

Socially Responsible Investing Comes of Age

More than 15 years of socially screened investing gives birth to TIAA-CREF's Social & Community Investing department — and you can participate.

Special
Pullout
Section



TIAA-CREF has formed a new Social & Community Investing department to oversee the screening methods used by the CREF Social Choice variable annuity account and TIAA-CREF Social Choice Equity Mutual Fund. It will also develop new products and policies related to socially responsible investing. We sat down with Scott Budde, Managing Director, and Amy O'Brien, Director of Social Investing, to discuss the new department and socially responsible investing in general.

TIAA-CREF: How do you define “socially responsible investing?”

Amy: Socially responsible investing is a process that considers the social and environmental consequences of investments, both positive and negative, within the context of rigorous financial analysis. It's what we sometimes call the “double bottom line” approach: looking for a financial return and for the social and environmental return as well.

Scott: I see three main pillars to socially responsible investing. The first is screening, which means building portfolios and investment products where

certain securities are screened out or into an account, based on certain criteria. Then there's proactive social investing, where we work to achieve competitive returns in assets that also have some strong social aspect that we believe will appeal to a wide range of TIAA-CREF participants. The third pillar is corporate engagement, where we actively engage companies on environmental and social issues — beyond classic corporate governance issues like board independence. Amy and I are focusing our work on the first two pillars, while the third is the responsibility of TIAA-CREF's Corporate Governance department.



Carrying on a TIAA-CREF Tradition

The Social & Community Investing department may be new, but it represents an extension of TIAA-CREF's long-standing commitment to socially responsible investing. Since 1970, the TIAA and CREF trustees have been using proxy voting to address social responsibility and corporate governance concerns at portfolio companies. Back in 1972, TIAA-CREF and several leading universities founded the Investor Responsibility Research Center, whose goal was to analyze the role of social investing issues and make recommendations.

1990 saw the creation of the CREF Social Choice variable annuity account. Dedicated to pursuing attractive long-term returns from companies screened on social criteria, the Account had \$8.2 billion in assets as of September 30, 2006.

For more information on this Account, go to www.tiaa-cref.org/cobalt

TIAA-CREF: Where does TIAA-CREF stand relative to other major investment companies in terms of socially responsible investing?

Amy: Because we're a leader in socially responsible investing, other people are watching us to see how we're setting up our department and what our investment priorities are. After announcing our new department, I received a few calls from other large financial firms seeking to understand what we're doing. So other mainstream firms are watching what we're doing, and that makes our efforts even more significant. It means we are leveraging the idea of socially responsible investing.

TIAA-CREF: How has the "double bottom line" goal of strong returns and social responsibility worked?

Scott: The CREF Social Choice variable annuity account's track record shows that it's possible to generate

attractive risk-adjusted returns — note that past performance is not indicative of future results — while screening the companies owned by the Account. Also, it has a long history: We're approaching 17 years of screening in a fund that has very competitive

PERFORMANCE

*Quarter-end average annual total returns (as of 09/30/2006)

	CREF Social Choice Variable Annuity Account ^{1, 2}	CREF Social Choice Variable Annuity Account Composite Index ³
1 year	7.04%	7.72%
5 year	6.74%	7.16%
10 year	8.09%	8.28%
Since inception	9.92%	10.01%
Inception date	03/01/1990	—

¹ Because social criteria exclude some investments, the Social Choice variable annuity account may not be able to take advantage of the same opportunities or market trends as do other funds or accounts that do not use such criteria.

² Small-cap and mid-cap stocks may have limited marketability and may be subject to more abrupt or erratic market movements than large-cap stocks.

³ For the CREF Social Choice variable annuity account, its benchmark for the equity segment is the Russell 3000® Index and the benchmark for its fixed income segment is the Lehman Brothers U.S. Aggregate Index. You cannot invest directly in these indexes. The Russell 3000 index is a registered trademark of the Frank Russell Company. Our accounts are not promoted or sponsored by or affiliated with the Frank Russell Company.

The performance data quoted represents past performance and is no guarantee of future results. Your returns and the principal value of your investments will fluctuate so that your shares [accumulation units], when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance quoted above. For performance current to the most recent month-end, visit the TIAA-CREF website at www.tiaa-cref.org, or call 800 842-2252.

returns for its mandate. Whether in terms of proactive investing or social screening, one key message I want investors to understand is that our goal is to find investments with both broad social appeal and competitive returns. We believe that social goals such as low-income home ownership, or sending signals to companies through social screening, are compatible with attractive, risk-adjusted returns. In short, socially responsible companies can provide good investment opportunities.

TIAA-CREF: TIAA-CREF has long been known for its emphasis on corporate engagement. What is the distinction between that and socially responsible investing?

Amy: For a long time at TIAA-CREF, corporate engagement has generally meant corporate governance, covering issues such as executive compensation and corporate board activities. And those are very important areas to emphasize. However, our own view of corporate engagement is around larger ideas: environmental responsibility, international operations such as manufacturing plants overseas, employee treatment. It's about using our influence as major investors to encourage corporations to have a positive impact on the community. As a company, we increasingly see all these elements of corporate engagement converging.

TIAA-CREF: What are your goals for the new Social & Community Investing department?

Amy: The longer-term vision is to offer our clients a variety of socially responsible investing options. There's been high interest in the Social Choice variable annuity account, which is why we also started offering the Social Choice Equity mutual fund in April 2000. And we know that our clients in Social Choice own a variety of other funds. We ultimately want to give them a variety of investment choices, which may include an international socially responsible investing fund, a socially responsible investing bond fund, or a proactive fund based on supporting community development financial institutions, where investors can combine their social and investment goals.

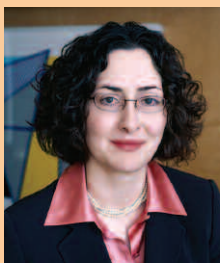
We also know that the environment is critical for many of our clients. So we're looking to

modify some existing products with an enhanced environmental screening methodology.

Scott: In terms of Community Investing, we started TIAA-CREF's second investment program – the Global Microfinance Investment Program – in 2006 (see ProCredit story, next page). It follows a program already administered within our Commercial Real Estate area that focuses on low-income and workforce housing investments. Initially, we expect these investments to be made from TIAA's General Account – the pool of assets that back up the TIAA Traditional annuity account.

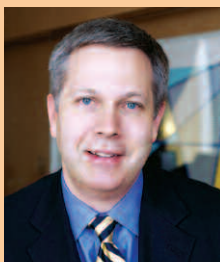
Amy already mentioned offering a wider variety of screened funds. We are also getting custom requests from our academic institutional clients, who want help in developing their own investment strategies around custom screening. Essentially,

How did you get involved in socially responsible investing?



Amy: The strongest influence was my background in environmental issues. I had originally been pursuing a medical career when I had a career-changing experience around a local environmental issue. And that led me to pursue a different kind of career, which led me to 10 years of total experience

in the socially responsible investing industry on the research and investment side.



Scott: I've worked at TIAA-CREF for about 12 years, the first seven of which were as a bank stock analyst. The past five years, I was head of Investment Client Service, where I spent a lot of time talking about our CREF Social Choice variable annuity account and related social invest-

ing issues. I began to realize that we have a very compelling business case for socially responsible investing and decided to play a bigger part in bringing more TIAA-CREF resources to bear on it.

Going Global With Socially Responsible Investing

By investing and becoming a key shareholder in ProCredit Holdings, TIAA-CREF is supporting economic development in a wide range of developing countries.

AT A SMALL FAMILY BAKERY in Bulgaria, the mother, father, children and in-laws who work there needed a new oven, and a dilapidated window that looks out onto a busy bus stop needed to be replaced. The ProCredit Group, a German-based holding company consisting of 20 banking institutions, which has a significant branch network in Bulgaria, provided the loan. The loan is part of ProCredit's global microfinance, or microlending business, which adheres to a set of ethical, environmental and professional standards that make it a perfect investment for TIAA-CREF's Social & Community Investing department.

ProCredit Group's business model rests on the belief that microlending to small businesses and individuals operates effectively — and can expand more quickly to reach more borrowers — with a commercially oriented approach. In most countries, ProCredit banks provide financing to very small businesses and families that previously could not get formal credit because either they weren't attractive customers to mainstream banks or, in some countries, the formal banking sector is too small to begin with.

ProCredit Group began its business in Eastern Europe and in the former Soviet Union, where it earlier started as an economic development and microfinance consulting company. From its origins in consulting, ProCredit Holding now has subsidiaries in 20 countries in Eastern Europe, Latin America and Africa. In all three regions, ProCredit's commitment to both social and commercial objectives distinguishes it from both traditional banks and sometimes from other microfinance institutions.

TIAA-CREF Provides ProCredit an American Connection

Because ProCredit has been growing rapidly, it recently reached a point where it needed new investment capital. Although it could have raised capital anywhere in the world, ProCredit wanted to expand its shareholder base to include select U.S. investors who could maintain a long-term, commercially-oriented investment approach while remaining committed to ProCredit's socially focused business strategy. In other words, ProCredit did not want U.S. investment firms interested only in quick, short-term

returns at the expense of both long-term returns and social criteria. TIAA-CREF was a logical investment shop for ProCredit.

The ProCredit Client

ProCredit seeks out small family or individually owned businesses that can remain healthy despite the difficult economic environments in which they operate. This business platform allows ProCredit to ensure the client's dignity while combating poverty and marginalization. It also allows ProCredit to offer its clients numerous other financial services, with deposit services being the most prominent. In fact, ProCredit banks' deposit liabilities represent nearly 80% of their loan portfolio. Yet, a wider range of services that include domestic and international payments, card services, small home improvement loans and e-banking services has also generated somewhat unexpected demand, allowing ProCredit to broaden its reach.

Visit www.procredit-holding.com for more information about ProCredit.

they want us to help develop unique, tailored social screens that make sense for their own institutions. It's important that we have intellectual

leadership in the socially responsible investing area, and that we constantly refine our screening methodology. □

For more information on the CREF Social Choice variable annuity account, go to www.tiaa-cref.org/cobalt

A variable annuity is an insurance contract designed for retirement or other long-term goals. Its value fluctuates with its underlying subaccounts' performance. Because the Social Choice Account is a CREF variable annuity subaccount, your original investment may be worth more or less when redeemed. (Read the CREF prospectus inside cover for more details.)

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