



**FINANCIAL SERVICES
FOR THE GREATER GOOD®**

The Ins and Outs of Value and Growth Funds

Here's a primer on how value and growth funds work and TIAA-CREF's approach to selecting stocks for them.

You may have heard of *value* and *growth* funds, but don't know exactly what they are or how they work. Learning about these two types of funds can give you a good idea as to whether you might want to include them in your investment portfolio.

Value funds emphasize the stocks of companies that have high dividend yields and sell at relatively low prices in relation to their earnings and book value (assets minus liabilities). Growth funds, on the other hand, invest in stocks of companies believed to offer above-average prospects for capital growth due to strong earnings, revenue growth potential and higher valuations.

Using Benchmarks as a Guide

TIAA-CREF's investment managers use benchmark indices as a guide when creating portfolios for their accounts and funds, including the value and growth ones. A benchmark is a standard used for comparing performance and sector allocations. Our portfolio managers do not invest directly in these benchmark indices, but instead use them as a gauge for determining the percentage of assets to invest in a particular sector.

For example, our managers use the Russell 1000 Growth Index as the benchmark for our large-cap growth portfolios and the Russell 1000 Value Index as the benchmark for our large-cap value portfolios. Not surprisingly, growth-oriented benchmarks hold stocks in rapidly growing sectors, such as technology, media and health care, while value-oriented benchmarks tend to emphasize more slowly growing industry sectors, such as energy, capital goods and financial services.

When constructing value and growth portfolios for our variable annuity accounts and mutual funds, TIAA-CREF's investment managers apply one or more of the following three approaches to selecting stocks: *indexed*, *active quantitative* and *fundamental*. This includes the value and growth portfolios for our variable annuity accounts and mutual funds.

Indexed Investing

Indexed investing involves attempting to parallel the risk and return profile of a given benchmark index by holding a portfolio of stocks or bonds that are representative of that index. When using an index approach, our investment managers track the various component indices of the account's or fund's benchmark. This may involve using a sampling approach to create a portfolio that closely matches the overall investment characteristics of the index without necessarily investing in all the stocks within the index. Index investing is essentially a "passive" form of investing, in that it attempts (as much as possible) to replicate the benchmark index — not to outperform it.

Active Quantitative Investing

The active quantitative approach involves employing statistical risk models of hundreds or thousands of stocks. The managers use these models to determine if certain stocks may represent a better (or worse) value relative to other stocks in the same sector. This quantitative process can help the portfolio management team control risk exposure by suggesting certain stock selections that the investment managers may want to make when constructing their portfolios. As with the fundamental approach, this type of quantitative management is an "active" form of investing that attempts to beat the account's or fund's underlying benchmark.

Fundamental Investing: The Search for Stocks

The fundamental investment approach uses *active* management, in which investment managers choose individual investments for a portfolio. Through this process, our investment managers strive to outperform the account's or fund's benchmark index while keeping the portfolio's risk profile similar to that of the underlying benchmark. Managers who use the fundamental approach conduct a great deal of research on individual companies, which involves analyzing company financial statements, market and industry forecasts and other relevant

sources of information. The goal is to help identify which stocks may be likely to perform well relative to other stocks in the same industry, as well as those stocks that may be likely to underperform their peers.

When using a fundamental approach to investing for the growth and value portfolios, our investment managers try to identify stocks that are underpriced versus some assessment of the stock's intrinsic value, that is, how much the stock should be worth. Through this process, the managers are looking for stocks that offer the strongest potential return for a given level of risk.

When studying stocks, our investment managers listen to the recommendations of our research analysts, who constantly monitor and analyze companies in a specific industry. These research analysts apply a bottom-up strategy, which involves taking a close look at a given company's finances. Typically, the analysts will compare the company with others in the same industry, and then evaluate how the company is likely to perform, given the strength of its industry and other prevailing financial and economic factors.

Our research analysts glean this information from a variety of sources, including company financial reports, research reports and trade journals. They also rely on a network of other information sources, including economists, brokerage firms, industry groups and the government. The analysts also travel to meet with company managers, tour corporate operations and attend trade conferences.

Regarding the growth portfolios, the fundamental managers work with the research analysts to identify any changes occurring within a company or its industry that may affect the stock's growth rate and earnings potential. For example, is a biotech company about to make a discovery that will offer promising new treatments for cancer? Or if several pharmaceutical companies are about to lose their patents, creating a surge in sales of generic drugs, which companies within the industry will be able to thrive in this changing environment? For the analysts, the challenge is to identify the impact of company and industry trends on a given stock and, if investment prospects are favorable, to invest in it before other investors do.

With the value portfolios, our portfolio managers and research analysts focus on whether any company has a low stock price in comparison to the earnings expected for companies in that particular market sector. Typically, value fund managers and analysts look for companies with strong balance sheets that are able to generate significant cash flow. They also focus on companies that have hidden assets that are underappreciated by other investors.

The Long-Term View

Most importantly, research analysts and active managers for both the growth and value portfolios try to figure out when a stock is unjustifiably out of favor among the majority of Wall Street analysts, who generally have a short-term view of perhaps three to six months. TIAA-CREF's investment philosophy involves looking at the value of the company over a longer term of five to six years. If a company looks like it will provide strong long-term value, but the stock price is low because the company posted low earnings for a particular quarter, then this is the type of stock that is likely to be included in one or more of the portfolios.

To Learn More . . .

You can read about the value and growth portfolios within the Retirement Class shares of the TIAA-CREF Mutual Funds and the TIAA-CREF variable annuity accounts by visiting www.tiaa-cref.org and selecting **Retirement Investments & IRAs** in the "Fund Research" section.

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

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