear for a few years what overall effect the advisory vote will have on compensation policies.

As had been expected, business groups have challenged certain portions of Dodd-Frank in the federal courts. In particular, we are concerned about challenges to the “proxy access” rule, which strengthens the ability of shareholders to nominate director candidates to boards.

In April 2011 TIAA-CREF joined the Council of Institutional Investors and 14 other investment companies to support this provision, through an amicus brief. Our joint purpose was “that the companies in which [we] invest operate with transparency, have boards and management that are accountable to shareholders and appropriately managed risk.” The brief maintained that “proxy access will significantly improve shareholders’ ability

to ensure that corporate stewards maximize shareholder wealth.”

We supported 77% of management-sponsored resolutions at companies that offered us a vote on their compensation practices in 2010. While we do not wish to micromanage boards’ compensation decisions, we do expect companies to provide a clear and persuasive explanation of their policies. We reviewed each proposal on a case-by-case basis, applying 10 criteria to evaluate how well the company justifies its approach to compensation (see the list of “Ten Questions on Executive Compensation” below).

In keeping with our Policy Statement on Corporate Governance, in 2010 we withheld votes from boards, board committees or individual directors at more than 240 meetings—approximately 5% of all meetings where directors were up for election. In these cases, we concluded that the actions of the directors fell short of ethical, fiduciary or other standards.

As an example, we voted against the members of the board Safety, Environmental and Public Policy Committee of Massey Energy following the explosion at the Upper Big Branch mine that killed 22 miners. Following a discussion with the company’s board and a review of

Ten questions we ask about executive compensation

These are the typical questions TIAA-CREF considers when evaluating executive compensation plans at the companies in which we invest.

1. Is the plan performance-based?
2. Is the plan clearly linked to the company’s business strategy?
3. Are the plan’s metrics, goals and hurdles clearly and specifically disclosed? Are they understandable? Do they make sense?
4. Are the incentives clearly designed to meet the company’s specific business challenges, both short and long term?
5. Is the plan customized to suit the company’s size, industry, performance and competitive position?
6. Does the compensation of senior executives complement the company’s overall compensation program by reinforcing internal equity and promoting the success of the entire business enterprise?
7. Does the plan avoid abuses and comply with best practices outlined in our Policy Statement on Corporate Governance?
8. Does the plan promote long-term value creation, which is the primary objective of shareholders?
9. Does the plan articulate a coherent compensation philosophy appropriate to the company and clearly understood by its directors?
10. Are we convinced?

its governance policies regarding safety, we concluded that the board had not sufficiently addressed our concerns about its handling of safety issues at the company. Many other investors shared our concerns, and between 40%-45% shares were withheld from these director nominees. Subsequently, the Chairman and CEO of the firm retired, and the firm was acquired by Alpha Resources.

In 2010 TIAA-CREF issued a policy statement titled **Responsible Investing and Corporate Governance: Lessons Learned From the Crises of the Last Decade**. The statement, which details our observations and recommendations on the role of shareholders in corporate governance, is intended as a basis for a national dialogue and eventual code of best practices, including the need to hold boards accountable, ensure compensation is performance based and exercise other crucial responsibilities to improve corporate governance.

Social screening to encourage corporate accountability

For our socially screened portfolios, executive compensation and other indicators of

corporate accountability are part of the governance criteria that are applied to all industry sectors and companies, both foreign and domestic.

Companies with transparent compensation policies, robust corporate responsibility and sustainability reporting, and other governance practices that support shareholder interests generally achieve higher ratings than companies that fall short in those areas.

TIAA-CREF: Leading by example on corporate governance

At TIAA-CREF, we hold ourselves to the same high standards that we expect of the companies in our portfolio. With regard to advisory votes on executive pay, for example, not only do we speak publicly on the topic, communicate directly with companies and generally support shareholder resolutions on the issue, but we were also the first U.S. company to adopt an advisory vote for our own executive compensation policies and disclosures, beginning in 2007. Our participants have overwhelmingly supported our policies each year.

Follow our SRI efforts

By choosing TIAA-CREF as a financial partner, our clients have the confidence of knowing that their investments have been entrusted to an asset manager who is both financially and socially responsible—one who shares their values.

To learn more about TIAA-CREF’s socially responsible investing program, we invite you to follow us throughout the year at tiaa-cref.org.



The initiatives described in this material involve risks that could result in loss of principal. Because social screening criteria exclude some investments, the variable annuity accounts and mutual funds referenced in this report may not be able to take advantage of some market opportunities or trends available to accounts and funds that do not use these criteria. In addition, the variable annuity accounts and mutual funds are subject to other risks, which are described in their respective prospectuses.

You should consider the investment objectives, risks, charges and expenses carefully before investing. Please call 877 518-9161 or visit www.tiaa-cref.org/prospectuses for a current prospectus that contains this and other information. Please read the prospectus carefully before investing.

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