

## STATEMENT OF ADDITIONAL INFORMATION

# TIAA-CREF FUNDS

FEBRUARY 1, 2009, AS AMENDED SEPTEMBER 14, 2009

Growth & Income Fund	Enhanced Large-Cap Growth Index Fund
International Equity Fund	Enhanced Large-Cap Value Index Fund
Large-Cap Growth Fund	Social Choice Equity Fund
Large-Cap Value Fund	Real Estate Securities Fund
Mid-Cap Growth Fund	Managed Allocation Fund
Mid-Cap Value Fund	Bond Fund
Small-Cap Equity Fund	Bond Plus Fund
Large-Cap Growth Index Fund	Short-Term Bond Fund
Large-Cap Value Index Fund	High-Yield Fund
Equity Index Fund	Tax-Exempt Bond Fund
S&P 500 Index Fund	Inflation-Linked Bond Fund
Small-Cap Blend Index Fund	Bond Index Fund
International Equity Index Fund	Money Market Fund
Enhanced International Equity Index Fund	

This Statement of Additional Information (“SAI”) contains additional information that you should consider before investing in any of the above-listed series (each, a “Fund”) of the TIAA-CREF Funds (the “Trust”). It is not a prospectus and should be read carefully in conjunction with the TIAA-CREF Funds’ prospectuses for the Funds dated February 1, 2009, September 14, 2009 and September 30, 2009 (each, a “Prospectus”), which may be obtained by writing the Funds at TIAA-CREF Funds, 730 Third Avenue, New York, NY 10017-3206 or by calling 877 518-9161.

Capitalized terms used, but not defined, herein have the same meaning as in the Prospectus. The audited financial statements for the fiscal year ended September 30, 2008 are incorporated into this SAI by reference to the TIAA-CREF Funds’ Annual Report to shareholders, and the unaudited financial statements for the six months ended March 31, 2009 are incorporated into this SAI by reference to the TIAA-CREF Funds’ Semiannual Report to shareholders. The Funds will furnish you, without charge, a copy of the Annual Report and Semiannual Report on request.



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## INVESTMENT OBJECTIVES, POLICIES, AND RESTRICTIONS

The following discussion of investment policies and restrictions supplements the Prospectus descriptions of the investment objective and principal investment strategies of twenty-seven Funds of the Trust described in this SAI. Under the Investment Company Act of 1940, as amended (the "1940 Act"), any fundamental policy of a registered investment company may not be changed without the vote of a majority of the outstanding voting securities (as defined in the 1940 Act) of that series. However, except for the Tax-Exempt Bond Fund, the investment objective of each Fund as described in the Prospectus, and its non-fundamental investment restrictions as described in "Investment Policies" below, may be changed by the Board of Trustees of the Trust (the "Board of Trustees" or the "Board") at any time without shareholder approval. The Trust is an open-end management investment company. Each Fund is "diversified" within the meaning of the 1940 Act.

Unless otherwise noted, each of the following investment policies and risk considerations apply to each Fund.

### FUNDAMENTAL POLICIES

The following restrictions are fundamental policies of each Fund:

1. The Fund will not issue senior securities except as permitted by law.
2. The Fund will not borrow money, except: (a) each Fund may purchase securities on margin, as described in restriction 7 below; and (b) from banks (only in amounts not in excess of 33% of the market value of that Fund's assets at the time of borrowing), and, from other sources, for temporary purposes (only in amounts not exceeding 5%, or such greater amount

as may be permitted by law, of that Fund's total assets taken at market value at the time of borrowing).

3. The Fund will not underwrite the securities of other companies, except to the extent that it may be deemed an underwriter in connection with the disposition of securities from its portfolio.
4. The Fund will not purchase real estate or mortgages directly.
5. The Fund will not purchase commodities or commodities contracts, except to the extent futures are purchased as described herein.
6. The Fund will not lend any security or make any other loan if, as a result, more than 33% of its total assets would be lent to other parties, but this limit does not apply to repurchase agreements.
7. The Fund will not purchase any security on margin except that the Fund may obtain such short term credit as may be necessary for the clearance of purchases and sales of portfolio securities.

The following restriction is a fundamental policy of each Fund other than the Managed Allocation Fund:

8. The Fund will not, with respect to at least 75% of the value of its total assets, invest more than 5% of its total assets in the securities of any one issuer, other than securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities, or hold more than 10% of the outstanding voting securities of any one issuer.

The following restriction is a fundamental policy of the Managed Allocation Fund:

9. The Fund will not invest in securities other than securities of other registered investment companies or other permissible investment products or pools that are approved by the Board of Trustees, government securities or short-term securities.

The following restrictions are fundamental policies of the Tax-Exempt Bond Fund:

10. The Fund may invest more than 25% of its assets in tax-exempt securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities, or by any state or local government or a political subdivision of any of the foregoing; the Fund will not otherwise invest in any industry if after giving effect to that investment the Fund's holding in that industry would exceed 25% of its total assets.
11. Under normal market conditions, the Fund will invest at least 80% of its assets in tax-exempt bonds, a type of municipal security, the interest on which is exempt from federal income tax, including federal alternative minimum tax.

The following restriction is a fundamental policy of each Fund other than the Real Estate Securities Fund:

12. The Fund will not invest 25% or more of its total assets in the securities of one or more issuers conducting their principal business activities in the same industry (excluding the U.S. Government or any of its agencies or instrumentalities). The Real Estate Securities Fund has a policy of investing more than 25% of its total assets in securities of issuers in the real estate industry. With respect to this restriction, the Managed Allocation Fund may invest more than 25% of its assets in any one investment company or other permissible invest product or pool.

While the Managed Allocation Fund does not intend to concentrate its investments in a particular industry, the Fund may indirectly concentrate in a particular industry or group of industries through its investments in one or more of its underlying funds, pools or products. Currently, no underlying investment of the Managed Allocation Fund, other than the Real Estate Securities Fund, concentrates 25% or more of its total assets in any one industry.

With the exception of percentage restrictions relating to borrowings, if a percentage restriction is adhered to at the time of investment, a later increase or decrease in percentage beyond the specified limit resulting from a change in values of portfolio securities will not be considered a violation by the Fund.

## INVESTMENT POLICIES

The following policies and restrictions are non-fundamental policies of each Fund. These restrictions may be changed by the Board without the approval of Fund shareholders.

**Non-Equity Investments of the Equity Funds.** The Equity Funds can, in addition to stocks, hold other types of securities with equity characteristics, such as convertible bonds, preferred stock, warrants and depository receipts or rights for such securities. Pending more permanent investments or to use cash balances effectively, these Funds may hold the same types of money market instruments as the Money Market Fund invests in (as described in the Prospectus), as well as other short-term instruments. These other instruments are the same type of instruments the Money Market Fund holds, but they have longer maturities than the instruments allowed in the Money Market Fund, or else do not meet the requirements for "First Tier Securities."

When market conditions warrant, the Equity Funds may invest directly in debt securities similar to those the Bond Fund may

invest in. The Equity Funds may also hold debt securities that they acquire because of mergers, recapitalizations or otherwise.

The Equity Funds also may invest in options and futures, as well as newly developed financial instruments, such as equity swaps and equity-linked fixed-income securities, so long as these are consistent with their investment objectives and regulatory requirements.

These investments and other Fund investment strategies are discussed in detail below.

**Temporary Defensive Positions.** During periods when Teachers Advisors, Inc. ("Advisors"), the investment adviser for the Funds, believes there are unstable market, economic, political or currency conditions domestically or abroad, Advisors may assume, on behalf of a Fund, a temporary defensive posture and (1) without limitation, hold cash and/or invest in money market instruments, or (2) restrict the securities markets in which the Fund's assets will be invested by investing those assets in securities markets deemed by Advisors to be conservative in light of the Fund's investment objective and policies. Under normal circumstances, each Fund may invest a portion of its total assets in cash or money market instruments for cash management purposes, pending investment in accordance with the Fund's investment objective and policies and to meet operating expenses. To the extent that a Fund holds cash or invests in money market instruments, it may not achieve its investment objective.

**Credit Facility.** Many of the Funds participate in an unsecured revolving credit facility for temporary or emergency purposes, including, without limitation, funding of shareholder redemptions that otherwise might require the untimely disposition of securities. The College Retirement Equities Fund ("CREF"), TIAA-CREF Life Funds and TIAA Separate Account VA-1, each of which is managed by Advisors or an affiliate of Advisors, also participate in this credit facility. An annual commitment fee for the credit facility is borne by the participating Funds. Interest associated with any borrowing under the facility will be charged to the borrowing Funds at rates that are based on a specified rate of interest.

If a Fund borrows money, it could leverage its portfolio by keeping securities it might otherwise have had to sell. Leveraging exposes a Fund to special risks, including greater fluctuations in net asset value in response to market changes.

**Taxable Securities.** Under normal conditions, the Tax-Exempt Bond Fund intends to invest only in securities that are tax-exempt for federal income tax purposes. However, the Fund may invest on a temporary basis in taxable securities. In that case, the investments would be limited to securities that the Fund determines to be high quality, such as those issued or guaranteed by the U.S. Government.

**Illiquid Investments.** The Board has delegated responsibility to Advisors for determining the value and liquidity of investments held by each Fund. The Funds may invest up to 15% (10% in the case of the Money Market Fund) of their net assets (taken at current value) in investments that may not be readily marketable. Investment in illiquid securities poses risks of potential delays in resale. Limitations, or delays in, resale may have adverse effects on the marketability of portfolio securities, and it may be difficult for the Funds to dispose of illiquid securities promptly or to sell such securities for their fair market value.

**Lower-Quality Municipal Securities.** Because the market for certain municipal securities is thin, the Tax-Exempt Bond Fund may encounter difficulties in disposing of lower-quality securities. At the Fund's option, it may pursue litigation or other remedies in order to protect the Fund's interests.

**Municipal Market Disruption Risk.** The value of municipal securities may be adversely affected by legal uncertainties regarding legislative proposals involving the taxation of municipal securities or rights of securities holders in the event of bankruptcy. From time to time, these uncertainties may affect the municipal securities market or certain parts thereof, having a significant impact on the prices of securities in the Tax-Exempt Bond Fund.

**Additional Risks Resulting From Recent Market Events and Government Intervention in Financial Markets.** Recent events in the financial sector have resulted, and may continue to result, in an unusually high degree of volatility in the financial markets, both domestic and foreign. These events have included, among others, the placement by the U.S. Government of the Federal National Mortgage Association ("FNMA") and the Federal Home Loan Mortgage Corporation ("FHLMC") under conservatorship, the bankruptcy of Lehman Brothers Holdings Inc., the sale of Merrill Lynch to Bank of America, the U.S. Government's support of American International Group, Inc., the sale of Wachovia Corporation to Wells Fargo & Company, reports of credit and liquidity issues involving certain money market mutual funds, and emergency measures by the U.S. Government and foreign governments banning short-selling. Both domestic and foreign equity markets have experienced increased volatility and turmoil, with companies that have exposure to the real estate, mortgage and credit markets particularly affected, and it is uncertain whether or for how long these conditions will continue.

In addition to the recent unprecedented turbulence in financial markets, the reduced liquidity in credit and fixed-income markets may adversely affect many issuers worldwide. This reduced liquidity may result in less money being available to purchase raw materials, goods and services from emerging markets, which may, in turn, bring down the prices of these economic staples. It may also result in emerging market issuers having more difficulty obtaining financing, which may, in turn, cause a decline in their stock prices. These events and possible continuing market turbulence may have an adverse effect on the Funds.

For example, various agencies and instrumentalities of the U.S. Government have recently implemented or announced programs that support short-term debt instruments, including commercial paper, in an attempt to sustain liquidity in the markets for these securities. Among these programs are: the FDIC-administered Temporary Liquidity Guarantee Program, which guarantees certain debt issued by FDIC-insured institutions; the Federal Reserve Bank of New York-administered Term Asset-Backed Securities Loan Facility ("TALF"), Commercial Paper Funding Facility ("CPFF"), and Money Market Investor Funding Facility ("MMIFF"); and the Asset Backed Commercial Paper Money Market Fund Liquidity Program ("AMLF") administered by the Federal Reserve Bank of Boston. The U.S. Treasury Department also has announced or implemented various programs and initiatives aimed at supporting and increasing liquidity in the credit markets, including the Public-Private Investment Program for Legacy Assets, which, among other

things, is designed to combine federal funding with private investments to purchase certain troubled real estate-related assets from financial institutions.

Recently, legislators, regulatory agencies, the U. S. Treasury Department, trade groups, and others have proposed significant and sweeping changes to the U.S. financial regulatory system. For example, under the Troubled Asset Relief Program ("TARP"), the U. S. Government invested more than \$300 billion in financial institutions during 2008 alone.

The recent instability in the financial markets has led the U.S. Government to take a number of unprecedented actions designed to support certain financial institutions and segments of the financial markets that have experienced extreme volatility, and in some cases a lack of liquidity. Federal, state, and other governments, their regulatory agencies, or self regulatory organizations may take actions that affect the regulation of the instruments in which the Funds invest, or the issuers of such instruments, in ways that are unforeseeable. Legislation or regulation may also change the way in which the Funds themselves are regulated. Such legislation or regulation could limit or preclude a Fund's ability to achieve its investment objective. Governments or their agencies may also acquire distressed assets from financial institutions and acquire ownership interests in those institutions. The implications of government ownership and disposition of these assets are unclear, and such a program may have positive or negative effects on the liquidity, valuation and performance of the Funds' portfolio holdings.

**Restricted Securities.** The Funds may invest in restricted securities. A restricted security is one that has a contractual restriction on resale or cannot be resold publicly until it is registered under the Securities Act of 1933, as amended (the "1933 Act"). From time to time, restricted securities can be considered illiquid. For example, they may be considered illiquid if they are not eligible for sale to qualified institutional purchasers in reliance upon Rule 144A under the 1933 Act. However, purchases by a Fund of securities of foreign issuers offered and sold outside the United States may be considered liquid even though they are restricted. The Board of Trustees has delegated responsibility to Advisors for determining the value and liquidity of restricted securities and other investments held by each Fund.

**Preferred Stock.** The Funds (other than the Money Market Fund) can invest in preferred stock consistent with their investment objectives. Preferred stock pays dividends at a specified rate and generally has preference over common stock in the payment of dividends and the liquidation of the issuer's assets but is junior to the debt securities of the issuer in those same respects. Unlike interest payments on debt securities, dividends on preferred stock are generally payable at the discretion of the issuer's board of directors, and shareholders may suffer a loss of value if dividends are not paid. Preferred shareholders generally have no legal recourse against the issuer if dividends are not paid. The market prices of preferred stocks are subject to changes in interest rates and are more sensitive to changes in the issuer's creditworthiness than are the prices of debt securities. Under ordinary circumstances, preferred stock does not carry voting rights.

**Options and Futures.** Each of the Funds (other than the Money Market Fund) may engage in options (puts and calls) and futures strategies to the extent permitted by the SEC and the

Commodity Futures Trading Commission (“CFTC”). The Funds are not expected to use options and futures strategies in a speculative manner, but rather they may use them primarily as hedging techniques or for cash management purposes.

Options and futures transactions may increase a Fund’s transaction costs and portfolio turnover rate and will be initiated only when consistent with its investment objective.

**Options.** Option-related activities could include: (1) the sale of covered call option contracts and the purchase of call option contracts for the purpose of closing a purchase transaction; (2) buying covered put option contracts, and selling put option contracts to close out a position acquired through the purchase of such options; and (3) selling call option contracts or buying put option contracts on groups of securities and on futures on groups of securities, and buying similar call option contracts or selling put option contracts to close out a position acquired through a sale of such options. This list of options-related activities is not intended to be exclusive, and the Funds may engage in other types of options transactions consistent with their investment objectives and policies and applicable law.

A call option is a short-term contract (generally for nine months or less) that gives the purchaser of the option the right but not the obligation to purchase the underlying security at a fixed exercise price at any time (American style) or at a set time (European style) prior to the expiration of the option regardless of the market price of the security during the option period. As consideration for the call option, the purchaser pays the seller a premium, which the seller retains whether or not the option is exercised. The seller of a call option has the obligation, upon the exercise of the option by the purchaser, to sell the underlying security at the exercise price. Selling a call option would benefit the seller if, over the option period, the underlying security declines in value or does not appreciate above the aggregate of the exercise price and the premium. However, the seller risks an “opportunity loss” of profits if the underlying security appreciates above the aggregate value of the exercise price and the premium.

The Funds may close out a position acquired through selling a call option by buying a call option on the same security with the same exercise price and expiration date as the call option that it had previously sold on that security. Depending on the premium for the call option purchased by a Fund, the Fund will realize a profit or loss on the transaction on that security.

A put option is a similar short-term contract that gives the purchaser of the option the right to sell the underlying security at a fixed exercise price at any time prior to the expiration of the option regardless of the market price of the security during the option period. As consideration for the put option, the purchaser pays the seller a premium which the seller retains whether or not the option is exercised. The seller of a put option has the obligation, upon the exercise of the option by the purchaser, to purchase the underlying security at the exercise price. The buying of a covered put contract limits the downside exposure for the investment in the underlying security. The risk of purchasing a put is that the market price of the underlying stock prevailing on the expiration date may be above the option’s exercise price. In that case, the option would expire worthless and the entire premium would be lost.

The Funds may close out a position acquired through buying a put option by selling an identical put option on the same security with the same exercise price and expiration date as the put option that they had previously bought on the security. Depending on the premium for the put option purchased by a Fund, the Fund would realize a profit or loss on the transaction.

In addition to options (both calls and puts) on individual securities, there are also options on groups of securities, such as the options on the Standard & Poor’s 100 Index, which are traded on the Chicago Board Options Exchange. There are also options on the futures of groups of securities such as the Standard & Poor’s 500 Index and the New York Stock Exchange Composite Index. The selling of such calls can be used in anticipation of, or in, a general market or market sector decline that may adversely affect the market value of a Fund’s portfolio of securities. To the extent that a Fund’s portfolio of securities changes in value in correlation with a given stock index, the sale of call options on the futures of that index would substantially reduce the risk to the portfolio of a market decline, and, by so doing, provides an alternative to the liquidation of securities positions in the portfolio with resultant transaction costs. A risk in all options, particularly the relatively new options on groups of securities and on the futures on groups of securities, is a possible lack of liquidity. This will be a major consideration of Advisors before it deals in any option on behalf of a Fund.

There is another risk in connection with selling a call option on a group of securities or on the futures of groups of securities. This arises because of the imperfect correlation between movements in the price of the call option on a particular group of securities and the price of the underlying securities held in the portfolio. Unlike a covered call on an individual security, where a large movement on the upside for the call option will be offset by a similar move on the underlying stock, a move in the price of a call option on a group of securities may not be offset by a similar move in the price of securities held due to the difference in the composition of the particular group and the portfolio itself.

**Futures.** To the extent permitted by applicable regulatory authorities, the Funds may purchase and sell futures contracts on securities or other instruments, or on groups or indices of securities or other instruments. The purpose of hedging techniques using financial futures is to protect the principal value of a Fund against adverse changes in the market value of securities or instruments in its portfolio, and to obtain better returns on investments than available in the cash market. Since these are hedging techniques, the gains or losses on the futures contract normally will be offset by losses or gains, respectively, on the hedged investment. Futures contracts also may be offset prior to the future date by executing an opposite futures contract transaction.

A futures contract on an investment is a binding contractual commitment which, if held to maturity, generally will result in an obligation to make or accept delivery, during a particular future month, of the securities or instrument underlying the contract. By purchasing a futures contract — assuming a “long” position — Advisors will legally obligate a Fund to accept the future delivery of the underlying security or instrument and pay the agreed price. By selling a futures contract — assuming a “short” position — Advisors will legally obligate a Fund to make the future delivery of the security or instrument against payment of the agreed price.

Positions taken in the futures markets are not normally held to maturity, but are instead liquidated through offsetting transactions that may result in a profit or a loss. While futures positions taken by the Funds usually will be liquidated in this manner, the Funds may instead make or take delivery of the underlying securities or instruments whenever it appears economically advantageous to a Fund to do so. A clearing corporation associated with the exchange on which futures are traded assumes responsibility for closing out positions and guarantees that the sale and purchase obligations will be performed with regard to all positions that remain open at the termination of the contract.

A stock index futures contract, unlike a contract on a specific security, does not provide for the physical delivery of securities, but merely provides for profits and losses resulting from changes in the market value of the contract to be credited or debited at the close of each trading day to the respective accounts of the parties to the contract. On the contract's expiration date, a final cash settlement occurs and the futures positions are closed out. Changes in the market value of a particular stock index futures contract reflect changes in the specified index of equity securities on which the future is based.

Stock index futures may be used to hedge the equity investments of the Funds with regard to market (systematic) risk (involving the market's assessment of overall economic prospects), as distinguished from stock specific risk (involving the market's evaluation of the merits of the issuer of a particular security). By establishing an appropriate "short" position in stock index futures, Advisors may seek to protect the value of the Funds' securities portfolios against an overall decline in the market for equity securities. Alternatively, in anticipation of a generally rising market, Advisors can seek to avoid losing the benefit of apparently low current prices by establishing a "long" position in stock index futures and later liquidating that position as particular equity securities are in fact acquired. To the extent that these hedging strategies are successful, the Funds will be affected to a lesser degree by adverse overall market price movements, unrelated to the merits of specific portfolio equity securities, than would otherwise be the case.

Unlike the purchase or sale of a security, no price is paid or received by the Funds upon the purchase or sale of a futures contract. Initially, the Fund will be required to deposit in a segregated account with the broker (futures commission merchant) carrying the futures account on behalf of the Fund an amount of cash, U.S. Treasury securities, or other permissible assets equal to approximately 5% of the contract amount. This amount is known as "initial margin." The nature of initial margin in futures transactions is different from that of margin in security transactions in that futures contract margin does not involve the borrowing of funds by the customer to finance the transactions. Rather, the initial margin is in the nature of a performance bond or good faith deposit on the contract that is returned to a Fund upon termination of the futures contract assuming all contractual obligations have been satisfied. Subsequent payments to and from the broker, called "variation margin," will be made on a daily basis as the price of the underlying stock index fluctuates, making the long and short positions in the futures contract more or less valuable, a process known as "marking to the market." For example, when a Fund has purchased a stock index futures con-

tract and the price of the underlying stock index has risen, that position will have increased in value, and the Fund will receive from the broker a variation margin payment equal to that increase in value. Conversely, where a Fund has purchased a stock index futures contract and the price of the underlying stock index has declined, the position would be less valuable and the Fund would be required to make a variation margin payment to the broker. At any time prior to expiration of the futures contract, the Fund may elect to close the position by taking an opposite position that will operate to terminate the Fund's position in the futures contract. A final determination of variation margin is then made, additional cash is required to be paid by or released to the Fund, and the Fund realizes a loss or a gain.

There are several risks in connection with the use of a futures contract as a hedging device. One risk arises because of the imperfect correlation between movements in the prices of the futures contracts and movements in the securities or instruments that are the subject of the hedge. Advisors, on behalf of a Fund, will attempt to reduce this risk by engaging in futures transactions, to the extent possible, where, in Advisors' judgment, there is a significant correlation between changes in the prices of the futures contracts and the prices of the Fund's portfolio securities or instruments sought to be hedged.

Successful use of futures contracts for hedging purposes also is subject to Advisors' ability to correctly predict movements in the direction of the market. For example, it is possible that where a Fund has sold futures to hedge its portfolio against declines in the market, the index on which the futures are written may advance and the values of securities or instruments held in the Fund's portfolio may decline. If this occurred, the Fund would lose money on the futures and also experience a decline in value in its portfolio investments. However, Advisors believes that over time the value of a Fund's portfolio will tend to move in the same direction as the market indices that are intended to correlate to the price movements of the portfolio securities or instruments sought to be hedged. It also is possible that, for example, if a Fund has hedged against the possibility of a decline in the market adversely affecting stocks held in its portfolio and stock prices increased instead, the Fund will lose part or all of the benefit of increased value of those stocks that it has hedged because it will have offsetting losses in its futures positions. In addition, in such situations, if a Fund has insufficient cash, it may have to sell securities or instruments to meet daily variation margin requirements. Such sales may be, but will not necessarily be, at increased prices that reflect the rising market. The Fund may have to sell securities or instruments at a time when it may be disadvantageous to do so.

In addition to the possibility that there may be an imperfect correlation, or no correlation at all, between movements in the futures contracts and the portion of the portfolio being hedged, the prices of futures contracts may not correlate perfectly with movements in the underlying security or instrument due to certain market distortions. First, all transactions in the futures market are subject to margin deposit and maintenance requirements. Rather than meeting additional margin deposit requirements, investors may close futures contracts through offsetting transactions that could distort the normal relationship between the index and futures markets. Second, the margin

requirements in the futures market are less onerous than margin requirements in the securities market, and as a result the futures market may attract more speculators than the securities market does. Increased participation by speculators in the futures market also may cause temporary price distortions. Due to the possibility of price distortion in the futures market and also because of the imperfect correlation between movements in the futures contracts and the portion of the portfolio being hedged, even a correct forecast of general market trends by Advisors still may not result in a successful hedging transaction over a very short time period.

The Funds (other than the Money Market Fund) may also use futures contracts and options on futures contracts to manage their cash flow more effectively. To the extent that a Fund enters into non-hedging positions, it will do so only in accordance with certain CFTC exemptive provisions that permit the Fund to claim an exclusion from the definition of a “commodity pool operator” under the Commodity Exchange Act. The Funds have claimed an exclusion from the definition of the term “commodity pool operator” under the Commodity Exchange Act and the regulations thereunder, and therefore, are not subject to registration or regulation as commodity pool operators.

**Firm Commitment Agreements and Purchase of “When-Issued” Securities.** The Funds can enter into firm commitment agreements for the purchase of securities on a specified future date. Thus, the Funds may purchase, for example, issues of fixed-income instruments on a “when issued” basis, whereby the payment obligation, or yield to maturity, or coupon rate on the instruments may not be fixed at the time of the transaction. In addition, the Funds may invest in asset-backed securities on a delayed delivery basis. This reduces the Funds’ risk of early repayment of principal, but exposes the Funds to some additional risk that the transaction will not be consummated.

When a Fund enters into a firm commitment agreement, liability for the purchase price — and the rights and risks of ownership of the securities — accrues to the Fund at the time it becomes obligated to purchase such securities, although delivery and payment occur at a later date. Accordingly, if the market price of the security should decline, the effect of the agreement would be to obligate the Fund to purchase the security at a price above the current market price on the date of delivery and payment. During the time the Fund is obligated to purchase such securities, it will be required to segregate assets. See “Segregated Accounts” below.

#### *Debt Instruments Generally*

A debt instrument held by a Fund will be affected by general changes in interest rates that will, in turn, result in increases or decreases in the market value of the instrument. The market value of non-convertible debt instruments (particularly fixed-income instruments) in a Fund’s portfolio can be expected to vary inversely to changes in prevailing interest rates. In periods of declining interest rates, the yield of a Fund holding a significant amount of debt instruments will tend to be somewhat higher than prevailing market rates, and in periods of rising interest rates, the Fund’s yield will tend to be somewhat lower. In addition, when interest rates are falling, money received by such a Fund from the continuous sale of its shares will likely be invested in portfolio

instruments producing lower yields than the balance of its portfolio, thereby reducing the Fund’s current yield. In periods of rising interest rates, the opposite result can be expected to occur.

**Ratings as Investment Criteria.** Nationally Recognized Statistical Ratings Organization (“NRSRO”) ratings represent the opinions of those organizations as to the quality of securities that they rate. Although these ratings, which are relative and subjective and are not absolute standards of quality, are used by Advisors as one of many criteria for the selection of portfolio securities on behalf of the Funds, Advisors also relies upon its own analysis to evaluate potential investments.

Subsequent to its purchase by a Fund, an issue of securities may cease to be rated or its rating may be reduced below the minimum required for purchase by the Fund. These events will not require the sale of the securities by a Fund. However, Advisors will consider the event in its determination of whether the Fund should continue to hold the securities. To the extent that a NRSRO’s rating changes as a result of a change in the NRSRO or its rating system, Advisors will attempt to use comparable ratings as standards for their investments in accordance with their investment objectives and policies.

**Certain Investment-Grade Debt Obligations.** Although obligations rated Baa by Moody’s Investors Service, Inc. (“Moody’s”) or BBB by Standard & Poor’s, a division of The McGraw-Hill Companies, Inc. (“S&P”) are considered investment-grade, they may be viewed as being subject to greater risks than other investment-grade obligations. Obligations rated Baa by Moody’s are considered medium-grade obligations that lack outstanding investment characteristics and have speculative characteristics as well, while obligations rated BBB by S&P are regarded as having only an adequate capacity to pay principal and interest.

**U.S. Government Debt Securities.** The Funds may invest in U.S. Government securities. These include: debt obligations of varying maturities issued by the U.S. Treasury or issued or guaranteed by the Federal Housing Administration, Farmers Home Administration, Export-Import Bank of the United States, Small Business Administration, Government National Mortgage Association (“GNMA”), General Services Administration, any of the various institutions that previously were, or currently are, part of the Farm Credit System, including the National Bank for Cooperatives, the Farm Credit Banks and the Banks for Cooperatives, Federal Home Loan Banks, FHLMC, Federal Intermediate Credit Banks, Federal Land Banks, FNMA, the Student Loan Marketing Association (“Sallie Mae”) Federal Deposit Insurance Corporation, Maritime Administration, Tennessee Valley Authority and District of Columbia Armory Board. Direct obligations of the U.S. Treasury include a variety of securities that differ in their interest rates, maturities and issue dates. Certain of the foregoing U.S. Government securities are supported by the full faith and credit of the United States, whereas others are supported by the right of the agency or instrumentality to borrow an amount limited to a specific line of credit from the U.S. Treasury or by the discretionary authority of the U.S. Government or GNMA to purchase financial obligations of the agency or instrumentality. In contrast, certain of the foregoing U.S. Government securities are only supported by the credit of the issuing agency or instrumentality (e.g., GNMA). Because the U.S. Government is not obligated by law to support

an agency or instrumentality that it sponsors, or its securities, a Fund only invests in U.S. Government securities when Advisors determines that the credit risk associated with the obligation is suitable for the Fund.

In September 2008, FNMA and FHLMC were placed under the conservatorship of the Federal Housing Finance Agency (“FHFA”). As the conservator, FHFA succeeded to all rights, titles, powers and privileges, as well as assets, of FNMA and FHLMC, although each of FNMA and FHLMC will likely continue to operate as going concerns while in conservatorship.

Although the U.S. Treasury Department subsequently announced several additional steps to enhance FNMA’s and FHLMC’s ability to meet their respective obligations, certain of these additional steps — a liquidity backstop and the mortgage-backed securities purchase program — are scheduled to expire in December 2009. In addition, under the Federal Housing Finance Regulatory Reform Act of 2008 (the “Reform Act”), FHFA has the power, as conservator or receiver, to repudiate any contract entered into by FNMA or FHLMC prior to FHFA’s appointment under certain conditions. Therefore, the uncertainty surrounding the guaranty obligations of FNMA and FHLMC with respect to mortgage-backed securities, combined with the broad power of the FHFA to potentially cancel these guaranty obligations, could adversely impact the value of certain FNMA and FHLMC-guaranteed mortgage-backed securities held by the Funds.

**Risks of Lower-Rated, Lower-Quality Debt Instruments.** Lower-rated debt securities (*i.e.*, those rated Ba or lower by Moody’s or BB or lower by S&P) are sometimes referred to as “high-yield” or “junk” bonds. Each of the Funds (except for the Money Market Fund) may invest in lower-rated debt securities. In particular, the High-Yield Fund will invest at least 80% of its net assets in below investment-grade securities. These securities are considered, on balance, as predominantly speculative with respect to capacity to pay interest and repay principal in accordance with the terms of the obligation and will generally involve more credit risk than securities in the higher-rated categories. Reliance on credit ratings entails greater risks with regard to lower-rated securities than it does with regard to higher-rated securities, and Advisors’ success is more dependent upon its own credit analysis with regard to lower-rated securities than is the case with regard to higher-rated securities. The market values of such securities tend to reflect individual corporate developments to a greater extent than do higher-rated securities, which react primarily to fluctuations in the general level of interest rates. Such lower-rated securities also tend to be more sensitive to economic conditions than are higher-rated securities. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, regarding lower-rated bonds may depress prices and liquidity for such securities. To the extent a Fund invests in these securities, factors adversely affecting the market value of lower-rated securities will adversely affect the Funds’ net asset value (“NAV”). In addition, a Fund may incur additional expenses to the extent it is required to seek recovery upon a default in the payment of principal or interest on its portfolio holdings.

A Fund may have difficulty disposing of certain lower-rated securities for which there is a thin trading market. Because not all dealers maintain markets in lower-rated securities, there is no established retail secondary market for many of these securities,

and Advisors anticipates that they could be sold only to a limited number of dealers or institutional investors. To the extent there is a secondary trading market for lower-rated securities, it is generally not as liquid as that for higher-rated securities. The lack of a liquid secondary market for certain securities may make it more difficult for the Funds to obtain accurate market quotations for purposes of valuing their assets. Market quotations are generally available on many lower-rated issues only from a limited number of dealers and may not necessarily represent firm bids of such dealers or prices for actual sales. When market quotations are not readily available, lower-rated securities must be fair valued using procedures approved by the Board of Trustees. This valuation is more difficult and judgment plays a greater role in such valuation when there are less reliable objective data available.

Any debt instrument, no matter its initial rating may, after purchase by a Fund, have its rating lowered due to the deterioration of the issuer’s financial position. Advisors may determine that an unrated security is of comparable quality to securities with a particular rating. Such unrated securities are treated as if they carried the rating of securities with which Advisors compares them.

Lower-rated debt securities may be issued by corporations in the growth stage of their development. They may also be issued in connection with a corporate reorganization or as part of a corporate takeover. Companies that issue such lower-rated securities are often highly leveraged and may not have available to them more traditional methods of financing. Therefore, the risk associated with acquiring the securities of such issuers is greater than is the case with higher-rated securities. For example, during an economic downturn or a sustained period of rising interest rates, highly leveraged issuers of lower-rated securities may experience financial stress. During such periods, such issuers may not have sufficient revenues to meet their interest payment obligations. The issuer’s ability to service its debt obligations may also be adversely affected by specific corporate developments, the issuer’s inability to meet specific projected business forecasts or the unavailability of additional financing. The risk of loss due to default by the issuer is significantly greater for the holders of lower-rated securities because such securities are generally unsecured and are often subordinated to other creditors of the issuer.

It is possible that a major economic recession could adversely affect the market for lower-rated securities. Any such recession might severely affect the market for and the values of such securities, as well as the ability of the issuers of such securities to repay principal and pay interest thereon.

The Funds may acquire lower-rated securities that are sold without registration under the federal securities laws and therefore carry restrictions on resale. These Funds may incur special costs in disposing of such securities, but will generally incur no costs when the issuer is responsible for registering the securities.

The Funds may also acquire lower-rated securities during an initial underwriting. Such securities involve special risks because they are new issues. The Funds have no arrangement with any person concerning the acquisition of such securities, and Advisors will carefully review the credit and other characteristics pertinent to such new issues. A Fund may from time to time participate on committees formed by creditors to negotiate with the management of financially troubled issuers of securities held

by the Fund. Such participation may subject the Fund to expenses such as legal fees and may make the Fund an “insider” of the issuer for purposes of the federal securities laws, and therefore may restrict the Fund’s ability to trade in or acquire additional positions in a particular security when it might otherwise desire to do so. Participation by the Fund on such committees also may expose the Fund to potential liabilities under the federal bankruptcy laws or other laws governing the rights of creditors and debtors. The Fund would participate on such committees only when Advisors believes that such participation is necessary or desirable to enforce the Fund’s rights as a creditor or to protect the value of securities held by the Fund.

Although most of the Funds can invest a percentage of their assets in lower-rated securities. The High-Yield Fund can invest up to 100% of its assets in debt instruments that are unrated or rated lower than the four highest rating categories assigned by Moody’s or S&P. Up to 20% of the High-Yield Fund’s assets may be invested in securities rated lower than B- or its equivalent by at least two rating agencies. Thus, the preceding information about lower-rated securities is especially applicable to the High-Yield Fund.

**Corporate Debt Securities.** A Fund may invest in corporate debt securities of U.S. and foreign issuers and/or hold its assets in these securities for cash management purposes. The investment return of corporate debt securities reflects interest earnings and changes in the market value of the security. The market value of a corporate debt obligation may be expected to rise and fall inversely with interest rates generally. There also exists the risk that the issuers of the securities may not be able to meet their obligations on interest or principal payments at the time called for by an instrument.

**Zero Coupon Obligations.** Some of the Funds may invest in zero coupon obligations. Zero coupon securities generally pay no cash interest (or dividends in the case of preferred stock) to their holders prior to maturity. Accordingly, such securities usually are issued and traded at a deep discount from their face or par value and generally are subject to greater fluctuations of market value in response to changing interest rates than securities of comparable maturities and credit quality that pay cash interest (or dividends in the case of preferred stock) on a current basis. Although a Fund will receive no payments on its zero coupon securities prior to their maturity or disposition, it will be required for federal income tax purposes generally to include in its dividends to shareholders each year an amount equal to the annual income that accrues on its zero coupon securities. Such dividends will be paid from the cash assets of the Fund, from borrowings or by liquidation of portfolio securities, if necessary, at a time that the Fund otherwise would not have done so. To the extent a Fund is required to liquidate thinly-traded securities, the Fund may be able to sell such securities only at prices lower than if such securities were more widely-traded. The risks associated with holding securities that are not readily marketable may be accentuated at such time. To the extent the proceeds from any such dispositions are used by a Fund to pay distributions, the Fund will not be able to purchase additional income-producing securities with such proceeds, and as a result its current income ultimately may be reduced.

Custodial receipts issued in connection with so-called trademark zero coupon securities, such as Certificates of Accrual on

Treasuries (“CATS”) and Treasury Income Growth Receipts (“TIGRs”), are not issued by the U.S. Treasury, and are therefore not U.S. Government securities, although the underlying bond represented by such receipt is a debt obligation of the U.S. Treasury. Other zero coupon Treasury securities (e.g., those purchased through the Federal Reserve’s Separate Trading of Registered Interest and Principal of Securities Program (“STRIPs”) and Coupons Under Book Entry Safekeeping (“CUBEs”)) are direct obligations of the U.S. Government.

**Floating and Variable Rate Instruments.** Variable and floating rate securities provide for a periodic adjustment in the interest rate paid on the obligations. The terms of such obligations provide that interest rates are adjusted periodically based upon an interest rate adjustment index as provided in the respective obligations. The adjustment intervals may be regular, and range from daily up to annually, or may be event based, such as based on a change in the prime rate. The interest rate on a floater is a variable rate which is tied to another interest rate, such as a money-market index or U.S. Treasury bill rate. The interest rate on a floater resets periodically, typically every six months. Some of the Funds may invest in floating and variable rate instruments. Income securities may provide for floating or variable rate interest or dividend payments. The floating or variable rate may be determined by reference to a known lending rate, such as a bank’s prime rate, a certificate of deposit rate or the London InterBank Offered Rate (LIBOR). Alternatively, the rate may be determined through an auction or remarketing process. The rate also may be indexed to changes in the values of the interest rate of securities indexed, currency exchange rate or other commodities. Variable and floating rate securities tend to be less sensitive than fixed-rate securities to interest rate changes and to have higher yields when interest rates increase. However, during rising interest rates, changes in the interest rate of an adjustable rate security may lag changes in market rates. The amount by which the rates are paid on an income security may increase or decrease and may be subject to periodic or lifetime caps. Fluctuations in interest rates above these caps could cause adjustable rate securities to behave more like fixed-rate securities in response to extreme movements in interest rates.

A Fund may also invest in inverse floating rate debt instruments (“inverse floaters”). The interest rate on an inverse floater resets in the opposite direction from the market rate of interest to which the inverse floater is indexed. An inverse floating rate security may exhibit greater price volatility than a fixed rate obligation of similar credit quality. Such securities may also pay a rate of interest determined by applying a multiple to the variable rate. The extent of increases and decreases in the value of securities whose rates vary inversely with changes in market rates of interest generally will be larger than comparable changes in the value of an equal principal amount of a fixed-rate security having similar credit quality redemption provisions and maturity.

**Foreign Debt Obligations.** The debt obligations of foreign governments and entities may or may not be supported by the full faith and credit of the foreign government. A Fund may buy securities issued by certain “supra-national” entities, which include entities designated or supported by governments to promote economic reconstruction or development, international banking organizations and related government agencies. Examples are

the International Bank for Reconstruction and Development (more commonly known as the “World Bank”), the Asian Development Bank and the Inter-American Development Bank.

The governmental members of these supra-national entities are “stockholders” that typically make capital contributions and may be committed to make additional capital contributions if the entity is unable to repay its borrowings. A supra-national entity’s lending activities may be limited to a percentage of its total capital, reserves and net income. There can be no assurance that the constituent foreign governments will continue to be able or willing to honor their capitalization commitments for those entities.

A Fund may invest in U.S. dollar-denominated “Brady Bonds.” These foreign debt obligations may be fixed-rate par bonds or floating-rate discount bonds. They are generally collateralized in full as to repayment of principal at maturity by U.S. Treasury zero coupon obligations that have the same maturity as the Brady Bonds. Brady Bonds can be viewed as having three or four valuation components: (i) the collateralized repayment of principal at final maturity; (ii) the collateralized interest payments; (iii) the uncollateralized interest payments; and (iv) any uncollateralized repayment of principal at maturity. Those uncollateralized amounts constitute what is called the “residual risk.”

If there is a default on collateralized Brady Bonds resulting in acceleration of the payment obligations of the issuer, the zero coupon U.S. Treasury securities held as collateral for the payment of principal will not be distributed to investors, nor will those obligations be sold to distribute the proceeds. The collateral will be held by the collateral agent to the scheduled maturity of the defaulted Brady Bonds. The defaulted bonds will continue to remain outstanding, and the face amount of the collateral will equal the principal payments which would have then been due on the Brady Bonds in the normal course. Because of the residual risk of Brady Bonds and the history of defaults with respect to commercial bank loans by public and private entities of countries issuing Brady Bonds, Brady Bonds are considered speculative investments.

*Structured or Indexed Securities (Including Exchange-Traded Notes and Inflation-Indexed Bonds).* Some of the Funds may invest in structured or indexed securities. The value of the principal of and/or interest on such securities is based on a reference such as specific currencies, interest rates, commodities, indices or other financial indicators (the “Reference”) or the relative change in two or more References. The interest rate or the principal amount payable upon maturity or redemption may be increased or decreased depending upon changes in the applicable Reference. The terms of the structured or indexed securities may provide that in certain circumstances no principal is due at maturity and, therefore, may result in a loss of the Fund’s investment. Structured or indexed securities may be positively or negatively indexed, so that appreciation of the Reference may produce an increase or a decrease in the interest rate or value of the security at maturity. In addition, changes in interest rates or the value of the security at maturity may be some multiple of the change in the value of the Reference. Consequently, structured or indexed securities may entail a greater degree of market risk than other types of debt securities. Structured or indexed securities may also be more volatile, less liquid and more difficult to accurately price than less complex securities. Structured and indexed securities are generally subject to the same risks as other

fixed-income securities in addition to the special risks associated with linking the payment of principal and/or interest payments (or other payable amounts) to the performance of a Reference.

A Fund may invest in inflation-indexed bonds. Inflation-indexed bonds are fixed-income securities whose principal value is periodically adjusted according to the rate of inflation. Two structures are common. The U.S. Treasury and some other issuers use a structure that accrues inflation into the principal value of the bond. Most other issuers pay out the Consumer Price Index (“CPI”) accruals as part of a semiannual coupon.

If the periodic adjustment rate measuring inflation falls, the principal value of inflation-indexed bonds will be adjusted downward, and consequently the interest payable on these securities (calculated with respect to a smaller principal amount) will be reduced. Repayment of the original bond principal upon maturity (as adjusted for inflation) is guaranteed in the case of a U.S. Treasury inflation-indexed bond, even during a period of deflation, although the inflation-adjusted principal received could be less than the inflation-adjusted principal that had accrued to the bond at the time of purchase. However, the current market value of the bonds is not guaranteed and will fluctuate. A Fund may also invest in other inflation-related bonds which may or may not provide a similar guarantee. If a guarantee of principal is not provided, the adjusted principal value of the bond repaid at maturity may be less than the original principal.

The value of inflation-indexed bonds is expected to change in response to changes in real interest rates. Real interest rates in turn are tied to the relationship between nominal interest rates and the rate of inflation. Therefore, if the rate of inflation rises at a faster rate than nominal interest rates, real interest rates might decline, leading to an increase in value of inflation-indexed bonds. In contrast, if nominal interest rates increase at a faster rate than inflation, real interest rates might rise, leading to a decrease in value of inflation-indexed bonds.

While these securities are expected to be protected from long-term inflationary trends, short-term increases in inflation may lead to a decline in value. If interest rates rise due to reasons other than inflation (for example, due to changes in currency exchange rates), investors in these securities may not be protected to the extent that the increase is not reflected in the bond’s inflation measure.

The periodic adjustment of U.S. inflation-indexed bonds is tied to the Consumer Price Index for All Urban Consumers (“CPI-U”), which is not seasonably adjusted and which is calculated monthly by the U.S. Bureau of Labor Statistics. The CPI-U is a measurement of changes in the cost of living, made up of components such as housing, food, transportation and energy. Inflation-indexed bonds issued by a foreign government are generally adjusted to reflect a comparable inflation index calculated by that government. There can be no assurance that the CPI-U or any foreign inflation index will accurately measure the real rate of inflation in the prices of goods and services. Moreover, there can be no assurance that the rate of inflation in a foreign country will be correlated to the rate of inflation in the United States.

A Fund may invest in targeted return index securities (“TRAINS”), which are fixed rate certificates that represent undivided interests in the pool of securities (generally lower-rated debt securities that are unsecured) underlying a Targeted

Return Index Securities Trust. By investing in a TRAIN, a holder is able to invest in a diversified portfolio of fixed-income securities without incurring the brokerage and other expenses associated with directly holding small positions in individual securities. A holder of a TRAIN receives income from the trust as a result of principal and interest paid by the trust's underlying securities, and indirectly bears its proportionate share of any expenses paid by the TRAIN. TRAINs are not registered under the 1933 Act or the 1940 Act and therefore must be held by qualified institutional buyers and resold to qualified institutional buyers pursuant to Rule 144A under the 1933 Act. As a result, certain investments in TRAINs may be less liquid to the extent that the Fund is unable to find qualified institutional buyers interested in purchasing such securities at any point in time. TRAINs that are rated below investment-grade are considered lower-rated debt securities, and will entail the risks described above in the discussion regarding lower-rated debt securities.

### *Mortgage-Backed and Asset-Backed Securities*

***Mortgage-Backed and Asset-Backed Securities Generally.*** Some of the Funds may invest in mortgage-backed and asset-backed securities, which represent direct or indirect participation in, or are collateralized by and payable from, mortgage loans secured by real property or instruments derived from such loans. Mortgage-backed securities include various types of mortgage-related securities such as government stripped mortgage-related securities, adjustable-rate mortgage-related securities and collateralized mortgage obligations. Some of the Funds may also invest in asset-backed securities, which represent participation in, or are secured by and payable from, assets such as motor vehicle installment sales contracts, installment loan contracts, leases of various types of real and personal property, receivables from revolving credit (*i.e.*, credit card) agreements and other categories of receivables. Such assets are pooled and securitized by governmental, government-related and private organizations through the use of trusts and special purpose entities and sold to investors. Payments or distributions of principal and interest may be guaranteed up to certain amounts and for certain time periods by letters of credit or pool insurance policies issued by a financial institution unaffiliated with the trust or corporation. Other credit enhancements also may exist.

***Mortgage Pass-Through Securities.*** Mortgage-related securities represent pools of mortgage loans assembled for sale to investors by various governmental agencies, such as GNMA, by government related organizations, such as FNMA and FHLMC, as well as by private issuers, such as commercial banks, savings and loan institutions, mortgage bankers and private mortgage insurance companies.

Interests in pools of mortgage-related securities differ from other forms of debt securities, which normally provide for periodic payment of interest in fixed amounts with principal payments at maturity or specified call dates. Instead, these securities provide a monthly payment which consists of both interest and principal payments. In effect, these payments are a "pass-through" of the monthly payments made by the individual borrowers on their residential or commercial mortgage loans, net of any fees paid to the issuer or guarantor of such securities. Additional payments are caused by repayments of principal

resulting from the sale of the underlying property, refinancing or foreclosure, net of fees or costs which may be incurred. Some mortgage-related securities are described as "modified pass-through." These securities entitle the holder to receive all interest and principal payments owed on the mortgage pool, net of certain fees, at the scheduled payment dates regardless of whether or not the mortgagor actually makes the payment.

Commercial banks, savings and loan institutions, private mortgage insurance companies, mortgage bankers and other secondary market issuers also create pass-through pools of conventional residential mortgage loans. Such issuers may, in addition, be the originators and/or servicers of the underlying mortgage loans as well as the guarantors of the mortgage-related securities. Pools created by such non-governmental issuers generally offer a higher rate of interest than government and government-related pools because there are no direct or indirect government or agency guarantees of payments in the former pools. However, timely payment of interest and principal of these pools may be supported by various forms of insurance or guarantees, including individual loan, title, pool and hazard insurance and letters of credit, which may be issued by governmental entities, private insurers or the mortgage poolers. The insurance and guarantees are issued by governmental entities, private insurers and the mortgage poolers. Such insurance and guarantees, and the creditworthiness of the issuers thereof, will be considered in determining whether a mortgage-related security meets a Fund's investment quality standards. There can be no assurance that the private insurers or guarantors can meet their obligations under the insurance policies or guarantee arrangements. A Fund may buy mortgage-related securities without insurance or guarantees if, through an examination of the loan experience and practices of the originator/servicers and poolers, Advisors determine that the securities meet the Fund's quality standards. Although the market for such securities is becoming increasingly liquid, securities issued by certain private organizations may not be readily marketable, especially in the current financial environment. In addition, recent developments in the fixed-income and credit markets may have an adverse impact on the liquidity of mortgage-related securities.

***Collateralized Mortgage Obligations ("CMOs").*** CMOs are structured into multiple classes, each bearing a different stated maturity. Similar to a bond, interest and prepaid principal is paid, in most cases, on a monthly basis. Actual maturity and average life will depend upon the prepayment experience of the collateral. CMOs provide for a modified form of call protection through a de facto breakdown of the underlying pool of mortgages according to how quickly the loans are repaid. Monthly payment of principal received from the pool of underlying mortgages, including prepayments, is first returned to investors holding the shortest maturity class. Investors holding the longer maturity classes receive principal only after the first class has been retired. An investor is partially guarded against a sooner than desired return of principal because of the sequential payments.

In a typical CMO transaction, a corporation ("issuer") issues multiple series (*e.g.*, A, B, C, Z) of CMO bonds ("Bonds"). Proceeds of the Bond offering are used to purchase mortgages or mortgage pass-through certificates ("Collateral"). The Collateral is pledged to a third party trustee as security for the Bonds.

Principal and interest payments from the Collateral are used to pay principal on the Bonds in the order A, B, C, Z. The Series A, B, and C Bonds all bear current interest. Interest on the Series Z Bond is accrued and added to principal and a like amount is paid as principal on the Series A, B, or C Bond currently being paid off. When the Series A, B, and C Bonds are paid in full, interest and principal on the Series Z Bond begin to be paid currently. With some CMOs, the issuer serves as a conduit to allow loan originators (primarily builders or savings and loan associations) to borrow against their loan portfolios.

The average maturity of pass-through pools of mortgage-related securities in which some of the Funds may invest varies with the maturities of the underlying mortgage instruments. In addition, a pool's stated maturity may be shortened by unscheduled payments on the underlying mortgages. Factors affecting mortgage prepayments include the level of interest rates, general economic and social conditions, the location of the mortgaged property and age of the mortgage. For example, in periods of falling interest rates, the rate of prepayment tends to increase, thereby shortening the actual average life of the mortgage-related security. Conversely, when interest rates are rising, the rate of prepayment tends to decrease, thereby lengthening the actual average life of the mortgage-related security. Accordingly, it is not possible to accurately predict the average life of a particular pool. Reinvestment of prepayments may occur at higher or lower rates than originally expected. Therefore, the actual maturity and realized yield on pass-through or modified pass-through mortgage-related securities will vary based upon the prepayment experience of the underlying pool of mortgages. For purposes of calculating the average life of the assets of the relevant Fund, the maturity of each of these securities will be the average life of such securities based on the most recent estimated annual prepayment rate.

**Asset-Backed Securities Unrelated to Mortgage Loans.** Some of the Funds may invest in asset-backed securities that are unrelated to mortgage loans. These include Certificates for Automobile Receivables<sup>SM</sup> ("CARS<sup>SM</sup>"). CARS<sup>SM</sup> represent undivided fractional interests in a trust whose assets consist of a pool of motor vehicle retail installment sales contracts and security interests in the vehicles securing the contracts. Payments of principal and interest on CARS<sup>SM</sup> are passed through monthly to certificate holders, and are guaranteed up to certain amounts and for a certain time period by a letter of credit issued by a financial institution unaffiliated with the trustee or originator of the trust. An investor's return on CARS<sup>SM</sup> may be affected by prepayment of principal on the underlying vehicle sales contracts. If the letter of credit is exhausted, the trust may be prevented from realizing the full amount due on a sales contract because of state law requirements and restrictions relating to foreclosure sales of vehicles and the obtaining of deficiency judgments following such sales or because of depreciation, damage or loss of a vehicle, the application of federal and state bankruptcy and insolvency laws, or other factors. As a result, certificate holders may experience delays in payments or losses if the letter of credit is exhausted.

**Mortgage Dollar Rolls.** Some of the Funds may enter into mortgage "dollar rolls" in which the Fund sells securities for delivery in the current month and simultaneously contracts with a counterparty to repurchase substantially identical securities on a specified future date. To be considered "substantially identical,"

the securities returned to a Fund generally must: (1) be collateralized by the same types of underlying mortgages; (2) be issued by the same agency and be part of the same program; (3) have a similar original stated maturity; (4) have identical net coupon rates; (5) have similar market yields (and therefore price); and (6) satisfy "good delivery" requirements, meaning that the aggregate principal amounts of the securities delivered and received back must be within 2.5% of the initial amount delivered. The Fund loses the right to receive principal and interest paid on the securities sold. However, the Fund would benefit to the extent of any price received for the securities sold and the lower forward price for the future purchase (often referred to as the "drop") plus the interest earned on the short-term investment awaiting the settlement date of the forward purchase. Unless such benefits exceed the income and gain or loss due to mortgage repayments that would have been realized on the securities sold as part of the mortgage roll, the use of this technique will diminish the investment performance of the Fund compared with what such performance would have been without the use of mortgage rolls. The Fund will hold and maintain in a segregated account until the settlement date cash or liquid assets in an amount equal to the forward purchase price. The benefits derived from the use of mortgage rolls may depend upon Advisors' ability to predict correctly mortgage prepayments and interest rates. There is no assurance that mortgage rolls can be successfully employed. For financial reporting and tax purposes, some of the Funds treat mortgage rolls as a financing transaction.

**Securities Lending.** Subject to the Funds' fundamental investment policies relating to loans of portfolio securities set forth above, each Fund may lend its securities to brokers and dealers that are not affiliated with Teachers Insurance and Annuity Association of America ("TIAA"), are registered with the SEC and are members of the Financial Industry Regulatory Authority ("FINRA"), and also to certain other financial institutions. All loans will be fully collateralized. In connection with the lending of its securities, a Fund will receive as collateral cash, securities issued or guaranteed by the U.S. Government (e.g., Treasury securities), or other collateral permitted by applicable law, which at all times while the loan is outstanding will be maintained in amounts equal to at least 102% of the current market value of the outstanding loaned securities, or such lesser percentage as may be permitted by the SEC (including a decline in the value of) (not to fall below 100% of the market value of the loaned securities), as reviewed daily. Cash collateral received by a Fund will generally be invested in high-quality short-term instruments, or in one or more funds maintained by the securities lending agent for the purpose of investing cash collateral. During the term of the loan, a Fund will continue to have investment risks with respect to the securities being loaned, as well as risk with respect to the investment of the cash collateral, and a Fund may lose money as a result of the investment of such collateral.

By lending its securities, a Fund will receive amounts equal to the interest or dividends paid on the securities loaned and, in addition, will expect to receive a portion of the income generated by the short-term investment of cash received as collateral or, alternatively, where securities or a letter of credit are used as collateral, a lending fee paid directly to the Fund by the borrower of the securities. Such loans will be terminable by the Fund at any

time and will not be made to affiliates of TIAA. The Funds may terminate a loan of securities in order to regain record ownership of, and to exercise beneficial rights related to, the loaned securities, including, but not necessarily limited to, voting or subscription rights, and Advisors may, in the exercise of its fiduciary duties, terminate a loan in the event that a vote of holders of those securities is required on a material matter. The Funds may pay reasonable fees to persons unaffiliated with the Fund for services, or for arranging such loans, or for acting as securities lending agent. Loans of securities will be made only to firms deemed creditworthy. As with any extension of credit, however, there are risks of delay in recovering the loaned securities, or in liquidating collateral should the borrower of securities default, become the subject of bankruptcy proceedings or otherwise be unable to fulfill its obligations or fail financially.

**Repurchase Agreements.** Repurchase agreements are one of several short-term vehicles the Funds can use to manage cash balances effectively. In a repurchase agreement, the Funds buy an underlying debt instrument on condition that the seller agrees to buy it back at a fixed price and time (usually no more than a week and never more than a year). Repurchase agreements have the characteristics of loans, and will be fully collateralized (either with physical securities or evidence of book entry transfer to the account of the custodian bank) at all times. During the term of the repurchase agreement, the Fund entering into the agreement retains the security subject to the repurchase agreement as collateral securing the seller's repurchase obligation, continually monitors the market value of the security subject to the agreement, and requires the Fund's seller to deposit with the Fund additional collateral equal to any amount by which the market value of the security subject to the repurchase agreement falls below the resale amount provided under the repurchase agreement. Each Fund will enter into repurchase agreements only with member banks of the Federal Reserve System, or with primary dealers in U.S. Government securities or their wholly-owned subsidiaries whose creditworthiness has been reviewed and found satisfactory by Advisors and who have, therefore, been determined to present minimal credit risk.

Securities underlying repurchase agreements will be limited to certificates of deposit, commercial paper, bankers' acceptances, or obligations issued or guaranteed by the U.S. Government or its agencies or instrumentalities, in which the Fund entering into the agreement may otherwise invest.

If a seller of a repurchase agreement defaults and does not repurchase the security subject to the agreement, the Fund entering into the agreement would look to the collateral underlying the seller's repurchase agreement, including the securities subject to the repurchase agreement, for satisfaction of the seller's obligation to the Fund. In such event, the Fund might incur disposition costs in liquidating the collateral and might suffer a loss if the value of the collateral declines. In addition, if bankruptcy proceedings are instituted against a seller of a repurchase agreement, realization upon the collateral may be delayed or limited.

**Swap Transactions.** Each Fund (other than the Money Market Fund) may, to the extent permitted by the SEC, enter into privately negotiated "swap" transactions with other financial institutions in order to take advantage of investment opportunities generally not available in public markets. In general, these

transactions involve "swapping" a return based on certain securities, instruments, or financial indices with another party, such as a commercial bank, in exchange for a return based on different securities, instruments, or financial indices.

By entering into a swap transaction, a Fund may be able to protect the value of a portion of its portfolio against declines in market value. Each Fund may also enter into swap transactions to facilitate implementation of allocation strategies between different market segments or countries or to take advantage of market opportunities that may arise from time to time. A Fund may be able to enhance its overall performance if the return offered by the other party to the swap transaction exceeds the return swapped by the Fund. However, there can be no assurance that the return a Fund receives from the counterparty to the swap transaction will exceed the return it swaps to that party.

While the Funds will only enter into swap transactions with counterparties considered creditworthy (and will monitor the creditworthiness of parties with which it enters into swap transactions), a risk inherent in swap transactions is that the other party to the transaction may default on its obligations under the swap agreement. In times of general market turmoil, the creditworthiness of even large, well-established counterparties may decline rapidly. If the other party to the swap transaction defaults on its obligations, the Fund entering into the agreement would be limited to the agreement's contractual remedies. There can be no assurance that a Fund will succeed when pursuing its contractual remedies. To minimize a Fund's exposure in the event of default, it will usually enter into swap transactions on a net basis (*i.e.*, the parties to the transaction will net the payments payable to each other before such payments are made). When a Fund enters into swap transactions on a net basis, the net amount of the excess, if any, of the Fund's obligations over its entitlements with respect to each such swap agreement will be accrued on a daily basis and an amount of liquid assets having an aggregate market value at least equal to the accrued excess will be segregated by the Fund's custodian. To the extent a Fund enters into swap transactions other than on a net basis, the amount segregated will be the full amount of the Fund's obligations, if any, with respect to each such swap agreement, accrued on a daily basis. See "Segregated Accounts," below.

In addition to other swap transactions, the Enhanced International Equity Index Fund may purchase and sell contracts for difference ("CFDs"). A CFD is a form of equity swap in which its value is based on the fluctuating value of some underlying asset (*e.g.*, shares of a particular stock or a stock index). A CFD is a contract between two parties, buyer and seller, stipulating that the seller will pay to the buyer the difference between the nominal value of the underlying stock at the opening of the contract and the stock's value at the close of the contract. The size of the contract and the contract's expiration date are typically negotiated by the parties to the CFD transaction. CFDs enable the Enhanced International Equity Index Fund to take short or long positions on an underlying stock and thus potentially capture gains on movements in the share prices of the stock without the need to own the underlying stock.

By entering into a CFD transaction, the Enhanced International Equity Index Fund could incur losses because it would face many of the same types of risks as owning the under-

lying equity security directly. For example, the Enhanced International Equity Index Fund might buy a short position in a CFD and the contract value at the close of the transaction may be greater than the contract value at the opening of the transaction. This may be due to, among other factors, an increase in the market value of the underlying equity security. In such a situation, the Enhanced International Equity Index Fund would have to pay the difference in value of the contract to the seller of the CFD. As with other types of swap transactions, CFDs also carry counterparty risk, *i.e.*, the risk that the counterparty to the CFD transaction may be unable or unwilling to make payments or to otherwise honor its financial obligations under the terms of the contract. If the counterparty were to do so, the value of the contract, and of the Enhanced International Equity Index Fund's shares, may be reduced.

Entry into a CFD transaction may, in certain circumstances, require the payment of an initial margin and adverse market movements against the underlying stock may require the buyer to make additional margin payments.

Swap agreements may be considered illiquid by the SEC staff and subject to the limitations on illiquid investments. See "Illiquid Investments" above.

To the extent that there is an imperfect correlation between the return on a Fund's obligation to its counterparty under the swap and the return on related assets in its portfolio, the swap transaction may increase the Fund's financial risk. No Fund will enter into a swap transaction that is inconsistent with its investment objective, policies and strategies. It is not the intention of any Fund to engage in swap transactions in a speculative manner, but rather primarily to hedge or manage the risks associated with assets held in, or to facilitate the implementation of portfolio strategies of purchasing and selling assets for, the Fund.

**Segregated Accounts.** In connection with when-issued securities, firm commitments and certain other transactions in which a Fund incurs an obligation to make payments in the future, the Fund involved may be required to segregate assets with its custodian bank or within its portfolio in amounts sufficient to settle the transaction. To the extent required, such segregated assets can consist of liquid assets, including equity or other securities, or other instruments such as cash, U.S. Government securities or other obligations as may be permitted by law.

**Investment Companies.** Subject to certain exceptions, under the 1940 Act, each Fund other than Managed Allocation Fund may invest up to 5% of its assets in any single investment company and up to 10% of its assets in all other investment companies in the aggregate. However, no Fund other than Managed Allocation Fund can hold more than 3% of the total outstanding voting stock of any single investment company. The Managed Allocation Fund can invest all of its assets in the securities of other investment companies. These restrictions would not apply to any Fund that the Trust introduces in the future that invests substantially all of its assets in the securities of other funds of the Trust. When a Fund invests in another investment company, it bears a proportionate share of expenses charged by the investment company in which it invests. Additionally, the Funds may invest in other investment companies for cash management and defensive purposes, such as exchange-traded funds ("ETFs"), subject to the limitations set forth above.

Other investment products similar to ETFs in which the Managed Allocation Fund may invest are exchange-traded notes ("ETNs"). While ETNs are structured as fixed-income obligations, rather than as investment companies, they generally provide exposure to a specified market sector or index like ETFs, but are also subject to the general risks of fixed-income securities, including risk of default by the ETNs' issuers. As with ETFs, when the Managed Allocation Fund invests in an ETN, it will bear certain investor expenses charged by the ETN.

**Exchange-Traded Funds.** A Fund may purchase shares of exchange-traded funds. ETFs generally seek to track the performance of an equity, fixed-income or balanced index by holding in its portfolio either the contents of the index or a representative sample of the securities in the index. Some ETFs, however, select securities consistent with the ETF's investment objectives and policies without reference to the composition of an index. Typically, a Fund would purchase ETF shares to obtain exposure to all or a portion of the stock or bond market. An investment in an ETF generally presents the same primary risks as an investment in a conventional stock, bond or balanced mutual fund (*i.e.*, one that is not exchange traded) that has the same investment objective, strategies, and policies. The price of an ETF can fluctuate within a wide range, and a Fund could lose money investing in an ETF if the prices of the securities owned by the ETF go down. In addition, ETFs are subject to the following risks that do not apply to conventional mutual funds: (1) the market price of the ETF's shares may trade at a discount to their net asset value; (2) an active trading market for an ETF's shares may not develop or be maintained; or (3) trading of an ETF's shares may be halted if the listing exchange's officials deem such action appropriate, the shares are de-listed from the exchange, or the activation of market-wide "circuit breakers" (which are tied to large decreases in stock prices) halts stock trading generally. Most ETFs are investment companies. Therefore, a Fund's purchases of ETF shares generally are subject to the limitations on a Fund's investments in other investment companies, which are described above under the heading "Investment Companies."

**Exchange-Traded Notes.** The Managed Allocation Fund may purchase shares of ETNs. ETNs are exchange-traded fixed-income securities with principal and/or interest payments (or other payments) linked to the performance of referenced currencies, interest rates, commodities, indices or other financial indicators (each, a "Reference"), or linked to the performance of a specified investment strategy (such as an options or currency trading program). Often, ETNs are structured as uncollateralized medium-term notes. Typically, the Managed Allocation Fund would purchase ETNs to obtain exposure to all or a portion of the financial markets or specific investment strategies. Because ETNs are structured as fixed-income securities, they are generally subject to the risks of fixed-income securities, including (among other risks) the risk of default by the issuer of the ETN. The price of an ETN can fluctuate within a wide range, and the Managed Allocation Fund could lose money investing in an ETN if the value of the Reference or the performance of the specified investment strategy goes down. In addition, ETNs are subject to the following risks that do not apply to most fixed-income securities: (1) the market price of the ETNs may trade at a discount to the market price of the Reference or the performance of the

specified investment strategy; (2) an active trading market for ETNs may not develop or be maintained; or (3) trading of ETNs may be halted if the listing exchange's officials deem such action appropriate, the ETNs are de-listed from the exchange or the activation of market-wide "circuit breakers" (which are tied to large decreases in stock prices) halts stock trading generally.

**Borrowing.** Each Fund may generate cash by borrowing money from banks (no more than 33⅓% of the market value of its assets at the time of borrowing), rather than through the sale of portfolio securities, when such borrowing appears more attractive for the Fund. Each Fund may also borrow money from other sources temporarily (no more than 5% of the total market value of its assets at the time of borrowing), when, for example, the Fund needs to meet liquidity requirements caused by greater than anticipated redemptions. See "Fundamental Policies" above.

**Currency Transactions.** The value of a Fund's assets (other than the Money Market Fund) as measured in U.S. dollars may be affected favorably or unfavorably by changes in foreign currency exchange rates and exchange control regulations, and the Fund may incur costs in connection with conversions between various currencies. To minimize the impact of such factors on net asset values, the Fund may engage in foreign currency transactions in connection with their investments in foreign securities. The Funds will not speculate in foreign currency, and will enter into foreign currency transactions only to "hedge" the currency risk associated with investing in foreign securities. Although such transactions tend to minimize the risk of loss due to a decline in the value of the hedged currency, they also may limit any potential gain that might result should the value of such currency increase.

The Funds will conduct their currency exchange transactions either on a spot (*i.e.*, cash) basis at the rate prevailing in the currency exchange market, or through forward contracts to purchase or sell foreign currencies. A forward currency contract involves an obligation to purchase or sell a specific currency at a future date, which may be any fixed number of days from the date of the contract agreed upon by the parties, at a price set at the time of the contract. These contracts are entered into with large commercial banks or other currency traders who are participants in the interbank market.

By entering into a forward contract for the purchase or sale of foreign currency involved in an underlying security transaction, a Fund is able to protect itself against possible loss between trade and settlement dates for that purchase or sale resulting from an adverse change in the relationship between the U.S. dollar and such foreign currency. This practice is sometimes referred to as "transaction hedging." In addition, when it appears that a particular foreign currency may suffer a substantial decline against the U.S. dollar, a Fund may enter into a forward contract to sell an amount of foreign currency approximating the value of some or all of its portfolio securities denominated in such foreign currency. This practice is sometimes referred to as "portfolio hedging." Similarly, when it appears that the U.S. dollar may suffer a substantial decline against a foreign currency, a Fund may enter into a forward contract to buy that foreign currency for a fixed dollar amount.

The Funds (other than the Money Market Fund) may also hedge their foreign currency exchange rate risk by engaging in currency financial futures, options and "cross-hedge" transac-

tions. In "cross-hedge" transactions, a Fund holding securities denominated in one foreign currency will enter into a forward currency contract to buy or sell a different foreign currency (one that generally tracks the currency being hedged with regard to price movements). Such cross-hedges are expected to help protect a Fund against an increase or decrease in the value of the U.S. dollar against certain foreign currencies.

The Funds (other than the Money Market Fund) may hold a portion of their respective assets in bank deposits denominated in foreign currencies, so as to facilitate investment in foreign securities as well as protect against currency fluctuations and the need to convert such assets into U.S. dollars (thereby also reducing transaction costs). To the extent these monies are converted back into U.S. dollars, the value of the assets so maintained will be affected favorably or unfavorably by changes in foreign currency exchange rates and exchange control regulations.

The forecasting of short-term currency market movement is extremely difficult and whether a short-term hedging strategy will be successful is highly uncertain. Moreover, it is impossible to correctly forecast with absolute precision the market value of portfolio securities at the expiration of a foreign currency forward contract.

Accordingly, the Funds may be required to buy or sell additional currency on the spot market (and bear the expense of such transaction) if Advisors' predictions regarding the movement of foreign currency or securities markets prove inaccurate. In addition, the use of cross-hedging transactions may involve special risks, and may leave the Funds in a less advantageous position than if such a hedge had not been established. Because foreign currency forward contracts are privately negotiated transactions, there can be no assurance that the Funds will have flexibility to roll-over the foreign currency forward contract upon its expiration if they desire to do so. Additionally, there can be no assurance that the other party to the contract will perform its obligations thereunder.

There is no express limitation on the percentage of a Fund's assets that may be committed to foreign currency exchange contracts. A Fund will not enter into foreign currency forward contracts or maintain a net exposure in such contracts when that Fund would be obligated to deliver an amount of foreign currency in excess of the value of that Fund's portfolio securities or other assets denominated in that currency or, in the case of a cross-hedge transaction, denominated in a currency or currencies that Advisors believes will correlate closely to the currency's price movements. The Funds generally will not enter into forward contracts with terms longer than one year.

**Real Estate Securities.** As described more fully in the Prospectus, the Real Estate Securities Fund will invest primarily in the equity and fixed-income securities of companies that are principally engaged in or related to the real estate industry, including those that own significant real estate assets, such as real estate investment trusts ("REITs"). An issuer is principally "engaged in" or principally "related to" the real estate industry if at least 50% of its total assets, gross income, or net profits are attributable to ownership, construction, management or sale of residential, commercial or industrial real estate, or to products or services related to the real estate industry. Issuers engaged in the real estate industry include equity REITs (which directly own

real estate), mortgage REITs (which make short-term construction or real estate development loans or invest in long-term mortgages or mortgage pools), real estate brokers and developers, homebuilders, companies that manage real estate, and companies that own substantial amounts of real estate. Businesses related to the real estate industry include manufacturers and distributors of building supplies and financial institutions that make or service mortgage loans.

The Real Estate Securities Fund generally invests in common stocks, but may also, without limitation, invest in preferred stock, convertible securities, rights and warrants, and debt securities of issuers that are principally engaged in or related to the real estate industry, as well as publicly-traded limited partnerships that are principally engaged in or related to the real estate industry. In addition to these securities, the Real Estate Securities Fund may invest up to 20% of its total assets in equity and debt securities of issuers that are not principally engaged in or related to the real estate industry, including debt securities and convertible preferred stock and convertible debt securities rated less than Baa by Moody's or BBB by S&P. If held by the Real Estate Securities Fund in significant amounts, such lower-rated debt securities would increase financial risk and income volatility. The Real Estate Securities Fund may make investments or engage in investment practices that involve special risks, which include convertible securities, "when-issued" securities, securities issued on a delayed-delivery basis, options on securities and securities indices, financial futures contracts and options thereon, restricted securities, illiquid investments, repurchase agreements, structured or indexed securities and lending portfolio securities.

Investments in the securities of companies that own, construct, manage or sell residential, commercial or industrial real estate will be subject to all of the risks associated with the ownership of real estate. These risks include: declines in the value of real estate, negative changes in the climate for real estate, risks related to general and local economic conditions, over-building and increased competition, decreases in property revenues, increases in property taxes and operating expenses, changes in zoning laws, casualty or condemnation losses, limitations on rents, changes in neighborhood values, the appeal of properties to tenants, leveraging of interests in real estate, increases in prevailing interest rates, and costs resulting from the clean-up of environmental problems.

In addition to the risks discussed above, equity REITs may be affected by changes in the value of the underlying property of the trusts, while mortgage REITs may be affected by changes in the quality of any credit extended. Both equity and mortgage REITs are dependent upon management skill and may not be diversified themselves. REITs are also subject to heavy cash flow dependency, defaults by borrowers, self-liquidation, and the possibility of failing to qualify for special tax treatment under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code"), or failing to meet other applicable regulatory requirements. Finally, certain REITs may be self-liquidating in that a specific term of existence is provided for in their trust document. In acquiring the securities of REITs, the Real Estate Securities Fund runs the risk that it will sell them at an inopportune time.

**Foreign Investments.** As described more fully in the Prospectus, each of the Funds, but especially the International

Equity Fund, International Equity Index Fund and Enhanced International Equity Index Fund, may invest in foreign securities, including those in emerging markets. In addition to the general risk factors discussed in the Prospectus, there are a number of country or region-specific risks and other considerations that may affect these investments. Many of the risks are more pronounced for investments in emerging market countries, as described below.

**General.** Since foreign companies may not be subject to accounting, auditing or financial reporting practices, disclosure and other requirements comparable to those applicable to U.S. companies, there may be less publicly available information about a foreign company than about a U.S. company, and it may be difficult to interpret the information that is available. There may be difficulties in obtaining or enforcing judgments against foreign issuers and it also is often more difficult to keep currently informed of corporate actions which affect the prices of portfolio securities. In certain countries, there is less government supervision and regulation of stock exchanges, brokers and listed companies than in the United States.

Volume and liquidity in most foreign markets are less than in the United States, and securities of many foreign companies are less liquid and more volatile than securities of comparable U.S. companies. Notwithstanding the fact that each Fund generally intends to acquire the securities of foreign issuers only where there are public trading markets, investments by a Fund in the securities of foreign issuers may tend to increase the risks with respect to the liquidity of the Fund's portfolio and the Fund's ability to meet a large number of shareholder redemption requests should there be economic or political turmoil in a country in which the Fund has a substantial portion of its assets invested or should relations between the United States and foreign countries deteriorate markedly. Securities may trade at price/earnings multiples higher than comparable U.S. securities and such levels may not be sustainable. Fixed commissions on some foreign securities exchanges are higher than negotiated commissions on U.S. exchanges, although the Funds endeavor to achieve most favorable net results on their portfolio transactions.

Foreign markets have different clearance and settlement procedures, and in certain markets there have been times when settlements have been unable to keep pace with the volume of securities transactions, making it difficult to conduct these transactions. Settlement practices for transactions in foreign markets may differ from those in the U.S. markets. Such differences include delays beyond periods customary in the United States and practices, such as delivery of securities prior to receipt of payment, which increase the likelihood of "failed settlement." The inability of a Fund to make intended security purchases due to settlement problems could cause the Fund to miss attractive investment opportunities. Losses to the Fund due to subsequent declines in the value of portfolio securities, or liabilities arising out of the Fund's inability to fulfill a contract to sell these securities, could result from failed settlements. In addition, evidence of securities ownership may be uncertain in many foreign countries. As a result, there is a risk that a Fund's trade details could be incorrectly or fraudulently entered at the time of the transaction, resulting in a loss to the Fund.

With respect to certain foreign countries, there is the possibility of expropriation or confiscatory taxation, political or social

instability, or diplomatic developments that could affect the Fund's investments in those countries. The economies of some countries differ unfavorably from the U.S. economy in such respects as growth of national product, rate of inflation, capital reinvestment, resource self-sufficiency, and balance of payments position. In addition, the internal politics of some foreign countries are not as stable as in the United States. Governments in certain foreign countries continue to participate to a significant degree, through ownership interest or regulation, in their respective economies. Action by these governments could have a significant effect on market prices of securities and payment of dividends. The economies of many foreign countries are heavily dependent upon international trade and are accordingly affected by protective trade barriers and economic conditions of their trading partners. The enactment by these trading partners of protectionist trade legislation could have a significant adverse effect upon the securities markets of such countries.

Terrorism and related geopolitical risks have led, and may in the future lead, to increased short-term market volatility and may have adverse long-term effects on world economies and markets generally.

**Investment and Repatriation Restrictions.** Foreign investment in the securities markets of certain foreign countries is restricted or controlled to varying degrees. These restrictions limit and at times, preclude investment in certain of such countries (especially countries in emerging markets) and increase the cost and expenses of Funds investing in them. These restrictions may take the form of prior governmental approval, limits on the amount or type of securities held by foreigners, and limits on the types of companies in which foreigners may invest. Additional or different restrictions may be imposed at any time by these or other countries in which the Funds invest. In addition, the repatriation (*i.e.*, remitting back to the United States) of both investment income and capital from several foreign countries is restricted and controlled under certain regulations, including in some cases the need for certain government consents. The Fund could be adversely affected by delays in or a refusal to grant any required governmental registration or approval for repatriation.

**Taxes.** The dividends and interest payable on certain of the Funds' foreign portfolio securities may be subject to foreign withholding taxes, thus reducing the net amount of income available for distribution to the Funds' shareholders.

**Emerging Market Securities.** An emerging market security is one issued by a foreign government or private issuer that has one or more of the following characteristics: (i) its principal securities trading market is in an emerging market country, (ii) alone or on a consolidated basis it derives 50% or more of its annual revenue from goods produced, sales made or services performed in emerging markets or (iii) it is organized under the laws of, or has a principal office in, an emerging market country. Based on these criteria, it is possible for a security to be considered issued by an issuer in more than one country. Therefore, it is possible for the securities of any issuer that has one or more of these characteristics in connection with any emerging market country not to be considered an emerging market security if it has one or more of these characteristics in connection with a developed country.

**Emerging Markets.** Investments in companies domiciled in emerging market countries may be subject to potentially higher

risks than investments in companies in developed countries. The term "emerging market" describes any country which is generally considered to be an emerging or developing country by major organizations in the international financial community, such as the International Bank for Reconstruction and Development (more commonly known as the "World Bank") and the International Finance Corporation. Emerging markets can include every nation in the world except the United States, Canada, Japan, Australia, New Zealand and most nations located in Western Europe.

Risks of investing in emerging markets and emerging market securities include (i) less social, political and economic stability; (ii) the smaller size of the markets for these securities and the currently low or nonexistent volume of trading that results in a lack of liquidity and in greater price volatility; (iii) the lack of publicly available information, including reports of payments of dividends or interest on outstanding securities; (iv) certain national policies that may restrict the Fund's investment opportunities, including restrictions on investment in issuers or industries deemed sensitive to national interests; (v) local taxation; (vi) the absence of developed structures governing private or foreign investment or allowing for judicial redress for injury to private property; (vii) the absence until recently, in certain countries, of a capital structure or market-oriented economy; (viii) the possibility that recent favorable economic developments in certain countries may be slowed or reversed by unanticipated political or social events in these countries; (ix) restrictions that may make it difficult or impossible for the Fund to vote proxies, exercise shareholder rights, pursue legal remedies, and obtain judgments in foreign courts; (x) the risk of uninsured loss due to lost, stolen, or counterfeit stock certificates; and (xi) possible losses through the holding of securities in domestic and foreign custodial banks and depositories.

In addition, some countries in which the Funds may invest have experienced substantial, and in some periods, extremely high rates of inflation for many years. Inflation and rapid fluctuations in inflation rates have had and may continue to have negative effects on the economies and securities markets of certain countries. Further, the economies of emerging market countries generally are heavily dependent upon international trade and, accordingly, have been and may continue to be adversely affected by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries with which they trade.

**Investment in Canada.** The United States is Canada's largest trading partner, and developments in economic policy do have a significant impact on the Canadian economy. The expanding economic and financial integration of the United States, Canada, and Mexico through the NAFTA Agreement has made, and will likely continue to make, the Canadian economy and securities market more sensitive to North American trade patterns. Growth in developing nations overseas will likely change the composition of Canada's trade and foreign investment composition in the near future.

Canada's parliamentary system of government is, in general, stable. However, one of the provinces, Quebec, does have a "separatist" party whose objective is to achieve sovereignty and increased self-governing legal and financial powers.

Canada is a major producer of commodities such as forest products, metals, agricultural products, and energy related products like oil, gas, and hydroelectricity. Accordingly, changes in the supply and demand of such commodity resources, both domestically and internationally, can have a significant effect on Canadian market performance.

**Investment in Europe.** The European Union (EU) is an inter-governmental and supranational union of 27 European countries, known as member states. A key activity of the EU is the establishment and administration of a common single market, consisting of, among other things, a single currency (for 15 members) and a common trade policy. The most widely used currency in the EU (and the unit of currency of the European Economic and Monetary Union (EMU)) is the euro, which is in use in 15 of the 27 member states. In addition to adopting a single currency, EMU member countries no longer control their own monetary policies. Instead, the authority to direct monetary policy is exercised by the European Central Bank.

In the transition to the single economic system, significant political decisions will be made which will affect the market regulation, subsidization and privatization across all industries, from agricultural products to telecommunications.

While economic and monetary convergence in the EU may offer new opportunities for those investing in the region, investors should be aware that the success of the EU is not wholly assured. Europe must grapple with a number of challenges, any one of which could threaten the survival of this monumental undertaking. Fifteen disparate economies must adjust to a unified monetary system, the absence of exchange rate flexibility, and the loss of economic sovereignty. Europe's economies are diverse, its governments are decentralized, and its cultures differ widely. Unemployment is historically high and could pose political risk. One or more member countries might exit the union, placing the currency and banking system in jeopardy. Major issues currently facing the EU cover its membership, structure, procedures and policies; they include the adoption, abandonment or adjustment of the new constitutional treaty, the EU's enlargement to the south and east, and resolving the EU's problematic fiscal and democratic accountability. Efforts of the member states to continue to unify their economic and monetary policies may increase the potential for similarities in the movements of European markets and reduce the benefit of diversification within the region.

The EU has been extending its influence to the east. It has accepted new members that were previously behind the Iron Curtain, and has plans to accept several more in the medium-term. For former Iron Curtain countries, membership serves as a strong political impetus to employ tight fiscal and monetary policies. Nevertheless, several entrants in recent years are former Soviet satellites and remain burdened to various extents by the inherited inefficiencies of centrally planned economies similar to that which existed under the old Soviet Union.

Further expansion of EU membership has long-term economic benefits, but the remaining European countries are not viewed as currently suitable for membership. Also, as the EU continues to enlarge, the candidate countries' accessions tend to grow more controversial.

The EU has the largest economy in the world according to data compiled by the International Monetary Fund, and is

expected to grow further over the next decade as more countries join. However, although the EU has set itself an objective to become "the world's most dynamic and competitive economy" by the year 2010, it is now generally accepted that this target will not be met. The EU's economic growth has been below that of the United States most years since 1990, and the economic performance of certain of its key members, including Germany and Italy, is a matter of serious concern to policy makers.

Investing in euro-denominated securities entails risk of being exposed to a relatively new currency that may not fully reflect the strengths and weaknesses of the disparate economies that make up the EU. In addition, many European countries rely heavily upon export-dependent businesses and fluctuations in the exchange rate between the euro and the dollar can have either a positive or a negative effect upon corporate profits.

**Investment in Eastern Europe.** Investing in the securities of Eastern European issuers is highly speculative and involves risks not usually associated with investing in the more developed markets of Western Europe.

Changes occurring in Eastern Europe today could have long-term potential consequences. These changes could result in rising standards of living, lower manufacturing costs, growing consumer spending and substantial economic growth. However, investment in most countries of Eastern Europe is highly speculative at this time.

Recent political and economic reforms do not eliminate the possibility of a return to centrally planned economies and state-owned industries. Investments in Eastern European countries may involve risks of nationalization, expropriation and confiscatory taxation. In many of the countries of Eastern Europe, there is no stock exchange or formal market for securities. Such countries may also have government exchange controls, currencies with no recognizable market value relative to the established currencies of western market economies, little or no experience in trading in securities, no accounting or financial reporting standards, a lack of a banking and securities infrastructure to handle such trading and a legal tradition which does not recognize rights in private property.

Further, the governments in such countries may require governmental or quasi-governmental authorities to act as a custodian of the Funds' assets invested in such countries, and these authorities may not qualify as a foreign custodian under the 1940 Act and exemptive relief from such Act may be required. All of these considerations are among the factors that result in significant risks and uncertainties arising from investing in Eastern Europe.

**Investment in Latin America.** The political history of certain Latin American countries has been characterized by political, economic and social instability, intervention by the military in civilian and economic spheres, and political corruption. For investors, this has meant additional risk caused by periods of regional conflict, political corruption, totalitarianism, protectionist measures, nationalizations, hyperinflation, debt crises, sudden and large currency devaluation, and military intervention. However, there have been changes in this regard, particularly in the past decade. Democracy is beginning to become well established in some countries. A move to a more mature and accountable political environment is well under way. Domestic

economies have been deregulated, privatization of state-owned companies has progressed, and foreign trade restrictions have been relaxed. Nonetheless, to the extent that events such as those listed above that increase the risk of investment in this region continue in the future, they could reverse favorable trends toward market and economic reform, privatization, and removal of trade barriers, and result in significant disruption in securities markets.

Most Latin American countries have experienced, at one time or another, severe and persistent levels of inflation, including in some cases, hyperinflation. This has, in turn, led to high interest rates, extreme measures by governments to keep inflation in check, and a generally debilitating effect on economic growth. Although inflation in many countries has lessened, there is no guarantee it will remain at lower levels.

Certain Latin American countries may experience sudden and large adjustments in their currency which, in turn, can have a disruptive and negative effect on foreign investors. Certain Latin American countries may impose restrictions on the free conversion of their currency into foreign currencies, including the U.S. dollar. There is no significant foreign exchange market for many currencies and it would, as a result, be difficult for the Funds to engage in foreign currency transactions designed to protect the value of the Funds' interests in securities denominated in such currencies.

A number of Latin American countries are among the largest debtors of developing countries. Argentina's bankruptcy in the early 2000's and the resulting financial turmoil in its neighboring countries are just the latest chapters in Latin America's long history of foreign debt and default. Almost all of the region's economies have become highly dependent upon foreign credit and loans from external sources to fuel their state-sponsored economic plans. Government profligacy and ill-conceived plans for modernization have exhausted these resources with little benefit accruing to the economy and most countries have been forced to restructure their loans or risk default on their debt obligations. In addition, interest on the foreign debt and other loans is subject to market conditions and may reach levels that would impair economic activity and create a difficult and costly environment for borrowers. There have been moratoria on, and reschedulings of, repayment with respect to these debts. Such events can restrict the flexibility of these debtor nations in the international markets and result in the imposition of onerous conditions on their economies.

**Investment in Japan.** Government-industry cooperation, a strong work ethic, mastery of high technology, emphasis on education, and a comparatively small defense allocation helped Japan advance with extraordinary speed to become one of the largest economic powers along with the United States and the EU. Despite its impressive history, investors face special risks when investing in Japan.

The Japanese economy languished for much of the 1990s, possibly due to a lack of effective governmental action in the areas of tax reform to reduce high tax rates, banking regulation to address enormous amounts of bad debt, and economic reforms to attempt to stimulate spending, but has recovered steadily since the early 2000s. Nonetheless, the yen has had a history of unpredictable and volatile movements against the U.S. dollar; a weakening yen hurts U.S. investors holding yen-denominated

securities. Finally, the Japanese stock market has experienced wild swings in value over time and has often been considered significantly overvalued.

Japan has historically depended on oil for most of its energy requirements. Almost all of its oil is imported, the majority from the Middle East. In the past, oil prices have had a major impact on the domestic economy, but more recently Japan has worked to reduce its dependence on oil by encouraging energy conservation and use of alternative fuels. In addition, a restructuring of industry, with emphasis shifting from basic industries to processing and assembly type industries, has contributed to the reduction of oil consumption. However, there is no guarantee this favorable trend will continue.

Overseas trade is important to Japan's economy. Japan has few natural resources and must export to pay for its imports of these basic requirements. Because of the concentration of Japanese exports in highly visible products such as automobiles, machine tools, and semiconductors and the large trade surpluses ensuing therefrom, Japan has had difficult relations with its trading partners, particularly the United States. It is possible that trade sanctions or other protectionist measures could impact Japan adversely in both the short term and long term.

Beginning in the late 1990s, the nation's financial institutions were successfully overhauled under the strong leadership of the government. Banks, in particular, disposed of their huge overhang of bad loans and trimmed their balance sheets, and are now competing with foreign institutions as well as other types of financial institutions. The successful financial sector reform coincided with Japan economic recovery, which set the stage for bright future outlook for Japanese companies. Many Japanese companies cut costs, took care of unfunded pension liabilities and wrote off impaired assets during the last few years. As the Japanese economy began to grow again, it achieved improved profitability and earnings growth.

**Investment in Asia Other Than Japan.** The political history of some Asian countries has been characterized by political uncertainty, intervention by the military in civilian and economic spheres, and political corruption. Such developments, if they continue to occur, could reverse favorable trends toward market and economic reform, privatization, and removal of trade barriers and result in significant disruption in securities markets. The economies of many countries in the region are heavily dependent on international trade and are accordingly affected by protective trade barriers and the economic conditions of their trading partners, principally, the United States, Japan, China and the EU.

Certain Asian countries may have managed currencies which are maintained at artificial levels to the U.S. dollar rather than at levels determined by the market. This type of system can lead to sudden and large adjustments in the currency which, in turn, can have a disruptive and negative effect on foreign investors. Certain Asian countries also may restrict the free conversion of their currency into foreign currencies, including the U.S. dollar. There is no significant foreign exchange market for certain currencies and it would, as a result, be difficult for the Funds to engage in foreign currency transactions designed to protect the value of the Funds' interests in securities denominated in such currencies.

A number of Asian companies are highly dependent on foreign loans for their operation which could impose strict repayment

term schedules and require significant economic and financial restructuring.

**Depository Receipts.** The Equity Funds can invest in American, European and Global Depository Receipts (“ADRs,” “EDRs” and “GDRs,” respectively). They are alternatives to the purchase of the underlying securities in their national markets and currencies. Although their prices are quoted in U.S. dollars, they do not eliminate all the risks of foreign investing.

ADRs represent the right to receive securities of foreign issuers deposited in a domestic bank or a foreign correspondent bank. To the extent that a Fund acquires ADRs through banks which do not have a contractual relationship with the foreign issuer of the security underlying the ADR to issue and service such ADRs, there may be an increased possibility that the Fund would not become aware of, and be able to respond to, corporate actions such as stock splits or rights offerings involving the foreign issuer in a timely manner. In addition, the lack of information may result in inefficiencies in the valuation of such instruments. However, by investing in ADRs rather than directly in the stock of foreign issuers, a Fund will avoid currency risks during the settlement period for either purchases or sales. In general, there is a large, liquid market in the United States for ADRs quoted on a national securities exchange or the national market system, including the NASDAQ Stock Market, Inc. (“NASDAQ”). The information available for ADRs is subject to the accounting auditing and financial reporting standards of the domestic market or exchange on which they are traded, which standards are more uniform and more exacting than those to which many foreign issuers may be subject.

EDRs and GDRs are receipts evidencing an arrangement with a non-U.S. bank similar to that for ADRs and are designed for use in non-U.S. securities markets. EDRs and GDRs are not necessarily quoted in the same currency as the underlying security.

**Municipal Securities.** The Tax-Exempt Bond Fund invests in “municipal securities.” The term “municipal securities” as used in the Prospectus and this SAI means debt obligations issued by, or on behalf of, state, territories and possessions of the United States and the District of Columbia and their political subdivisions, agencies and instrumentalities or multi-state agencies or authorities, the interest from which debt obligations is, in the opinion of the issuer’s counsel, excluded from gross income for federal income tax purposes (but not necessarily exempt from federal alternative minimum tax (AMT) or from state or local taxes).

Municipal securities generally are understood to include debt obligations issued to obtain funds for various public purposes, including the construction of a wide range of public facilities, refunding of outstanding obligations, payment of general operating expenses and extensions of loans to public institutions and facilities. Private activity bonds that are issued by or on behalf of public authorities to finance privately operated facilities are considered to be municipal securities if, in the opinion of the issuer’s counsel, the interest paid on them qualifies as excluded from gross income (but not necessarily from alternative minimum taxable income) for federal income tax purposes. Interest on certain “private activity” bonds is subject to federal alternative minimum tax. Interest from private activity bonds is a tax preference item for the purposes of determining whether a taxpayer is subject to the AMT and the amount of AMT to be paid, if any.

Opinions relating to the validity of municipal securities and to the exemption of interest on them from federal income taxes are rendered by bond counsel for each issuer at the time of issue. These opinions are generally based on covenants by the issuers or others regarding continuing compliance with the federal tax laws. In the event that the issuer fails to comply, the interest distributions to shareholders may retroactively become federally taxable. Neither the Trust nor Advisors will review the proceedings relating to the issuance of municipal securities or the basis for opinions of issuer’s counsel.

Municipal securities may be issued to finance life care facilities, which are an alternative form of long-term housing for the elderly that offer residents the independence of a condominium life style and, if needed, the comprehensive care of nursing home services. Bonds to finance these facilities have been issued by various state industrial development authorities. Because the bonds are secured only by the revenues of each facility and not by state or local government tax payments, they are subject to a wide variety of risks, including a drop in occupancy levels, the difficulty of maintaining adequate financial reserves to secure estimated actuarial liabilities, the possibility of regulatory cost restrictions applied to health care delivery and competition from alternative health care of conventional housing facilities.

Even though municipal securities are interest-bearing investments that promise a stable flow of income, their prices are inversely affected by changes in interest rates and, therefore, are subject to the risk of market price fluctuations. The values of municipal securities with longer remaining maturities typically fluctuate more than those of similarly rated municipal securities with shorter remaining maturities. The values of fixed income securities also may be affected by changes in the credit rating or financial condition of the issuing entities.

Tax legislation in recent years has included several provisions that may affect the supply of, and the demand for, municipal securities, as well as the tax-exempt nature of interest paid on those securities. Neither the Trust nor Advisors can predict the effect of recent tax law changes upon the municipal obligation market, including the availability of instruments by a Fund. In addition, neither the Trust nor Advisors can predict whether additional legislation adversely affecting the municipal obligation market will be enacted in the future. Advisors monitors legislative developments and considers whether changes in the objective or policies of a Fund need to be made in response to those developments. If any laws are enacted that would reduce the availability of municipal securities for investment by the Tax-Exempt Bond Fund so as to affect the Fund’s shareholders adversely, the Trust will reevaluate the Fund’s investment objective and policies and might submit possible changes in the Fund’s structure to the Fund’s shareholders for their consideration. If legislation were enacted that would treat a type of municipal obligation as taxable for federal income tax purposes, the Trust would treat the security as a permissible taxable money market instrument for the Tax-Exempt Bond Fund within the applicable limits set forth in the Prospectus.

**Municipal Insurance.** The Tax-Exempt Bond Fund may invest its assets in municipal bonds whose principal and interest payments are guaranteed by a private insurance company. This insurance may be: (1) purchased by the bond issuer at the time of

issuance; (2) purchased by TIAA-CREF to guarantee specific bonds only while held by the fund; or (3) purchased by an investor after the bond has been issued to guarantee the bond until its maturity date.

**Municipal Leases.** Municipal leases are municipal securities that may take the form of lease or an installment purchase contract issued by the state and local governmental authorities to obtain funds to acquire a wide variety of equipment and facilities such as fire and sanitation vehicles, computer equipment and other capital assets. Interest payments on qualifying municipal leases are exempt from federal income taxes and state income taxes within the state of issuance. Although municipal lease obligations do not normally constitute general obligations of municipality, a lease obligation is ordinarily backed by the municipality's agreement to make the payments due under the lease obligation. These obligations have evolved to make it possible for state and local government authorities to acquire property and equipment without meeting constitutional and statutory requirements for the issuance of debt. Thus, municipal leases have special risks not normally associated with municipal securities. These securities frequently contain "non-appropriation" clauses that provide that the governmental issuer of the obligation has no obligation to make future payments under the lease or contract unless money is appropriated for those purposes by the legislative body on a yearly or other periodic basis. In addition to the non-appropriation risk, municipal leases represent a type of financing that has not yet developed the depth of marketability associated with other municipal securities.

Moreover, although municipal leases will be secured by the leased equipment, the disposition of the equipment in the event of foreclosure might prove to be difficult. The Tax-Exempt Bond Fund will not purchase lease obligations that contain non-appropriation clauses with an average life of five years or longer unless the lease obligation is rated investment grade by a nationally recognized rating organization.

Municipal lease obligations may be deemed to be illiquid. In determining the liquidity and appropriate valuation of a municipal lease obligation, the following factors relating to the security are considered, among others: (1) the frequency of trades for the obligation; (2) the number of dealers willing to purchase or sell the security; (3) the willingness of dealers to undertake to make a market; (4) the nature of the marketplace trades; and (5) the likelihood that the obligation will remain marketable based on the credit quality of the municipality or relevant obligor.

Municipal leases will be considered illiquid securities unless the Board of Trustees determines on an ongoing basis that the leases are readily marketable.

Municipal leases can be both rated and unrated. Rated leases that may be held by the Tax-Exempt Bond Fund include those rated investment grade at the time of investment or those issued by issuers whose senior debt is rated investment grade at the time of investment. The Tax-Exempt Bond Fund may acquire unrated issues that Advisors deems to be comparable in quality to rated issues in which the Fund is authorized to invest. A determination that an unrated lease obligation is comparable in quality to a rated lease obligation and that there is a reasonable likelihood that the lease will not be canceled will be subject to oversight and approval by the Board of Trustees.

To limit the risks associated with municipal leases, the Tax-Exempt Bond Fund will not invest in municipal lease obligations that are deemed illiquid if such investments, together with all other illiquid investments, would exceed 15% of the Fund's net assets.

**Tobacco Related Bonds.** The Tax-Exempt Bond Fund may invest in tobacco settlement related bonds.

Because tobacco settlement bonds are backed by payments from the tobacco manufacturers, and generally not by the credit of the state or local governments issuing the bonds, their credit-worthiness depends on the ability of tobacco manufacturers to meet their obligations. A market share loss by the tobacco companies subject to the tobacco settlement could also cause a downward adjustment in the payment amounts. A participating manufacturer filing for bankruptcy also could cause delays or reductions in bond payments, which could affect the Fund's net asset value.

Tobacco manufacturers have been and continue to be subject to various legal claims. An adverse outcome to any tobacco litigation matters could adversely affect the payment streams associated with tobacco related bonds.

**Municipal Floating and Variable Rate Demand Instruments.** Floating and variable rate demand bonds and notes are municipal securities ordinarily having stated maturities in excess of one year but which permit their holder to demand payment of principal at any time or at specified intervals. Variable rate demand notes include master demand notes, which are securities that permit the Tax-Exempt Bond Fund to invest fluctuating amounts, which may change daily without penalty, pursuant to direct arrangements between the Fund, as lender, and the borrower. These securities have interest rates that fluctuate from time to time and frequently are secured by letters of credit or credit support arrangements provided by banks.

Use of letters of credit or credit support arrangements generally will not adversely affect the tax-exempt status of variable rate demand notes. Because they are direct lending arrangements between the lender and borrower, variable rate demand notes generally will not be traded and no established secondary market generally exists for them, although they are redeemable at face value. If variable rate demand notes are not secured by letters of credit or other credit support arrangements, the right to demand payment on them will be dependent on the ability of the borrower to pay principal and interest on demand. Each obligation purchased by the Tax-Exempt Bond Fund will meet the quality criteria established by Advisors for the purchase of municipal securities. Advisors considers on an ongoing basis the creditworthiness of the issuers of the floating and variable rate demand securities in the Fund's portfolio.

**Participation Interests.** A participation interest in a municipal security gives the purchaser an undivided interest in the municipal obligation in the proportion that the purchaser's participation interest bears to the total principal amount of the municipal obligation. These instruments may have fixed, floating or variable rates of interest. If the participation interest is unrated, or has been given a rating below one that is otherwise permissible for purchase by the Tax-Exempt Bond Fund, the participation interest will be backed by an irrevocable letter of credit or guarantee of a bank that Advisors has determined meets certain quality standards established by the Board of Trustees, or the payment obligation otherwise will be collateralized by U.S.

Government Securities. The Tax-Exempt Bond Fund will have the right, with respect to certain participation interests, to demand payment, on a specified number of days' notice, for all or any part of the Fund's participation interest in the municipal obligation, plus accrued interest. The Tax-Exempt Bond Fund intends to exercise its right to demand payment only upon a default under the terms of the municipal obligation, or to maintain or improve the quality of its investment portfolio. The Tax-Exempt Bond Fund will invest no more than 5% of the value of its assets in participation interests.

**Municipal Obligation Components.** The interest payments on municipal securities can be divided into two different and variable components, which together result in a fixed interest rate. Typically, the first of the components (the "Auction Component") pays an interest rate that is reset periodically through an auction process, whereas the second of the components (the "Residual Component") pays a residual interest rate based on the difference between the total interest paid by the issuer on the municipal obligation and the auction rate paid on the Auction Component. The components can be purchased separately. Because the interest rate paid to holders of Residual Components is generally determined by subtracting the interest rate paid to the holders of Auction Components from a fixed amount, the interest rate paid to Residual Component holders will decrease as the Auction Component's rate increases and increase as the Auction Component's rate decreases. Moreover, the extent of the increases and decreases in market value of Residual Components may be larger than comparable changes in the market value of an equal principal amount of a fixed rate municipal obligation have similar credit quality, redemption provisions and maturity.

**Municipal Custody Receipts.** The Tax-Exempt Bond Fund also may acquire custodial receipts of certificates underwritten by securities dealers or banks that evidence ownership of future interest payments, principal payments, or both, on certain municipal securities. The underwriter of these certificates or receipts typically purchases municipal securities and deposits the securities in an irrevocable trust or custody account with a custodian bank, which then issues receipts or certificates that evidence ownership of the periodic unmatured coupon payments and the final principal payment on the securities. Custody receipts evidencing specific coupon or principal payments have the same general attributes as zero coupon municipal securities described above. Although under the terms of a custody receipt the Fund would be typically authorized to assert its rights directly against the issuer of the underlying obligation, the Fund could be required to assert through the custodian bank those rights as may exist against the underlying issuers. Thus, in the event the underlying issuer fails to pay principal and/or interest when due, the Fund may be subject to delays, expenses and risks that are greater than those that would have been involved if the Fund had purchased a direct obligation of the issuer. In addition, in the event that the trust or custody account in which the underlying security has been deposited is determined to be an association taxable as a corporation, instead of a non-taxable entity, the yield on the underlying security would be reduced in recognition of any taxes paid.

**Other Investment Techniques and Opportunities.** Other Investment Techniques and Opportunities. The Funds may take certain actions with respect to merger proposals, tender offers, conversion of equity-related securities and other investment opportunities with the objective of enhancing the portfolio's overall return, regardless of how these actions may affect the weight of the particular securities in the Funds' portfolios.

**Industry Concentration.** With the exception of the Managed Allocation Fund and the Real Estate Securities Fund, none of the Funds will concentrate more than 25% of its total assets in any one industry. While the Managed Allocation Fund does not intend to concentrate its investments in any particular industry, the Fund may, through one or more of its underlying funds in which it invests, indirectly concentrate in a single industry. Currently, no underlying fund of the Managed Allocation Fund, other than the Real Estate Securities Fund, concentrates 25% or more of its total assets in any one industry.

**Portfolio Turnover.** The transactions a Fund engages in are reflected in its portfolio turnover rate (although the Money Market Fund does not have a portfolio turnover rate). The rate of portfolio turnover is calculated by dividing the lesser of the amount of purchases or sales of portfolio securities during the fiscal year by the monthly average of the value of the Fund's portfolio securities (excluding from the computation all securities, including options, with maturities at the time of acquisition of one year or less). A high rate of portfolio turnover generally involves correspondingly greater brokerage commission expenses, which must be borne directly by the Fund and ultimately by the Fund's shareholders. However, because portfolio turnover is not a limiting factor in determining whether or not to sell portfolio securities, a particular investment may be sold at any time, if investment judgment or account operations make a sale advisable.

For the year ended September 30, 2008, the portfolio turnover of some of the Funds significantly changed from portfolio turnover rates in 2007 as a result of a variety of factors.

The Growth & Income Fund portfolio turnover rate increased to 132% for 2008 as compared with 84% for the same period in 2007. This increase in portfolio turnover was due to heightened market volatility, which at times required more frequent trading to limit losses and protect gains.

The Mid-Cap Value Fund portfolio turnover rate decreased to 41% for 2008 as compared with 90% for the same period in 2007. This decrease in portfolio turnover was due to the portfolio management team's efforts to limit frictional costs of trading under conditions of reduced market liquidity and heightened volatility that existed during much of the twelve-month period ended September 30, 2008.

The Equity Index Fund portfolio turnover rate decreased to 9% for 2008 as compared with 16% for the same period in 2007. This decrease in portfolio turnover was due to lower rebalancing activity associated with the Fund's benchmark (the Russell 3000 Index), in addition to less frequent use of ETFs as a means of investing excess cash balances.

The Large-Cap Growth Index Fund portfolio turnover rate decreased to 28% for 2008 as compared with 53% for the same period in 2007. This decrease in portfolio turnover was due to reduced 529 Plan rebalance activity, in addition to less frequent use of ETFs as a means of investing excess cash balances.

The Large-Cap Value Index Fund portfolio turnover rate decreased to 33% for 2008 as compared with 60% for the same period in 2007. This decrease in portfolio turnover was due to reduced 529 Plan rebalance activity, in addition to less frequent use of ETFs as a means of investing excess cash balances.

The Small-Cap Blend Index Fund portfolio turnover rate decreased to 36% for 2008 as compared with 69% for the same period in 2007. This decrease in portfolio turnover was due to reduced 529 Plan rebalancing activity, in addition to less frequent use of ETFs as a means of investing excess cash balances.

The Social Choice Equity Fund portfolio turnover rate decreased to 15% for 2008 as compared with 30% for the same period in 2007. This decrease in portfolio turnover was primarily due to reduced 529 Plan rebalancing activity.

The Managed Allocation Fund portfolio turnover rate increased to 26% for 2008 as compared with 13% for the same period in 2007. This increase in portfolio turnover was primarily due to increased market volatility, which resulted in more frequent rebalancing among underlying funds held in the portfolio.

The following fixed-income Funds were impacted by significant changes in turnover rates. The Bond Fund portfolio turnover rate decreased to 113% for 2008 as compared with 189% for the same period in 2007. This decrease in portfolio turnover was due to a reduction in market liquidity, resulting in fewer opportunities to execute trades on attractive terms.

The Bond Plus Fund portfolio turnover rate decreased to 92% for 2008 as compared with 137% for the same period in 2007. This decrease in portfolio turnover was due to a reduction in market liquidity, resulting in fewer opportunities to execute trades on attractive terms.

The High-Yield Fund portfolio turnover rate increased to 59% for 2008 as compared with 43% for the same period in 2007. There was no change in strategy of the High-Yield Fund in the period. The portfolio turnover rate in both periods reflects a lower turnover rate than other high-yield funds, reflective of an investment style of investing for the long term.

Finally, the Inflation-Linked Bond Fund portfolio turnover rate decreased to 16% for 2008 as compared with 26% for the same period in 2007. This decrease in portfolio turnover was due to a reduction in market liquidity, resulting in fewer opportunities to execute trades on attractive terms. The portfolio turnover rates of the other Funds did not change significantly from 2007 to 2008.

The Funds do not have fixed policies on portfolio turnover, although, because a higher portfolio turnover rate will increase brokerage costs, Advisors will carefully weigh the added costs of short-term investment against the gains anticipated from such transactions. To the extent that the Funds have investors that are funds or pools managed by Advisors, transaction activity by these funds or pools may contribute to the Funds' portfolio turnover rate and may increase the Funds' brokerage costs.

## DISCLOSURE OF PORTFOLIO HOLDINGS

The Board has adopted policies and procedures reasonably designed to prevent selective disclosure of each Fund's portfolio holdings to third parties, other than disclosures of Fund portfolio holdings that are consistent with the best interests of Fund shareholders. Fund holdings disclosure refers to sharing of posi-

tional information at the security or investment level either in dollars, shares, or as a percentage of the Fund's market value. As a general rule, except as described below, the Funds and Advisors will not disclose the Funds' portfolio holdings to third parties, except as of the end of a calendar month, and no earlier than 30 days after the end of the calendar month. The Fund may disclose its portfolio holdings to all third parties who request it after that period. In addition, the Funds and Advisors may disclose the ten largest holdings of any Fund to third parties ten days after the end of the calendar month.

The Funds and Advisors may disclose the Funds' portfolio holdings to third parties outside the time restrictions described above as follows:

- Fund holdings in any particular security can be made available to stock exchanges, regulators or issuers, in each case subject to approval of Advisors' Chief Compliance Officer or an attorney employed by Advisors holding the title of Chief Counsel or above.
- Fund portfolio holdings can be made available to rating and ranking organizations (*e.g.*, Morningstar) subject to a written confidentiality agreement between the recipient and Advisors that includes provisions restricting trading on the information provided.
- Fund portfolio holdings can be made available to any other third party, as long as the recipient has a legitimate business need for the information and the disclosure of Fund portfolio holding information to that third party is:
  - approved by an individual holding the title of Funds Treasurer, Chief Investment Officer, Executive Vice President or above;
  - approved by an individual holding the title of Vice President and Associate General Counsel or above; and
  - subject to a written confidentiality agreement under which the third party agrees not to trade on the information provided.
- Any waiver to the policies and procedures must be approved in writing by an individual holding the title of Chief Investment Officer or Executive Vice President, Asset Management or above and approved by an individual holding the title of Vice President and Associate General Counsel or above.

On an annual basis, the Boards of the respective Funds and of Advisors will receive a report on compliance with these portfolio holdings disclosure procedures, as well as a current copy of the procedures for the Boards' review and approval and will identify any potential conflicts between Advisors' interests and those of Fund shareholders in connection with these disclosures.

Currently, the Funds have ongoing arrangements to disclose, in accordance with the time restrictions and other provisions of the Funds' portfolio holdings disclosure policy, the portfolio holdings of the Funds to the following recipients: Lipper, a Reuters company; Morningstar, Inc.; Mellon Analytical Solutions; S&P; The Thomson Corporation; Adviser Consultant Network; Command Financial Press; and Bloomberg L.P. The Funds' portfolio holdings are also disclosed on TIAA-CREF's corporate website at [www.tiaa-cref.org](http://www.tiaa-cref.org). Each of these entities receives portfolio holdings information on a monthly basis at least 30 days after the end of the most recent calendar month. No compensation was

received by the Funds, Advisors or their affiliates as part of these arrangements to disclose portfolio holdings of the Funds.

In addition, occasionally the Funds and Advisors disclose to certain broker-dealers a Fund's portfolio holdings, in whole or in part, in order to assist the portfolio managers when they are determining the Funds' portfolio management and trading strategies. These disclosures are done in accordance with the Funds' portfolio holdings disclosure policy and are covered by confidentiality agreements. Disclosures of portfolio holdings information will be made to the Funds' independent registered public accounting firm in connection with the preparation of public filings. Disclosure of portfolio holdings information, including current portfolio holdings information, may be made to counsel to the Funds or counsel to the Funds' independent trustees in connection with periodic meetings of the Board of Trustees and otherwise from time to time in connection with the Funds' operations. Also, State Street Bank and Trust Company, as the Funds' custodian and fund accounting agent, receives a variety of confidential information (including portfolio holdings) in order to process, account for and safe keep the Funds' assets.

The entities to which the Funds voluntarily disclose portfolio holdings information are required, either by explicit agreement or by virtue of their respective duties to the Funds, to maintain the confidentiality of the information disclosed. There can be no assurance that the Funds' policies and procedures regarding selective disclosure of the Funds' holdings will protect the Funds from potential misuse of that information by individuals or entities to which it is disclosed.

The Funds send summaries of their portfolio holdings to shareholders semiannually as part of the Funds' annual and semiannual reports. Full portfolio holdings are also filed with the SEC, and can be accessed from the SEC's website at [www.sec.gov](http://www.sec.gov) approximately 60 days after the end of each quarter (through Forms N-CSR and N-Q). You can request more frequent portfolio holdings information, subject to the Funds' policy as stated above, by writing to the Funds at TIAA-CREF Funds, P.O. Box 4674, New York, NY 10164.

## MANAGEMENT OF THE TRUST

### THE BOARD OF TRUSTEES

The Board of Trustees oversees the Trust's business affairs. The Board delegates the day-to-day management of the Funds to Advisors and its officers (see below). The Board meets periodically to review, among other things, the Funds' activities, contractual arrangements with companies that provide services to the Funds and the performance of the Funds' investment portfolios.

### TRUSTEES AND OFFICERS

The following tables include certain information about the trustees and certain primary officers of the Trust, including positions held with the Trust, length of office and time served, and principal occupations in the last five years. The first table includes information about the Trust's disinterested trustees and the second table includes information about the Trust's officers. The first table also includes the number of portfolios in the fund complex overseen by each trustee and certain directorships held by each of them. The Trust has no interested trustees.

#### DISINTERESTED TRUSTEES

Name, Address and Date of Birth	Position(s) Held with Trust	Term of Office and Length of Time Served	Principal Occupation(s) During Past 5 Years	Number of Portfolios in Fund Complex Overseen by Trustee	Other Directorships Held by Trustees
Forrest Berkley c/o Office of the Corporate Secretary 730 Third Avenue New York, NY 10017-3206 Date of Birth ("DOB"): 4/25/54	Trustee	Indefinite term. Trustee since 2006.	Retired Partner (since 2006), Partner (1990-2005) and Head of Global Product Management (2003-2006), GMO (formerly, Grantham, Mayo, Van Otterloo & Co.) (investment management); and member of asset allocation portfolio management team, GMO (2003-2005).	66	Director and member of the Investment Committee, the Maine Coast Heritage Trust; Investment Committee Member, Gulf of Maine Research Institute, Maine Community Foundation and Carnegie Endowment for International Peace; and Director, Appalachian Mountain Club.
Nancy A. Eckl c/o Office of the Corporate Secretary 730 Third Avenue New York, NY 10017-3206 DOB: 10/06/62	Trustee	Indefinite term. Trustee since 2007.	Former Vice President (1990-2006), American Beacon Advisors, Inc. and Vice President of certain funds advised by American Beacon Advisors, Inc.	66	Independent Director, The Lazard Funds, Inc., Lazard Retirement Series, Inc., Lazard Global Total Return and Income Fund, Inc. and Lazard World Dividend & Income Fund, Inc. and Member of the Board of Managers of Lazard Alternative Strategies Fund, LLC.
Eugene Flood, Jr. c/o Office of the Corporate Secretary 730 Third Avenue New York, NY 10017-3206 DOB: 10/31/55	Trustee	Indefinite term. Trustee since 2005.	President and Chief Executive Officer (since 2000) and a Director (since 1994) of Smith Breeden Associates, Inc. (investment adviser).	66	None
Michael A. Forrester c/o Office of the Corporate Secretary 730 Third Avenue New York, NY 10017-3206 DOB: 11/05/67	Trustee	Indefinite term. Trustee since 2007.	Chief Operating Officer (since September 2007) of Copper Rock Capital Partners, LLC (investment adviser). Formerly, Chief Operating Officer, DDJ Capital Management (2003-2006); and Executive Vice President (2000-2002), Senior Vice President (1995-2000) and Vice President (1992-1995), Fidelity Investments.	66	Member, Board of Directors of Copper Rock Capital Partners, LLC (investment adviser).
Howell E. Jackson c/o Office of the Corporate Secretary 730 Third Avenue New York, NY 10017-3206 DOB: 1/4/54	Trustee	Indefinite term. Trustee since 2005	James S. Reid, Jr. Professor of Law (since 2004). Formerly, Acting Dean of Harvard Law School (2009); Vice Dean for Budget (2003-2006) and on the faculty (since 1989) of Harvard Law School.	66	None
Nancy L. Jacob c/o Office of the Corporate Secretary 730 Third Avenue New York, NY 10017-3206 DOB: 1/15/43	Trustee	Indefinite term. Trustee since 1999.	President and Founder (since October 2006) of NLJ Advisors, Inc. (investment adviser). Formerly, President and Managing Principal, Windermere Investment Associates (1997-2006); Chairman and Chief Executive Officer, CTC Consulting, Inc. (1994-1997); and Executive Vice President, U.S. Trust Company of the Pacific Northwest (1993-1997).	66	None

DISINTERESTED TRUSTEES (continued)

Name, Address and Date of Birth	Position(s) Held with Trust	Term of Office and Length of Time Served	Principal Occupation(s) During Past 5 Years	Number of Portfolios in Fund Complex Overseen by Trustee	Other Directorships Held by Trustees
Bridget A. Macaskill c/o Office of the Corporate Secretary 730 Third Avenue New York, NY 10017-3206 DOB: 8/5/48	Trustee	Indefinite term. Trustee since 2003.	President and Chief Operating Officer, Amhold S. Bleichroeder Advisers, Inc (since February 2009; Principal and Founder BAM Consulting LLC (since 2003); and Independent Consultant for Merrill Lynch (since 2003). Formerly, Chairman, Oppenheimer Funds, Inc. (2000-2001); and Chief Executive Officer (1995-2001); President (1991-2000); and Chief Operating Officer (1989-1995) of that firm.	66	Director, Prudential plc and International Advisory Board, British-American Business Council.
James M. Poterba c/o Office of the Corporate Secretary 730 Third Avenue New York, NY 10017-3206 DOB: 7/13/58	Trustee	Indefinite term. Trustee since 2006.	President and CEO, National Bureau of Research (since 2008); Head (2006-2008) and Associate Head (1994-2000 and 2001-2006) Economics Department, Massachusetts Institute of Technology (MIT); Mitsui Professor of Economics, MIT (since 1996), and Program Director, National Bureau of Economic Research (1990-2008).	66	Director, The Jeffrey Company and Jelfion Company (unregistered investment companies); and National Bureau of Economic Research.
Maceo K. Sloan c/o Office of the Corporate Secretary 730 Third Avenue New York, NY 10017-3206 DOB: 10/18/49	Chairman of the Board and Trustee	Indefinite term. Trustee since 1999. Chairman of the Board (since 2009).	Chairman, President and Chief Executive Officer, Sloan Financial Group, Inc. (since 1991); Chairman, CEO and CIO, NCM Capital Management Group, Inc. (since 1991); Chairman CEO and CIO, NCM Capital Advisers, Inc. (since 2003) and Chairman, President and Principal Executive Officer, NCM Capital Investment Trust (since 2007).	66	Director, SCANA Corporation (energy holding company); and NCM Capital Investment Trust.
Laura T. Starks c/o Office of the Corporate Secretary 730 Third Avenue New York, NY 10017-3206 DOB: 2/17/50	Trustee	Indefinite term. Trustee since 2006.	Chairman, Department of Finance, the Charles E. and Sarah M. Seay Regents Chair in Finance (since 2002), and Director, AIM Investment Center, McCombs School of Business, University of Texas at Austin (since 2000); Professor, University of Texas at Austin (since 1987); Fellow, Financial Management Association (since 2002). Formerly, Associate Dean for Research (2001-2002) and Associate Director of Research (2000-2003), the Center for International Business Education and Research, University of Texas at Austin and Director of the Bureau of Business Research, University of Texas at Austin (2001-2002).	66	None

OFFICERS

Name, Address and Date of Birth	Position(s) Held with Trust	Term of Office and Length of Time Served	Principal Occupation(s) During Past 5 Years
Mary (Maliz) E. Beams TIAA-CREF 730 Third Avenue New York, NY 10017-3206 DOB: 3/29/56	Executive Vice President	One-year term. Executive Vice President since 2007.	Executive Vice President (EVP), Individual & Institutional Client Services (since 2009), EVP, Individual Client Services (2007-2009) of Teacher Insurance and Annuity Association ("TIAA") and of TIAA-CREF Funds, College Retirement Equities Fund ("CREF"), TIAA-CREF Life Funds and TIAA Separate Account VA-1 (collectively, the "TIAA-CREF Fund Complex") (since 2008); EVP of Individual Client Services of TIAA and the TIAA-CREF Fund Complex (2007-2008); Manager, President and Chief Executive Officer, TIAA-CREF Individual & Institutional Services, LLC ("Services") (since 2007); and Senior Managing Director and Head of Wealth Management Group, TIAA (since 2004). Formerly, Partner, Spyglass Investments (2002-2003); Partner and Managing Director, President of Global Business Development for the Mutual Fund Group and Head of International Mutual Fund and Offshore Business of Zurich Scudder Investments; and Head of U.S. Scudder Direct Retail Business and Chief Executive Officer of Scudder Brokerage (1997-2003).
Brandon Becker TIAA-CREF 730 Third Avenue New York, NY 10017-3206 DOB: 3/19/54	Executive Vice President and Chief Legal Officer	One-year term. Executive Vice President and Chief Legal Officer since 2009.	EVP and Chief Legal Officer of TIAA and the TIAA-CREF Fund Complex (since 2009). Formerly, Partner, Wilmer Cutler Pickering Hale & Dorr LLP (1996-2009), Special Advisor to the Chairman for International Derivatives (1995-1996), U.S. Securities and Exchange Commission; and Director, Division of Market Regulation (1993-1995), U.S. Securities and Exchange Commission.

**OFFICERS** (continued)

Name, Address and Date of Birth	Position(s) Held with Trust	Term of Office and Length of Time Served	Principal Occupation(s) During Past 5 Years
Richard S. Biegen TIAA-CREF 730 Third Avenue New York, NY 10017-3206 DOB: 5/08/62	Vice President and Chief Compliance Officer	One-year term. Vice President and Chief Compliance Officer since 2008.	Chief Compliance Officer of the TIAA-CREF Fund Complex; Vice President Senior Compliance Officer of Asset Management Compliance of TIAA and Chief Compliance Officer of TIAA-CREF Investment Management, LLC ("Investment Management") (since 2008) and Chief Compliance Officer of TIAA Separate Account VA-3. Formerly, Chief Compliance Officer of Advisors (February-July 2008); Managing Director/Director of Global Compliance, AIG Investments (2000-2008); Senior Vice President/ Group Head, Regulatory Oversight Group, Scudder Kemper Investments, Inc. (1998-2000); Chief Compliance Officer/Vice President, Legal Department, Salomon Brothers Asset Management, Inc. (1997-1998); Assistant General Counsel/Director, Securities Law Compliance, The Prudential Insurance Company of America (1994-1997); and Enforcement Staff Attorney, U.S. Securities and Exchange Commission (1988-1994).
Scott C. Evans TIAA-CREF 730 Third Avenue New York, NY 10017-3206 DOB: 5/11/59	President and Principal Executive Officer	One-year term. President and Principal Executive Officer since 2007	President and Principal Executive Officer of the TIAA-CREF Funds and the TIAA-CREF Life Funds (since 2007); EVP (since 1997) of CREF and TIAA Separate Account VA-1; EVP, Investments, Research, Institute & Strategy (since 2009) and EVP, Head of Asset Management (2006-2009), and EVP and Chief Investment Officer (2005) of TIAA. Director; Advisors (since 2004). President and Chief Executive Officer of Investment Management and Advisors and Manager of Investment Management (since 2004). Formerly, Manager of TIAA Realty Capital Management, LLC (2004-2006), and Chief Investment Officer of TIAA (2004-2006) and the TIAA-CREF Fund Complex (2003-2006). Formerly, Director of TIAA Global Markets, Inc. (2004-2005); Director of TIAA-CREF Life Insurance Company (1997-2006), and Director of Teachers Personal Investors Services, Inc. ("TPIS") (2006-2008).
Phillip G. Goff TIAA-CREF 730 Third Avenue New York, NY 10017-3206 DOB: 11/22/63	Principal Financial Officer, Principal Accounting Officer and Treasurer	One-year term. Principal Financial Officer, Principal Accounting Officer and Treasurer since 2007.	Principal Financial Officer, Principal Accounting Officer and Treasurer of the TIAA-CREF Funds and TIAA-CREF Life Funds (since 2007) and TIAA Separate Account VA-1 (since 2009). and Treasurer of CREF (since 2008). Director (since 2008) and Funds Treasurer (since 2007) of Advisors; Manager and Funds Treasurer of Investment Management (since 2008); Director of TIAA-CREF Trust Company, FSB (since 2008). Formerly, Chief Financial Officer, Van Kampen Funds (2005-2006); and Vice President and Chief Financial Officer, Enterprise Capital Management and the Enterprise Group of Funds (1995-2005).
I. Steven Goldstein TIAA-CREF 730 Third Avenue New York, NY 10017-3206 DOB: 9/24/52	Executive Vice President	One-year term. Executive Vice President since 2003.	EVP Public Affairs of TIAA (since 2005) and EVP of the TIAA-CREF Fund Complex (since 2003). Formerly, Director of TIAA-CREF Life Insurance Company (2003-2006); Advisor for McKinsey & Company (2003); Vice President, Corporate Communications for Dow Jones & Co. and The Wall Street Journal (2001-2002); and Senior Vice President and Chief Communications Officer for Insurance Information Institute (1993-2001).
Stephen Gruppo TIAA-CREF 730 Third Avenue New York, NY 10017-3206 DOB: 9/25/59	Executive Vice President	One-year term. Executive Vice President since 2009.	EVP, Head of Risk Management of TIAA and EVP of the TIAA-CREF Fund Complex (since 2009). Senior Managing Director of Advisors and Investment Management (since 2006). Formerly, Senior Managing Director, Acting Head of Risk Management of TIAA and the TIAA-CREF Fund Complex (2008-2009). Senior Managing Director, Chief Credit Risk Officer (2004-2008) of TIAA. Director, TIAA-CREF Life Insurance Company (2006-2008), Director, TPIS, Advisors and Investment Management (2008), Head of Risk Management of Advisors and Investment Management (2005-2006). Senior Vice President, Risk Management Department, Lehman Brothers (1996-2004).
William Mostyn III TIAA-CREF 730 Third Avenue New York, NY 10017-3206 DOB: 1/18/48	Vice President and Corporate Secretary	One year term. Vice President and Corporate Secretary since 2008.	Vice President and Corporate Secretary of TIAA and the TIAA-CREF Fund Complex (since 2008). Formerly, Deputy General Counsel and Corporate Secretary, Bank of America (2005-2008); and Deputy General Counsel, Secretary and Corporate Governance Officer, The Gillette Company (2000-2005).
Dermot J. O'Brien TIAA-CREF 730 Third Avenue New York, NY 10017-3206 DOB: 3/13/66	Executive Vice President	One-year term. Executive Vice President since 2003.	EVP, Human Resources and Corporate Services (2007 to present), and EVP, Human Resources (2005-2007) of TIAA and EVP of the TIAA-CREF Fund Complex (since 2003) and Head of Corporate Services (since 2006). Formerly, Director, TIAA-CREF Life Insurance Company (2003-2006); First Vice President and Head of Human Resources, International Private Client Division and Global Debt Markets, Merrill Lynch & Co. (1999-2003); and Vice President and Head of Human Resources, Japan Morgan Stanley (1998-1999).
Cara L. Schnaper TIAA-CREF 730 Third Avenue New York, NY 10017-3206 DOB: 2/13/54	Executive Vice President	One-Year Term. Executive Vice President since February 2008.	EVP, Technology and Operations of TIAA (since 2008), and EVP of the TIAA-CREF Fund Complex (since 2008). Formerly, Principal, Market Resolve, LLC (2006-2008); and Head, Middle Office, Investment Banking (2000-2002), Head, Technology and Operations, Equities (1999-2000) and Chief Operating Officer Technology and Operations, Emerging Markets, Foreign Exchange and Commodities (1997-1999), JP Morgan Chase & Co.
Bertram L. Scott TIAA-CREF 730 Third Avenue New York, NY 10017-3206 DOB: 3/26/51	Executive Vice President	One-year term. Executive Vice President since 2000.	EVP, and Chief Institutional Development and Sales Officer (since 2008); EVP, Strategy, Integration and Policy (2007-2008); EVP, Strategy, Implementation and Policy (2006-2007), EVP, Product Management (2005-2006) of TIAA and EVP of the TIAA-CREF Fund Complex (since 2008); EVP, Strategy Implementation and Policy of TIAA (2006-2008); Manager of TIAA-CREF Redwood, LLC (since 2007); Director of TCT Holdings, Inc. (since 2007); and Director and President of TIAA-CREF Enterprises, Inc. (since 2000). Formerly, EVP, Product Management of TIAA (2000-2005); and President and Chief Executive Officer, Horizon Mercy (1996-2000).

**OFFICERS** (continued)

Name, Address and Date of Birth	Position(s) Held with Trust	Term of Office and Length of Time Served	Principal Occupation(s) During Past 5 Years
Edward D. Van Dolsen TIAA-CREF 730 Third Avenue New York, NY 10017-3206 DOB: 4/21/58	Executive Vice President	One-year term. Executive Vice President since 2006.	EVP, Product Development and Management (since 2009), EVP, Institutional Client Services 2006-2009), EVP, Product Management (2005-2006) of TIAA and the EVP of the TIAA Fund Complex (since 2008); EVP, Institutional Client Services (2006-2008); Director of Tuition Financing (since 2006); Director of TCT Holdings, Inc. (since 2007); EVP of TIAA-CREF Life Insurance Company (since 2009); Director (since 2007) and EVP (since 2008) of TIAA-CREF Enterprises, Inc. and Manager, President and CEO, TIAA-CREF Redwood, LLC (since 2006). Formerly, Senior Vice President, Pension Products (2003-2006) and Vice President, Support Services (1998-2003) of TIAA and the TIAA-CREF Fund Complex.

**EQUITY OWNERSHIP OF THE TRUSTEES**

The following chart includes information relating to equity securities that are beneficially owned by the trustees of the Trust in the Funds and in the same "family of investment companies" as the Funds, as of December 31, 2008. At that time, the Funds' family of investment companies included the Funds and all of the other series of the Trust (including the TIAA-CREF Lifecycle Funds), CREF, TIAA-CREF Life Funds and TIAA Separate Account VA-1.

**DISINTERESTED TRUSTEES**

Name of Trustee	Dollar Range of Equity Securities in the Funds	Aggregate Dollar Range of Equity Securities in All Registered Investment Companies Overseen by Trustee in Family of Investment Companies
Forrest Berkley	\$50,001 - \$100,000 International Equity Fund	Over \$100,000
Nancy A. Eckl	\$10,001 - \$50,000 Growth & Income Fund	\$50,001 - \$100,000
Eugene Flood, Jr.	\$50,001 - \$100,000 International Equity Fund Over \$100,000 S&P 500 Index Fund	Over \$100,000
Michael A. Forrester	None	Over \$100,000
Howell E. Jackson	\$10,001 - \$50,000 International Equity Index Fund \$1 - \$10,000 Mid Cap Blend Index Fund \$1 - \$10,000 Small Cap Growth Index Fund \$1 - \$10,000 Small Cap Value Index Fund \$1 - \$10,000 Social Choice Equity Fund	Over \$100,000
Nancy L. Jacob	None	Over \$100,000
Bridget Macaskill	\$10,001 - \$50,000 International Equity Fund \$10,001 - \$50,000 Large Cap Value Fund \$10,001 - \$50,000 Mid Cap Growth Fund \$50,001 - \$100,000 Mid Cap Value Fund \$10,001 - \$50,000 Small Cap Equity Fund	Over \$100,000
James M. Poterba	None	Over \$100,000
Maceo K. Sloan	None	Over \$100,000
Laura T. Starks	None	Over \$100,000

**TRUSTEE AND OFFICER COMPENSATION**

The following table shows the compensation received from the Trust and the TIAA-CREF Fund Complex by each non-officer trustee for the fiscal year ended September 30, 2008. The Trust's officers have received no direct compensation from any fund in the TIAA-CREF Fund Complex. For purposes of this chart, the TIAA-CREF Fund Complex consists of: CREF, TIAA Separate Account VA-1, TIAA-CREF Life Funds and the Trust (including the TIAA-CREF Lifecycle Funds and TIAA-CREF Lifecycle Index Funds), each a registered investment company. Note that the chart does not reflect any compensation for the trustees' services to the Lifecycle Index Funds since these Funds are newly operational.

**DISINTERESTED TRUSTEES**

Name of Trustee	Aggregate Compensation From Trust	Pension or Retirement Benefits Accrued As Part of Fund Expenses	Total Compensation Paid From TIAA-CREF Fund Complex
Forrest Berkley *	\$ 11,138.36	\$ 6,203.66	\$ 214,250.00
Nancy A. Eckl	\$ 11,536.65	\$ 6,203.66	\$ 213,000.00
Eugene Flood, Jr.	\$ 13,001.33	\$ 6,203.66	\$ 235,500.00
Michael A. Forrester	\$ 11,551.40	\$ 7,511.52	\$ 235,500.00
Howell E. Jackson	\$ 14,543.46	\$ 6,203.66	\$ 251,750.00
Nancy L. Jacob	\$ 20,701.21	\$ 6,203.66	\$ 328,000.00
Bridget Macaskill	\$ 10,321.87	\$ 6,203.66	\$ 198,500.00
James M. Poterba *	\$ 12,685.41	\$ 6,203.66	\$ 229,500.00
Maceo K. Sloan *	\$ 17,105.42	\$ 6,203.66	\$ 288,000.00
Laura T. Starks	\$ 16,224.30	\$ 6,203.66	\$ 270,500.00
Total:	\$138,809.42	\$63,344.43	\$2,464,500.00

\* This compensation, or a portion of it, was not actually paid based on the prior elections of Messrs. Berkley, Poterba and Sloan to defer receipt of payment in accordance with the provisions of a deferred compensation plan for non-officer trustees described below. For the fiscal year ended September 30, 2008, Mr. Berkley elected to defer \$135,834.93, Mr. Poterba elected to defer \$22,935.32 and Mr. Sloan elected to defer \$217,355.11.

The Board has approved trustee compensation at the following currently effective rates: an annual retainer of \$50,000; a Board and committee meeting fee of \$2,500 (\$1,000 per conference call meeting to review investment performance of the Funds); an annual long-term compensation contribution of \$75,000; an annual committee chair fee of \$10,000 (\$15,000 for the chairs of the Operations and Audit and Compliance Committees); an annual Board chair fee of \$25,000; and an annual Operations and Audit and Compliance Committee member fee of \$5,000. The trustees also receive \$2,500 per meeting for attending any shareholder meetings. Trustee compensation reflects service to all of the investment companies within the TIAA-CREF Fund Complex and is prorated to those companies based upon assets under management. The level of compensation is evaluated regularly and is based on a study of compensation at comparable companies, the time and responsibilities required of the trustees, and the need to attract and retain well-qualified Board members.

The Funds have a long-term compensation plan for non-officer trustees. Currently, under this unfunded plan, annual contributions equal to \$75,000 are allocated to notional investments in TIAA-CREF products (like TIAA or CREF annuities and/or certain Funds) selected by each trustee. After the trustee leaves the Board, benefits will be paid in a lump sum or in annual installments over 5, 10, 15 or 20 years, as requested by the trustee. The Board may waive the mandatory retirement policy for the trustees, which would delay the commencement of benefit payments until after the trustee eventually retires from the Board. Pursuant to a separate deferred compensation plan, non-officer trustees also have the option to defer payments of their basic retainer, additional retainers and/or meeting fees and allocate those amounts to notional investments in TIAA-CREF products (like TIAA or CREF annuities and/or certain Funds) selected by each trustee. Benefits under that plan are also paid in a lump sum or annual installments over 5, 10, 15 or 20 years, as requested by the trustee. The compensation table above does not reflect any payments under the long-term compensation plan.

## BOARD COMMITTEES

The Board of Trustees has appointed the following standing committees, each with specific responsibilities for aspects of the Trust's operations:

(1) An Audit and Compliance Committee, consisting solely of independent trustees, which assists the Board in fulfilling its oversight responsibilities for financial reporting, internal controls and certain compliance matters. The Audit and Compliance Committee is charged with approving the appointment, compensation, retention (or termination) and oversight of the work of the Funds' independent registered public accounting firm. The Audit and Compliance Committee has adopted a written charter that is available upon request. During the fiscal year ended September 30, 2008, the Audit and Compliance Committee held eight meetings. The current members of the Audit and Compliance Committee are Ms. Eckl (chair), Mr. Berkley, Prof. Poterba and Mr. Sloan. Ms. Eckl has been designated the audit committee financial expert.

- (2) An Investment Committee, consisting solely of independent trustees, which assists the Board in fulfilling its oversight responsibilities for the Trust's investments. During the fiscal year ended September 30, 2008, the Investment Committee held five meetings. The current members of the Investment Committee are Dr. Flood (chair), Mr. Berkley, Dr. Jacob, Ms. Macaskill, Prof. Poterba and Mr. Sloan.
- (3) A Corporate Governance and Social Responsibility Committee, consisting solely of independent trustees, which assists the Board in fulfilling its oversight responsibilities for corporate social responsibility and corporate governance issues, including the voting of proxies of portfolio companies of the Trust and the initiation of appropriate shareholder resolutions. During the fiscal year ended September 30, 2008, the Corporate Governance and Social Responsibility Committee held five meetings. The current members of the Corporate Governance and Social Responsibility Committee are Prof. Poterba (chair), Mr. Forrester, Prof. Jackson and Dr. Starks.
- (4) An Executive Committee, consisting solely of independent trustees, which generally is vested with full board powers between Board meetings on matters that arise between Board meetings. During the fiscal year ended September 30, 2008, the Executive Committee did not hold any meetings. The current members of the Executive Committee are Mr. Sloan (chair), Ms. Eckl, Prof. Jackson and Dr. Jacob.
- (5) A Nominating and Governance Committee, consisting solely of independent trustees, which nominates certain Trust officers and the members of the standing committees of the Board, and recommends candidates for election as trustees. During the fiscal year ended September 30, 2008, the Nominating and Governance Committee held six meetings. The current members of the Nominating and Governance Committee are Dr. Jacob (chair), Ms. Eckl, Mr. Sloan and Dr. Starks.
- (6) An Operations Committee, consisting solely of independent trustees, which assists the Board in fulfilling its oversight responsibilities for operational matters of the Trust, including oversight of contracts with third-party service providers and certain legal, compliance, finance, sales and marketing matters. During the fiscal year ended September 30, 2008, the Operations Committee held seven meetings. The current members of the Operations Committee are Prof. Jackson (chair), Dr. Flood, Mr. Forrester, Dr. Jacob, Ms. Macaskill and Dr. Starks.

Investors can recommend, and the Nominating and Governance Committee will consider, nominees for election as trustees by providing potential nominee names and background information to the Secretary of the TIAA-CREF Funds. The Secretary's address is: Office of the Corporate Secretary, 730 Third Avenue, New York, New York 10017-3206 or [trustees@tiaa-cref.org](mailto:trustees@tiaa-cref.org).

## PROXY VOTING POLICIES

The Trust has adopted policies and procedures to govern the Funds' voting of proxies of portfolio companies. The Trust seeks to use proxy voting as a tool to promote positive returns for long-term shareholders. The Trust believes that sound corporate governance practices and responsible corporate behavior create

the framework from which public companies can be managed in the long-term interests of shareholders.

As a general matter, the Trust's Board has delegated to Advisors responsibility for voting proxies of the Funds' portfolio companies in accordance with the Trust's Board approved guidelines developed and established by the Corporate Governance and Social Responsibility Committee. Guidelines for voting proxy proposals are articulated in the TIAA-CREF Policy Statement on Corporate Governance, attached as an Appendix to this SAI.

Advisors has a dedicated team of professionals responsible for reviewing and voting proxies. In analyzing a proposal, these professionals utilize various sources of information to enhance their ability to evaluate the proposal. These sources may include third-party proxy advisory firms and consultants, various corporate governance related publications and TIAA-CREF investment professionals. Based on their analysis of proposals and guided by the TIAA-CREF Policy Statement on Corporate Governance, these professionals then vote in a manner intended solely to advance the best interests of the Funds' shareholders. Occasionally, when a proposal relates to issues not addressed in the TIAA-CREF Policy Statement on Corporate Governance, Advisors may seek guidance on how to vote from the Corporate Governance and Social Responsibility Committee.

The Trust and Advisors believe that they have implemented policies, procedures and processes designed to prevent conflicts of interest from influencing proxy voting decisions. These include (i) oversight by the Corporate Governance and Social Responsibility Committee; (ii) a clear separation of proxy voting functions from external client relationship and sales functions; and (iii) the active monitoring of required annual disclosures of potential conflicts of interest by individuals who have direct roles in executing or influencing the Funds' proxy voting (e.g., Advisors' proxy voting professionals, or trustees or senior execu-

tives of the Trust, Advisors or Advisors' affiliates) by Advisors' legal and compliance professionals.

There could be rare instances in which an individual who has a direct role in executing or influencing the Funds' proxy voting (e.g., Advisors' proxy voting professional, or a trustee or senior executive of the Trust, Advisors or Advisors' affiliates), is either a director or executive of a portfolio company or may have some other association with a portfolio company. In such cases, this individual is required to recuse himself or herself from all decisions related to proxy voting for that portfolio company.

In order to ensure that proxy voting is aligned with the investment objective of the Social Choice Equity Fund, the Trust has adopted special proxy voting policies for that Fund. Shares of the companies held in the Social Choice Equity Fund will be voted consistent with the social criteria (or screens) considered by the Fund in selecting companies for inclusion in its portfolio. In cases where Advisors' is asked to vote on social matters that are not covered under the Fund's screens, Advisors will cast such votes in accordance with the policies and procedures described in TIAA-CREF's Policy Statement on Corporate Governance. If the matter is not covered there, Advisors may seek guidance on how to vote from the Corporate Governance and Social Responsibility Committee.

A record of all proxy votes cast for the Funds for the twelve-month period ended June 30, 2009, can be obtained, free of charge, at [www.tiaa-cref.org](http://www.tiaa-cref.org), and on the SEC's website at [www.sec.gov](http://www.sec.gov).

## PRINCIPAL HOLDERS OF SECURITIES

As of July 31, 2009, the following investors were known to hold beneficially or of record 5% or more of the outstanding shares of any class of a Fund:

Fund/Class	Percentage of Holding	Shares
<b>Charles Schwab &amp; Co., Inc.</b>		
101 Montgomery Street San Francisco, CA 94104-4151		
Equity Index - Retail Class	5.67%	2,179,975
Social Choice Equity Fund - Institutional Class	14.60%	3,046,113
Social Choice Equity Fund - Retail Class	21.00%	3,695,357
Short-Term Bond Fund - Retail Class	8.37%	891,912
High-Yield Fund - Retail Class	10.22%	1,359,594

### Connecticut Education Savings Program (529 Plan)

Mail Stop 730/6/41

730 Third Avenue

NY, NY 10017-3206

Mid-Cap Growth Fund - Institutional Class	10.23%	669,828
Equity Index Fund - Institutional Class	11.59%	13,119,535
S&P 500 Index Fund - Institutional Class	10.79%	7,621,501
International Equity Index Fund - Institutional Class	6.36%	2,058,329
Money Market Fund - Institutional Class	20.67%	67,048,219

### Georgia Education Savings Program (529 Plan)

Mail Stop 730/6/41

730 Third Avenue

NY, NY 10017-3206

Equity Index Fund - Institutional Class	9.06%	10,254,690
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### ING National Trust

One Orange Way, B3N

Windsor, CT 06095-4773

Equity Index Fund - Institutional Class	10.26%	11,608,198
Small-Cap Blend Index Fund - Institutional Class	6.18%	1,860,090
International Equity Index Fund - Institutional Class	20.10%	6,505,180
Social Choice Equity Fund - Institutional Class	7.40%	1,545,004

Fund/Class	Percentage of Holding	Shares
<b>JPMorgan</b>		
TIAA-CREF Trust Co. IRA Program c/o JPMorgan Chase Bank 3 Metrotech Center, Floor 6 Brooklyn, NY 11245-0001		
Growth & Income Fund - Retirement Class	21.36%	11,866,645
International Equity Fund - Retirement Class	15.77%	20,639,872
Large-Cap Growth Fund - Retirement Class	60.57%	2,750,258
Large-Cap Value Fund - Retirement Class	14.20%	7,536,340
Mid-Cap Growth Fund - Retirement Class	17.85%	6,363,990
Mid-Cap Value Fund - Retirement Class	13.71%	9,618,077
Small-Cap Equity Fund - Retirement Class	13.16%	4,028,562
Large-Cap Growth Index Fund - Retirement Class	22.70%	3,126,750
Large-Cap Value Index Fund - Retirement Class	32.92%	4,931,681
Small-Cap Blend Index Fund - Retirement Class	26.07%	6,909,183
Equity Index Fund - Retirement Class	31.16%	10,867,097
S&P 500 Index Fund - Retirement Class	24.60%	6,018,199
International Equity Index Fund - Retirement Class	23.06%	9,035,243
Social Choice Equity Fund - Retirement Class	31.20%	12,531,949
Real Estate Securities Fund - Retirement Class	27.39%	5,313,308
Managed Allocation Fund - Retirement Class	44.96%	1,036,147
Bond Fund - Retirement Class	57.41%	4,834,680
Bond Plus Fund - Retirement Class	45.12%	2,347,588
Short-Term Bond Fund - Retirement Class	48.58%	2,167,873
High-Yield Fund - Retirement Class	55.51%	6,604,088
Inflation-Linked Bond Fund - Retirement Class	62.87%	5,648,904
Money Market Fund - Retirement Class	38.56%	59,031,311

### Maril & Co. FBO 98

c/o M&I Trust Co.

11270 West Park Place S400

Milwaukee, WI 53224-3623

Mid-Cap Value Fund - Institutional Class	16.94%	2,318,058
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### Michigan Education Savings Program (529 Plan)

Mail Stop 730/6/41

730 Third Avenue

NY, NY 10017-3206

Mid-Cap Growth Fund - Institutional Class	26.66%	1,745,996
Mid-Cap Value Fund - Institutional Class	12.56%	1,718,040
Small-Cap Equity Fund - Institutional Class	11.72%	2,597,811
International Equity Fund - Institutional Class	11.02%	9,472,135
Large-Cap Growth Index Fund - Institutional Class	29.48%	8,637,822
Large-Cap Value Index Fund - Institutional Class	25.80%	8,015,892
S&P 500 Index Fund - Institutional Class	29.86%	21,092,269
International Equity Index Fund - Institutional Class	12.37%	4,002,295
Real Estate Securities Fund - Institutional Class	15.37%	4,250,731
Bond Fund - Institutional Class	5.12%	10,248,438
Inflation-Linked Bond Fund - Institutional Class	19.60%	9,534,083
Money Market Fund - Institutional Class	35.93%	116,557,058

Fund/Class	Percentage of Holding	Shares
<b>Minnesota Education Savings Program (529 Plan)</b>		
Mail Stop 730/6/41 730 Third Avenue NY, NY 10017-3206		
Large-Cap Growth Index Fund - Institutional Class	17.24%	5,052,803
Large-Cap Value Index Fund - Institutional Class	14.65%	4,553,233
Real Estate Securities Fund - Institutional Class	7.38%	2,040,639
Money Market Fund - Institutional Class	12.86%	41,699,247

<b>Mitra &amp; Co FBO 98</b>		
c/o M&I Trust Co. 11270 West Park Place S400 Milwaukee, WI 53224-3623		
Mid-Cap Value Fund - Institutional Class	5.13%	701,258

<b>MMATCO LLP</b>		
Nominees for MMA Trust Company PO Box 483 1110 N. Main Street Goshen, IN 46527-0483		
Social Choice Equity Fund - Institutional Class	5.14%	1,073,198

<b>National Financial Services LLC</b>		
FBO Customers Attn: Deliveries PO Box 770001 Cincinnati, OH 45277-0033		
Mid-Cap Value Fund - Retail Class	16.20%	1,639,705
Social Choice Equity Fund - Retail Class	11.52%	2,027,745
Short-Term Bond Fund - Retail Class	5.19%	553,662
High-Yield Fund - Retail Class	7.54%	1,003,787

<b>Patterson &amp; Co. FBO</b>		
1525 West W.T. Harris Boulevard Charlotte, NC 28288-0001		
Small-Cap Blend Index Fund - Institutional Class	7.52%	2,263,129

<b>Pershing LLC</b>		
PO Box 2052 Jersey City, NJ 07393-2052		
International Equity Fund - Retail Class	5.03%	2,514,339
Large-Cap Value Fund - Retail Class	10.23%	691,408
Mid-Cap Growth Fund - Retail Class	5.69%	280,134
Small-Cap Equity Fund - Retail Class	7.02%	301,666
Bond Fund - Retail Class	25.12%	722,669
Short-Term Bond Fund - Retail Class	8.37%	891,912
High-Yield Fund - Retail Class	12.12%	1,613,060
Tax-Exempt Bond Fund - Retail Class	6.73%	1,408,957
Inflation-Linked Bond Fund - Retail Class	13.69%	1,638,303

<b>Prudential Investment Management Services FBO</b>		
Gateway Center 3 - 11th Floor 100 Mulberry Street Newark, NJ 07102-4056		
International Equity Index Fund-Retirement Class	7.05%	9,225,947

Fund/Class	Percentage of Holding	Shares
<b>SEI Private Trust Company</b>		
c/o TIAA-CREF One Freedom Valley Drive Oaks, PA 19456-9989		
Growth & Income Fund - Institutional Class	17.20%	8,101,535
International Equity Fund - Institutional Class	12.37%	10,631,933
Small-Cap Equity Fund - Institutional Class	10.40%	2,305,754
Large-Cap Growth Index Fund - Institutional Class	9.44%	2,766,274
Large-Cap Value Index Fund - Institutional Class	8.87%	2,757,259
S&P 500 Index Fund - Institutional Class	21.58%	15,246,237
International Equity Index Fund - Institutional Class	5.31%	1,719,145
Social Choice Equity Fund - Institutional Class	32.02%	6,681,113
Real Estate Securities Fund - Institutional Class	8.71%	2,409,082
Managed Allocation Fund - Institutional Class	100.00%	230,848
Bond Fund - Institutional Class	8.90%	17,803,054
Short-Term Bond Fund - Institutional Class	52.16%	5,020,504
High-Yield Fund - Institutional Class	38.55%	9,907,544
Tax-Exempt Bond Fund - Institutional Class	38.22%	1,495,496

<b>SEI Private Trust Company</b>		
c/o First Hawaiian Bank One Freedom Valley Drive Oaks, PA 19456-9989		
Large-Cap Value Index Fund - Institutional Class	5.03%	1,562,059

<b>TIAA</b>		
Mail Stop 730/6/41 730 Third Avenue NY, NY 10017-3206		
Equity Index Fund - Institutional Class	8.62%	9,750,941
Small-Cap Blend Index Fund - Institutional Class	39.28%	11,818,042
Bond Plus Fund - Institutional Class	8.36%	1,752,865
Tax-Exempt Bond Fund - Institutional Class	55.50%	2,171,353

<b>TIAA-CREF 529 Plan</b>		
Mail Stop 730/06/41 730 Third Avenue NY, NY 10017-3206		
S&P 500 Index Fund - Institutional Class	6.74%	4,758,905

<b>TIAA-CREF Individual &amp; Institutional Services, LLC</b>		
730 Third Avenue NY, NY 10017-3206		
Growth & Income Fund - Institutional Class	7.69%	3,621,898
Large-Cap Value Fund - Institutional Class	5.28%	1,664,407
Mid-Cap Growth Fund - Institutional Class	23.02%	1,507,235
Mid-Cap Value Fund - Institutional Class	27.10%	3,707,192
International Equity Fund - Institutional Class	5.54%	4,764,313
Small-Cap Blend Index Fund - Institutional Class	7.22%	2,172,597
International Equity Index Fund - Institutional Class	5.77%	1,867,339

Fund/Class	Percentage of Holding	Shares
<b>TIAA-CREF</b>		
<b>JPMorgan Retirement Plans Program</b>		
<b>c/o JPMorgan Chase Bank</b>		
<b>3 Metrotech Center</b>		
<b>Brooklyn, NY 11245-0001</b>		
Growth & Income Fund - Retirement Class	77.69%	43,161,264
International Equity Fund - Retirement Class	76.38%	99,988,561
Large-Cap Growth Fund - Retirement Class	38.70%	1,757,142
Large-Cap Value Fund - Retirement Class	85.71%	45,477,859
Mid-Cap Growth Fund - Retirement Class	81.99%	29,224,363
Mid-Cap Value Fund - Retirement Class	81.38%	57,079,326
Small-Cap Equity Fund - Retirement Class	86.55%	26,495,863
Large-Cap Growth Index Fund - Retirement Class	76.66%	10,560,244
Large-Cap Value Index Fund - Retirement Class	66.48%	9,960,060
Equity Index Fund - Retirement Class	63.88%	22,280,320
S&P 500 Index - Retirement Class	75.03%	18,352,619
Small-Cap Blend Index Fund - Retirement Class	73.71%	19,535,609
International Equity Index Fund - Retirement Class	76.76%	30,076,782
Social Choice Equity Fund - Retirement Class	68.01%	27,321,771
Real Estate Securities Fund - Retirement Class	72.15%	13,995,386
Managed Allocation Fund - Retirement Class	53.97%	1,243,628
Bond Fund - Retirement Class	39.75%	3,347,354
Bond Plus Fund - Retirement Class	54.43%	2,831,882
Short-Term Bond Fund - Retirement Class	47.60%	2,123,765
High-Yield Fund - Retirement Class	43.28%	5,149,428
Inflation-Linked Bond - Retirement Class	34.02%	3,056,983
Money Market Fund - Retirement Class	61.12%	93,571,595

**TIAA-CREF Funds**  
**Mail Stop 730/6/41**  
**730 Third Avenue**  
**NY, NY 10017-3206**

**TIAA-CREF Lifecycle 2010 Fund**

Growth & Income Fund - Institutional Class	5.53%	2,602,199
Large-Cap Growth Fund - Institutional Class	7.59%	2,833,853
Large-Cap Value Fund - Institutional Class	6.90%	2,175,061
Small-Cap Equity Fund - Institutional Class	5.02%	1,111,896
Enhanced Large-Cap Growth Index Fund - Institutional Class	7.69%	4,672,940
Enhanced Large-Cap Value Index Fund - Institutional Class	7.70%	5,054,534
Enhanced International Equity Index Fund - Institutional Class	7.70%	3,962,994
Bond Fund - Institutional Class	6.45%	12,902,298
Short-Term Bond Fund - Institutional Class	17.79%	1,712,241
High-Yield Fund - Institutional Class	5.06%	1,301,174

Fund/Class	Percentage of Holding	Shares
<b>TIAA-CREF Lifecycle 2015 Fund</b>		
Growth & Income Fund - Institutional Class	7.19%	3,386,205
Large-Cap Growth Fund - Institutional Class	9.89%	3,690,500
Large-Cap Value Fund - Institutional Class	8.99%	2,834,334
Small-Cap Equity Fund - Institutional Class	6.53%	1,446,814
International Equity Fund - Institutional Class	5.04%	4,328,033
Enhanced Large-Cap Growth Index Fund - Institutional Class	10.00%	6,082,854
Enhanced Large-Cap Value Index Fund - Institutional Class	10.02%	6,578,948
Enhanced International Equity Index Fund - Institutional Class	10.02%	5,159,328
Bond Fund - Institutional Class	6.14%	12,288,794
Short-Term Bond Fund - Institutional Class	15.06%	1,449,308
High-Yield Fund - Institutional Class	6.58%	1,690,676

**TIAA-CREF Lifecycle 2020 Fund**

Growth & Income Fund - Institutional Class	8.42%	3,967,509
Large-Cap Growth Fund - Institutional Class	11.57%	4,318,103
Large-Cap Value Fund - Institutional Class	10.53%	3,319,723
Small-Cap Equity Fund - Institutional Class	7.65%	1,696,357
International Equity Fund - Institutional Class	5.90%	5,066,279
Enhanced Large-Cap Growth Index Fund - Institutional Class	11.72%	7,126,289
Enhanced Large-Cap Value Index Fund - Institutional Class	11.74%	7,708,583
Enhanced International Equity Index Fund - Institutional Class	11.74%	6,044,024
Bond Fund - Institutional Class	5.28%	10,569,832
Short-Term Bond Fund - Institutional Class	6.89%	662,786
High-Yield Fund - Institutional Class	7.25%	1,862,886

**TIAA-CREF Lifecycle 2025 Fund**

Growth & Income Fund - Institutional Class	8.66%	4,076,774
Large-Cap Growth Fund - Institutional Class	11.89%	4,437,218
Large-Cap Value Fund - Institutional Class	10.82%	3,411,371
Small-Cap Equity Fund - Institutional Class	7.86%	1,743,040
International Equity Fund - Institutional Class	6.06%	5,206,097
Enhanced Large-Cap Growth Index Fund - Institutional Class	12.04%	7,322,723
Enhanced Large-Cap Value Index Fund - Institutional Class	12.07%	7,920,963
Enhanced International Equity Index Fund - Institutional Class	12.06%	6,210,854
High-Yield Fund - Institutional Class	7.05%	1,811,341

**TIAA-CREF Lifecycle 2030 Fund**

Growth & Income Fund - Institutional Class	9.06%	4,268,790
Large-Cap Growth Fund - Institutional Class	12.45%	4,648,019
Large-Cap Value Fund - Institutional Class	11.33%	3,574,134
Small-Cap Equity Fund - Institutional Class	8.23%	1,825,020
International Equity Fund - Institutional Class	6.35%	5,453,782
Enhanced Large-Cap Growth Index Fund - Institutional Class	12.61%	7,668,989
Enhanced Large-Cap Value Index Fund - Institutional Class	12.64%	8,295,087
Enhanced International Equity Index Fund - Institutional Class	12.63%	6,505,421
High-Yield Fund - Institutional Class	6.72%	1,726,531

Fund/Class	Percentage of Holding	Shares
<b>TIAA-CREF Lifecycle 2035 Fund</b>		
Growth & Income Fund - Institutional Class	9.40%	4,427,973
Large-Cap Growth Fund - Institutional Class	12.92%	4,820,604
Large-Cap Value Fund - Institutional Class	11.75%	3,706,283
Small-Cap Equity Fund - Institutional Class	8.54%	1,893,067
International Equity Fund - Institutional Class	6.58%	5,656,085
Enhanced Large-Cap Growth Index Fund - Institutional Class	13.08%	7,954,246
Enhanced Large-Cap Value Index Fund - Institutional Class	13.11%	8,603,821
Enhanced International Equity Index Fund - Institutional Class	13.10%	6,747,055
High-Yield Fund - Institutional Class	6.52%	1,675,669
<b>TIAA-CREF Lifecycle 2040 Fund</b>		
Growth & Income Fund - Institutional Class	14.26%	6,717,588
Large-Cap Growth Fund - Institutional Class	19.60%	7,313,543
Large-Cap Value Fund - Institutional Class	17.83%	5,622,295
Mid-Cap Growth Fund - Institutional Class	5.22%	341,943
Small-Cap Equity Fund - Institutional Class	12.96%	2,871,929
International Equity Fund - Institutional Class	9.99%	8,579,994
Enhanced Large-Cap Growth Index Fund - Institutional Class	19.85%	12,066,855
Enhanced Large-Cap Value Index Fund - Institutional Class	19.89%	13,052,377
Enhanced International Equity Index Fund - Institutional Class	19.88%	10,235,244
High-Yield Fund - Institutional Class	9.99%	2,566,752
<b>TIAA-CREF Managed Allocation Fund</b>		
Growth & Income Fund - Institutional Class	8.11%	3,818,314
Large-Cap Growth Fund - Institutional Class	11.25%	4,197,854
Large-Cap Value Fund - Institutional Class	10.06%	3,171,566
Small-Cap Equity Fund - Institutional Class	7.38%	1,635,296
International Equity Fund - Institutional Class	5.62%	4,830,054
Enhanced Large-Cap Growth Index Fund - Institutional Class	11.37%	6,913,706
Enhanced Large-Cap Value Index Fund - Institutional Class	11.20%	7,348,691
Enhanced International Equity Index Fund - Institutional Class	11.23%	5,784,775
Bond Plus Fund - Institutional Class	90.39%	18,941,119
<b>Vanguard Fiduciary Trust Company</b>		
PO Box 2900		
Valley Forge, PA 19482-2900		
Social Choice Equity Fund - Institutional Class	5.66%	1,180,907

The current trustees and officers of the Trust, as a group, beneficially or of record own less than 1% of the shares of each of the classes of the Funds as of July 31, 2009.

Any person owning more than 25% of each Fund's shares may be considered a "controlling person" of that Fund. A controlling person's vote could have a more significant effect on matters presented to shareholders for approval than the vote of other Fund shareholders.

## UNDERWRITER

Teachers Personal Investors Services, Inc. ("TPIS"), 730 Third Avenue, New York, NY 10017-3206, is considered the "principal underwriter" for the Trust. TIAA holds all of the shares of Enterprises (defined below), which in turn holds all the shares of Advisors and of TPIS. Shares of the Funds are offered on a continuous basis with no sales load. Pursuant to a Distribution Agreement with the Trust, TPIS has the right to distribute shares of the Funds from year to year, subject to annual approval of the Distribution Agreement by the Board of Trustees. TPIS may enter into selling agreements with one or more broker-dealers, which may or may not be affiliated with TPIS, to provide distribution-related services and shareholder services to the Funds.

## INVESTMENT ADVISORY AND OTHER SERVICES

### INVESTMENT ADVISORY SERVICES

As explained in the Prospectus, investment advisory and related services for the Funds are provided by personnel of Advisors, which is registered with the SEC under the Investment Advisers Act of 1940. Advisors manages the investment and reinvestment of the assets of the Funds, subject to the oversight of the Investment Committee and of the Board of Trustees. Advisors will perform all research, make recommendations and place orders for the purchase and sale of securities. Advisors also provides or oversees the provision of portfolio accounting, custodial, and related services for the assets of the Funds.

TIAA, an insurance company, holds all of the shares of TIAA-CREF Enterprises, Inc. ("Enterprises"), which in turn holds all of the shares of Advisors and of TPIS, the principal underwriter for the Trust. TIAA also holds all the shares of TIAA-CREF Individual & Institutional Services, LLC ("Services") and TIAA-CREF Investment Management, LLC ("Investment Management"). Services acts as the principal underwriter, and Investment Management provides investment advisory services, to CREF, a companion organization to TIAA. All of the foregoing are affiliates of the Trust and Advisors.

Advisors manages the Funds according to an Investment Management Agreement. Under the Agreement, fees are calculated daily and paid monthly. The Funds also pay Advisors for certain administrative services that Advisors provides to the Funds on an at-cost basis.

Furthermore, Advisors has contractually agreed to reimburse the Funds for total expenses of the Funds that exceed certain amounts as stated in the Prospectus, through January 31, 2011 for the Bond Index Fund, April 30, 2010 for the other Index Funds (except the Enhanced Index Funds) and January 31, 2010 for all other Funds (including the Enhanced Index Funds). For the Funds' fiscal years ended September 30, 2008, 2007 and 2006, the table below reflects (i) the total dollar amount of investment management fees for each Fund, (ii) the amount of any waiver of the portion of the investment management fee attributable to each Fund, and (iii) the net investment management fees for each Fund after such waivers. Note that since the Bond Index Fund is newly operational, it did not pay any management fees during the periods covered by the table below.

	Gross			Waived			Net		
	Fiscal year ended Sept. 2008	Fiscal year ended Sept. 2007	Fiscal year ended Sept. 2006	Fiscal year ended Sept. 2008	Fiscal year ended Sept. 2007	Fiscal year ended Sept. 2006	Fiscal year ended Sept. 2008	Fiscal year ended Sept. 2007	Fiscal year ended Sept. 2006
Growth & Income Fund	\$ 4,412,201	\$2,234,588	\$ 581,033	\$2,077,355	\$1,837,327	\$435,703	\$ 2,334,846	\$ 397,261	\$ 145,330
International Equity Fund	\$12,870,241	\$8,450,484	\$3,908,919	\$ —	\$ —	\$ —	\$12,870,241	\$8,450,484	\$3,908,919
Large-Cap Growth Fund	\$ 2,801,908	\$1,216,436	\$ 28,496	\$1,386,283	\$1,000,182	\$ 23,430	\$ 1,415,625	\$ 216,254	\$ 5,066
Large-Cap Value Fund	\$ 4,894,499	\$3,793,790	\$2,032,199	\$ —	\$ —	\$ —	\$ 4,894,499	\$3,793,790	\$2,032,199
Mid-Cap Growth Fund	\$ 2,432,781	\$1,536,221	\$ 971,318	\$ —	\$ —	\$ —	\$ 2,432,781	\$1,536,221	\$ 971,318
Mid-Cap Value Fund	\$ 4,142,419	\$3,319,666	\$1,532,547	\$ —	\$ —	\$ —	\$ 4,142,419	\$3,319,666	\$1,532,547
Small-Cap Equity Fund	\$ 2,442,824	\$2,301,040	\$1,420,039	\$ —	\$ —	\$ —	\$ 2,442,824	\$2,301,040	\$1,420,039
Large-Cap Growth Index Fund	\$ 151,091	\$ 138,120	\$ 222,559	\$ —	\$ —	\$ —	\$ 151,091	\$ 138,120	\$ 222,559
Large-Cap Value Index Fund	\$ 179,519	\$ 173,742	\$ 201,045	\$ —	\$ —	\$ —	\$ 179,519	\$ 173,742	\$ 201,045
Equity Index Fund	\$ 485,648	\$ 385,070	\$ 250,928	\$ —	\$ —	\$ —	\$ 485,648	\$ 385,070	\$ 250,928
S&P 500 Index Fund	\$ 460,847	\$ 418,386	\$ 305,486	\$ —	\$ —	\$ —	\$ 460,847	\$ 418,386	\$ 305,486
Small-Cap Blend Index Fund	\$ 89,641	\$ 84,294	\$ 73,785	\$ —	\$ —	\$ —	\$ 89,641	\$ 84,294	\$ 73,785
International Equity Index Fund	\$ 355,933	\$ 252,384	\$ 133,992	\$ —	\$ —	\$ —	\$ 355,933	\$ 252,384	\$ 133,992
Enhanced International Equity Index Fund	\$ 347,475	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 347,475	\$ —	\$ —
Enhanced Large-Cap Growth Index Fund	\$ 256,606	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 256,606	\$ —	\$ —
Enhanced Large-Cap Value Index Fund	\$ 224,876	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 224,876	\$ —	\$ —
Social Choice Equity Fund	\$ 860,749	\$ 508,162	\$ 223,269	\$ —	\$ —	\$ —	\$ 860,749	\$ 508,162	\$ 223,269
Real Estate Securities Fund	\$ 2,762,630	\$3,541,961	\$2,030,304	\$ —	\$ —	\$ —	\$ 2,762,630	\$3,541,961	\$2,030,304
Managed Allocation Fund	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Bond Fund	\$ 5,422,762	\$4,411,620	\$3,600,946	\$ —	\$ —	\$ —	\$ 5,422,762	\$4,411,620	\$3,600,946
Bond Plus Fund	\$ 1,613,373	\$ 864,662	\$ 83,169	\$ —	\$ —	\$ —	\$ 1,613,373	\$ 864,662	\$ 83,169
Short-Term Bond Fund	\$ 690,674	\$ 398,961	\$ 71,324	\$ —	\$ —	\$ —	\$ 690,674	\$ 398,961	\$ 71,324
High-Yield Fund	\$ 1,334,945	\$ 730,277	\$ 93,229	\$ —	\$ —	\$ —	\$ 1,334,945	\$ 730,277	\$ 93,229
Tax-Exempt Bond Fund	\$ 787,771	\$ 436,344	\$ 78,279	\$ —	\$ —	\$ —	\$ 787,771	\$ 436,344	\$ 78,279
Inflation-Linked Bond Fund	\$ 1,828,887	\$1,424,501	\$ 964,434	\$ —	\$ —	\$ —	\$ 1,828,887	\$1,424,501	\$ 964,434
Money Market Fund	\$ 1,468,938	\$ 806,773	\$ 227,744	\$ —	\$ —	\$ —	\$ 1,468,938	\$ 806,773	\$ 227,744

## SERVICE AGREEMENTS

### Retirement Class Service Agreement

Those Funds that offer Retirement Class Shares (as described in the Prospectus) have entered into a service agreement with Advisors pursuant to which Advisors provides or arranges for the provision of administrative and shareholder services for the Retirement Class shares, including services associated with offering Retirement Class shares on retirement plan and other platforms (the "Retirement Class Service Agreement"). The service fees are equal to 0.25% of average daily net assets attributable to Retirement Class Shares.

### Other Service Agreements

Previously, the Trust was a party to a Service Agreement ("Prior Service Agreement") with Advisors, whereby Advisors agreed to provide or arrange for the provision of a variety of services for the ordinary operation of the TIAA-CREF Funds, including, but not limited to, transfer agency, accounting and administrative services. The Prior Service Agreement was effectively terminated for all Funds that approved the New Management Agreement with Advisors (as described in the Prospectus) on February 1, 2006. These similar services are now provided under the Investment Management Agreement or directly to the Funds.

The services provided under the Prior Service Agreement include the following: (1) receiving orders for the purchase of Fund shares, issuing shares upon receipt of such orders, and recording the issuance of shares; (2) receiving redemption requests; (3) effecting transfers of shares; (4) preparing and transmitting payments for dividends and distributions; (5) maintaining records for shareholder accounts; (6) maintaining

shareholder relations, including preparing necessary reports and other information and services; (7) performing shareholder services funded by any shareholder service plan; and (8) performing any other customary services of a transfer agent or dividend-disbursing agent for a registered investment company.

Specific accounting services include: (1) monitoring expenses and preparation and updating expense budgets; (2) preparing and filing Form N-SAR; (3) preparing financial information for meetings of the Board of Trustees; (4) calculating the net asset value of each Fund and the net asset value per share of each class of shares; (5) calculating total return and other statistical information; (6) calculating dividend amounts available for distribution and notifying transfer agent of authorized dividend rates; (7) preparing financial statements; (8) monitoring portfolio activity; (9) determining the allocation of invoices among Funds and authorizing payment of expenses; (10) maintaining accounting records for each Fund and making appropriate representations in conjunction with audits; (11) preparing federal, state and local tax returns and reports; (12) coordinating review and approval of dividends by management and auditors and portfolio listings to be included in financial statements; and (13) performing any other customary accounting services for a registered investment company.

Specific administrative services include: (1) preparing materials and minutes for meetings of Board of Trustees, including assistance in presentations to Board of Trustees; (2) providing regulatory compliance advice to the distributor and the Funds regarding sales literature and marketing plans; (3) monitoring portfolio activity; (4) preparing responses to performance questionnaires; (5) preparing semiannual and annual shareholder reports, and coordinating auditor and management review; (6) filing notices with state securities regulators regarding sales of

Fund shares; (7) developing and implementing procedures to monitor and test compliance with regulatory requirements and with Fund investment objective, policies and restrictions; (8) approving dividend rates, distributions, and tax positions; (9) coordinating activities of other service providers; (10) coordinating, preparing, filing and printing of registration statements for the Trust; (11) preparing management letters and coordinating production of Management's Discussion of Fund Performance with respect to the preparation and printing of shareholder reports; (12) reviewing tax returns; (13) creating and maintaining business records; and (14) performing any other customary administrative services for a registered investment company.

For the services rendered, the facilities furnished and expenses assumed by Advisors, the Fund pays Advisors at the end of each calendar month a fee for each Fund calculated as a percentage of the daily net assets of the Fund. The annual rates under the Prior Service Agreement and Retirement Service Agreement, as well as the fees paid under both service agreements for the fiscal years ended September 30, 2008, 2007 and 2006 are set forth in the table below:

Name of Fund	Current Service Fee Rate	Service Fees for fiscal year ended September 30,		
		2008	2007	2006
<b>Growth &amp; Income Fund</b>				
Retirement Class	0.25%	\$ 617,834	\$ 308,916	\$ 200,934
Institutional Class	*	—	—	\$ 16,967
Retail Class	*	—	—	—
Premier Class	*	—	—	—
<b>International Equity Fund</b>				
Retirement Class	0.25%	\$3,528,130	\$2,163,946	\$1,010,814
Institutional Class	*	—	—	\$ 67,154
Retail Class	*	—	—	—
Premier Class	*	—	—	—
<b>Large-Cap Growth Fund</b>				
Retirement Class	0.25%	\$ 130,183	\$ 16,527	\$ 1,188
Institutional Class	*	—	—	—
Retail Class	*	—	—	—
Premier Class	*	—	—	—
<b>Large-Cap Value Fund</b>				
Retirement Class	0.25%	\$1,248,387	\$ 981,135	\$ 529,501
Institutional Class	*	—	—	\$ 30,850
Retail Class	*	—	—	\$ 193,269
Premier Class	*	—	—	—
<b>Mid-Cap Growth Fund</b>				
Retirement Class	0.25%	\$ 931,939	\$ 512,225	\$ 475,436
Institutional Class	*	—	—	\$ 2,905
Retail Class	*	—	—	\$ 74,325
Premier Class	*	—	—	—
<b>Mid-Cap Value Fund</b>				
Retirement Class	0.25%	\$1,554,536	\$1,208,243	\$ 807,640
Institutional Class	*	—	—	\$ 3,509
Retail Class	*	—	—	\$ 112,335
Premier Class	*	—	—	—
<b>Small-Cap Equity Fund</b>				
Retirement Class	0.25%	\$ 668,843	\$ 641,387	\$ 561,388
Institutional Class	*	—	—	\$ 16,142
Retail Class	*	—	—	\$ 46,175
Premier Class	*	—	—	—
<b>Large-Cap Growth Index Fund</b>				
Retirement Class	0.25%	\$ 252,843	\$ 155,596	\$ 86,461
Institutional Class	*	—	—	\$ 32,962
<b>Large-Cap Value Index Fund</b>				
Retirement Class	0.25%	\$ 261,705	\$ 196,291	\$ 25,865
Institutional Class	*	—	—	\$ 30,722

\* These classes of the Funds are not currently subject to any service agreement.

Name of Fund	Current Service Fee Rate	Service Fees for fiscal year ended September 30,		
		2008	2007	2006
<b>Equity Index Fund</b>				
Retirement Class	0.25%	\$ 30,219	\$ 13,264	\$ 1,588
Institutional Class	*	—	—	\$ 40,939
Retail Class	*	—	—	—
Premier Class	*	—	—	—
<b>S&amp;P 500 Index Fund</b>				
Retirement Class	0.25%	\$ 580,921	\$ 486,652	\$ 326,901
Institutional Class	*	—	—	\$ 38,093
<b>Small-Cap Blend Index Fund</b>				
Retirement Class	0.25%	\$ 147,443	\$ 108,099	\$ 23,328
Institutional Class	*	—	—	\$ 10,851
<b>International Equity Index Fund</b>				
Retirement Class	0.25%	\$ 965,085	\$ 477,478	\$ 74,626
Institutional Class	*	—	—	\$ 25,841
Premier Class	*	—	—	—
<b>Enhanced International Equity Index Fund</b>				
Institutional Class	*	—	—	—
<b>Enhanced Large-Cap Growth Index Fund</b>				
Institutional Class	*	—	—	—
<b>Enhanced Large-Cap Value Index Fund</b>				
Institutional Class	*	—	—	—
<b>Social Choice Equity Fund</b>				
Retirement Class	0.25%	\$ 558,403	\$ 270,604	\$ 179,514
Institutional Class	*	—	—	\$ 8,010
Retail Class	*	—	—	—
Premier Class	*	—	—	—
<b>Real Estate Securities Fund</b>				
Retirement Class	0.25%	\$ 422,171	\$ 645,344	\$ 420,500
Institutional Class	*	—	—	\$ 32,207
Retail Class	*	—	—	\$ 171,428
Premier Class	*	—	—	—
<b>Managed Allocation Fund</b>				
Retirement Class	0.25%	\$ 38,450	\$ 27,152	\$ 4,962
Institutional Class	*	—	—	—
Retail Class	*	—	—	—
<b>Bond Fund</b>				
Retirement Class	0.25%	\$ 46,229	\$ 10,911	\$ 847
Institutional Class	*	—	—	\$ 201,944
Retail Class	*	—	—	—
Premier Class	*	—	—	—
<b>Bond Plus Fund</b>				
Retirement Class	0.25%	\$ 24,064	\$ 14,180	\$ 1,449
Institutional Class	*	—	—	—
Retail Class	*	—	—	—
Premier Class	*	—	—	—
<b>Short-Term Bond Fund</b>				
Retirement Class	0.25%	\$ 44,521	\$ 17,795	\$ 1,565
Institutional Class	*	—	—	—
Retail Class	*	—	—	—
Premier Class	*	—	—	—
<b>High-Yield Fund</b>				
Retirement Class	0.25%	\$ 56,312	\$ 24,208	\$ 1,325
Institutional Class	*	—	—	—
Retail Class	*	—	—	—
Premier Class	*	—	—	—
<b>Tax-Exempt Bond Fund</b>				
Institutional Class	*	—	—	—
Retail Class	*	—	—	—

\* These classes of the Funds are not currently subject to any service agreement.

Name of Fund	Current Service Fee Rate	Service Fees for fiscal year ended September 30,		
		2008	2007	2006
<b>Inflation-Linked Bond Fund</b>				
Retirement Class	0.25%	\$ 138,130	\$ 27,875	\$ 2,010
Institutional Class	*	—	—	\$ 34,374
Retail Class	*	—	—	\$ 42,073
Premier Class	*	—	—	—
<b>Bond Index Fund</b>				
Retirement Class**	0.25%	—	—	—
Institutional Class	*	—	—	—
Retail Class	*	—	—	—
Premier Class	*	—	—	—
<b>Money Market Fund</b>				
Retirement Class	0.25%	\$ 237,089	\$ 161,392	\$ 19,085
Institutional Class	*	—	—	\$ 20,752
Retail Class	*	—	—	—
Premier Class	*	—	—	—

\* These classes of the Funds are not currently subject to any service agreement.

\*\* Because Bond Index Fund is newly-operational, it has not yet incurred any service fees.

### CUSTODIAN, TRANSFER AGENT AND FUND ACCOUNTING AGENT

State Street Bank and Trust Company (“State Street”), 1776 Heritage Drive, Quincy, MA 02171 acts as custodian for the Trust and the Funds. As custodian, State Street is responsible for the safekeeping of the Funds’ portfolio securities. State Street also acts as fund accounting agent for the Funds.

Boston Financial Data Services, Inc., 2 Heritage Drive, Quincy, MA 02171, acts as the transfer and dividend-paying agent for the Trust and Funds.

### INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

PricewaterhouseCoopers LLP, 300 Madison Avenue, New York, NY 10017 serves as the independent registered public accounting firm of the Trust and audited the Funds’ financial statements for the fiscal year ended September 30, 2008.

### PERSONAL TRADING POLICY

The Trust and TPIS have adopted codes of ethics under Rule 17j-1 of the 1940 Act and Advisors has adopted a code of ethics under Rule 204A-1 of the Investment Advisers Act of 1940. These codes govern the personal trading activities of certain employees, or “access persons,” and members of their households. While these individuals may invest in securities that may also be purchased or held by the Funds, they must also generally pre-clear and report all transactions involving securities covered under the codes. In addition, access persons must generally send duplicates of all confirmation statements and other brokerage account reports to a special compliance unit for review.

## INFORMATION ABOUT THE FUNDS’ PORTFOLIO MANAGEMENT TEAMS

### STRUCTURE OF COMPENSATION FOR PORTFOLIO MANAGERS

Equity portfolio management team members are compensated through a combination of base salary, annual performance awards and long-term compensation awards. Currently, the annual performance awards and long-term compensation awards are determined using three variables: investment performance (80% weighting), peer reviews (10% weighting) and manager-subjective ratings (10% weighting).

Fixed-income portfolio management team members are compensated through a combination of base salary, annual performance awards, and long-term compensation awards. Currently, the annual performance awards and long-term compensation are determined by performance ratings which are reflective of investment performance and peer reviews.

The Funds’ portfolio managers may receive two types of long-term compensation awards — TIAA-CREF Long-Term Performance Plan units and accumulation units of the Funds they manage. Portfolio managers of the Bond, Bond Index, Bond Plus, Growth and Income, High-Yield, Inflation-Linked, International Equity, Large-Cap Growth, Large-Cap Value, Mid-Cap Growth, Mid-Cap Value, Real Estate Securities, Short-Term Bond, Small-Cap Equity, Social Choice Equity, Enhanced International Equity Index, Enhanced Large-Cap Growth Index and Enhanced Large-Cap Value Index Funds receive 50% of their long-term compensation awards in Plan units, and 50% in accumulation units of the Funds they manage. Portfolio managers of the other Funds receive 100% of their long-term compensation awards in Plan units.

Investment performance is calculated, where records are available, over four years, each ending December 31. For each year, the gross excess return (on a before-tax basis) of a portfolio manager’s mandate(s) is calculated versus each mandate’s assigned benchmark. Please see the Funds’ prospectuses for more information regarding their benchmark indices. This investment performance is averaged using a 40% weight for the most recent year, 30% for the second year, 20% for the third year and 10% for the fourth year. Utilizing the three variables discussed above, total compensation is calculated and then compared to the compensation data obtained from surveys that include comparable investment firms. It should be noted that the total compensation can be increased or decreased based on the performance of the equity or fixed-income group (as applicable) as a unit and the relative success of the TIAA-CREF organization in achieving its financial and operational objectives.

## ADDITIONAL INFORMATION REGARDING PORTFOLIO MANAGERS

The following chart includes information relating to the portfolio management team members listed in the prospectus, such as other accounts managed by them (registered investment companies and unregistered pooled investment vehicles), total assets in those accounts, and the dollar range of equity securities owned in each of the Funds they manage, as of September 30, 2008. Information concerning the portfolio management team of the Bond Index Fund is as of July 31, 2009.

Name of Portfolio Manager	Number of Other Accounts Managed		Total Assets In Accounts Managed (millions)		Dollar Range of Equity Securities Owned in Fund
	Registered Investment Companies	Other Pooled Investment Vehicles	Registered Investment Companies	Other Pooled Investment Vehicles	
<b>Growth &amp; Income Fund</b>					
Susan Kempler	1	0	\$1,043	\$0	\$100,001 - 500,000
William Riegel, CFA	2	0	\$102,005	\$0	\$0
<b>International Equity Fund</b>					
Shigemi (Amy) Hatta	1	0	\$2,170	\$0	\$100,001 - 500,000
Christopher F. Semenuk	1	0	\$2,170	\$0	\$500,001 - 1,000,000
<b>Large-Cap Growth Fund</b>					
Susan Hirsch	4	0	\$11,942	\$0	\$10,001 - 50,000
<b>Large-Cap Value Fund</b>					
Richard Cutler	2	0	\$1,987	\$0	\$100,001 - 500,000
Athanasios (Tom) Kolefas, CFA	3	0	\$14,686	\$0	\$0
<b>Mid-Cap Growth Fund</b>					
George (Ted) Scalise, CFA	0	0	\$464	\$0	\$100,001 - 500,000
Susan Hirsch	4	0	\$11,942	\$0	\$0
<b>Mid-Cap Value Fund</b>					
Richard Cutler	2	0	\$1,987	\$0	\$10,001 - 50,000
Athanasios (Tom) Kolefas, CFA	3	0	\$14,686	\$0	\$100,001 - 500,000
<b>Small-Cap Equity Fund</b>					
Michael S. Shing, CFA	2	0	\$727	\$0	\$100,001 - 500,000
Adam Cao	1	0	\$571	\$0	\$10,001 - 50,000
<b>Large-Cap Growth Index Fund</b>					
Philip James (Jim) Campagna, CFA	16	0	\$23,564	\$0	\$0
Anne Sapp, CFA	16	0	\$23,564	\$0	\$0
<b>Large-Cap Value Index Fund</b>					
Philip James (Jim) Campagna, CFA	16	0	\$23,564	\$0	\$0
Anne Sapp, CFA	16	0	\$23,564	\$0	\$0
<b>Equity Index Fund</b>					
Philip James (Jim) Campagna, CFA	16	0	\$23,564	\$0	\$0
Anne Sapp, CFA	16	0	\$23,564	\$0	\$1 - 10,000
<b>S&amp;P 500 Index Fund</b>					
Philip James (Jim) Campagna, CFA	16	0	\$23,564	\$0	\$10,001 - 50,000
Anne Sapp, CFA	16	0	\$23,564	\$0	\$1 - 10,000
<b>Small-Cap Blend Index Fund</b>					
Philip James (Jim) Campagna, CFA	16	0	\$23,564	\$0	\$0
Anne Sapp, CFA	16	0	\$23,564	\$0	\$0
<b>International Equity Index Fund</b>					
Philip James (Jim) Campagna, CFA	16	0	\$23,564	\$0	\$0
Anne Sapp, CFA	16	0	\$23,564	\$0	\$0
<b>Enhanced International Equity Index Fund</b>					
Jacob Pozharny	0	1	\$199	\$33	\$1 - 10,000
Steven Rossiello, CFA	0	0	\$165	\$0	\$1 - 10,000
<b>Enhanced Large-Cap Growth Index Fund</b>					
Ruxiang (Michael) Qian	0	0	\$160	\$0	\$1 - 10,000
Kelvin Zhang	0	0	\$160	\$0	\$0
<b>Enhanced Large-Cap Value Index Fund</b>					
Michael S. Shing, CFA	2	0	\$727	\$0	\$1 - 10,000

Name of Portfolio Manager	Number of Other Accounts Managed		Total Assets In Accounts Managed (millions)		Dollar Range of Equity Securities Owned in Fund
	Registered Investment Companies	Other Pooled Investment Vehicles	Registered Investment Companies	Other Pooled Investment Vehicles	
<b>Social Choice Equity Fund</b>					
Philip James (Jim) Campagna, CFA	16	0	\$23,564	\$0	\$0
Anne Sapp, CFA	16	0	\$23,564	\$0	\$1 - 10,000
<b>Real Estate Securities Fund</b>					
David Copp	1	0	\$602	\$0	\$100,001 - 500,000
Saira Malik	2	0	\$101,564	\$0	\$1 - 10,000
Brendan Lee	1	0	\$602	\$0	\$50,001 - 100,000
<b>Managed Allocation Fund</b>					
John M. Cunniff, CFA	10	0	\$2,423	\$0	\$1 - 10,000
Hans L. Erickson, CFA	11	0	\$103,385	\$0	Over \$1, 000,000
Pablo Mitchell	10	0	\$2,423	\$0	\$1 - 10,000
<b>Bond Fund</b>					
Elizabeth (Lisa) D. Black, CFA	4	0	\$19,023	\$0	\$1 - 10,000
John M. Cerra	6	0	\$18,662	\$0	\$1 - 10,000
<b>Bond Plus Fund</b>					
Elizabeth (Lisa) D. Black, CFA	4	0	\$19,023	\$0	\$0
John M. Cerra	6	0	\$18,662	\$0	\$1 - 10,000
<b>Short-Term Bond Fund</b>					
Elizabeth (Lisa) D. Black, CFA	4	0	\$19,023	\$0	\$0
John M. Cerra	6	0	\$18,662	\$0	\$1 - 10,000
<b>High-Yield Fund</b>					
Kevin R. Lorenz, CFA	0	0	\$355	\$0	\$50,001-100,000
<b>Tax-Exempt Bond Fund</b>					
Peter Scola	0	0	\$245	\$0	\$1 - 10,000
<b>Inflation-Linked Bond Fund</b>					
John M. Cerra	6	0	\$18,662	\$0	\$0
<b>Bond Index Fund</b>					
Elizabeth (Lisa) D. Black, CFA	6	0	\$20,101	\$0	*
Steven Sterman	0	0	\$0	\$0	*
<b>Money Market Fund</b>					
Michael F. Ferraro, CFA	2	0	\$14,769	\$0	\$0

\* The portfolio managers of the Bond Index Fund could not own shares of this Fund as of July 31, 2009 since the Fund was not operational at that time.

## POTENTIAL CONFLICTS OF INTEREST OF ADVISORS AND PORTFOLIO MANAGERS

Portfolio managers of the Funds may also manage other registered investment companies or unregistered investment pools and investment accounts, including accounts for TIAA or other proprietary accounts, which may raise potential conflicts of interest. Advisors has put in place policies and procedures designed to mitigate any such conflicts. Such conflicts and mitigating policies and procedures include the following:

**Conflicting Positions.** Investment decisions made for the Funds may differ from, and may conflict with, investment decisions made by Advisors or its affiliated investment adviser, Investment Management, for other client or proprietary accounts due to differences in investment objectives, investment strategies, account benchmarks, client risk profiles and other factors. As a result of such differences, if an account were to sell a significant position in a security while a Fund maintained its position in that security, the market price of such securities could decrease and adversely impact the Fund's performance. In the case of a short sale, the selling account would benefit from any decrease in price.

**Allocation of Investment Opportunities.** Even where accounts have similar investment mandates as a Fund, Advisors may determine that investment opportunities, strategies or particular purchases or sales are appropriate for one or more other client or proprietary accounts, but not for the Fund, or are appropriate for the Fund but in different amounts, terms or timing than is appropriate for other client or proprietary accounts. As a result, the amount, terms or timing of an investment by a Fund may differ from, and performance may be lower than, investments and performance of other client or proprietary accounts.

**Aggregation and Allocation of Orders.** Advisors may aggregate orders of the Funds and its other accounts (including proprietary accounts), and orders of client accounts managed by Investment Management, in each case consistent with Advisors' policy to seek best execution for all orders. Although aggregating orders is a common means of reducing transaction costs for participating accounts, Advisors may be perceived as causing one client account, such as a Fund, to participate in an aggregated transaction in order to increase Advisors' overall allocation of securities in that transaction or future transactions. Allocations of aggregated trades may also be perceived as creating an incentive for Advisors to disproportionately allocate securities expected to increase in value to certain client or proprietary accounts, at the expense of a Fund. In addition, a Fund may bear the risk of potentially higher transaction costs if aggregated trades are only partially filled or if orders are not aggregated at all.

Advisors has adopted procedures designed to mitigate the foregoing conflicts of interest by treating each account, including the Funds, fairly and equitably over time in the allocation of investment opportunities and the aggregation and allocation of orders. The procedures also are designed to mitigate conflicts in potentially inconsistent trading and provide guidelines for trading priority. Moreover, Advisors' trading activities are subject to supervisory review and compliance monitoring to help address and mitigate conflicts of interest and ensure that accounts are being treated fairly and equitably over time.

For example, in allocating investment opportunities, a portfolio manager considers an account's or fund's investment objectives, investment restrictions, cash position, need for liquidity, sector concentration and other objective criteria. In addition, orders for the same single security are generally aggregated with other orders for the same single security received at the same time. If aggregated orders are fully executed, each participating account is allocated its pro rata share on an average price and trading cost basis. In the event the order is only partially filled, each participating account receives a pro rata share. Portfolio managers are also subject to restrictions on potentially inconsistent trading of single securities, although a portfolio manager may sell a single security short if the security is included in an account's benchmark and the portfolio manager is underweight in that security relative to the account's benchmark. Moreover, the procedures set forth guidelines for trading priority with long sales of single securities generally having priority over short sales of the same or closely related securities.

Advisors' procedures also address basket trades (trades in a wide variety of securities — on average approximately 100 different issuers) used in quantitative strategies. However, basket trades are generally not aggregated or subject to the same types of restrictions on potentially inconsistent trading as single security trades because basket trades are tailored to a particular index or model portfolio based on the risk profile of a particular account pursuing a particular quantitative strategy. In addition, basket trades are not subject to the same trading priority guidelines as single security trades because an automated and systematic process is used to implement trades.

**Research.** Advisors allocates brokerage commissions to brokers who provide execution and research services for the Funds and some or all of Advisors' other clients. Such research services may not always be utilized in connection with the Funds or other client accounts that may have provided the commission or a portion of the commission paid to the broker providing the services. Advisors is authorized to pay, on behalf of the Funds, higher brokerage fees than another broker might have charged in recognition of the value of brokerage or research services provided by the broker. Advisors has adopted procedures with respect to these so-called "soft dollar" arrangements, including the use of brokerage commissions to pay for in-house and non-proprietary research, the process for allocating brokerage, and Advisors' practices regarding the use of third-party soft dollars.

**IPO Allocation.** Advisors has adopted procedures designed to ensure that it allocates initial public offerings to the Funds and Advisors' other clients in a fair and equitable manner, consistent with its fiduciary obligations to its clients.

**Compensation.** The compensation paid to Advisors for managing the Funds, as well as certain other clients, is based on a percentage of assets under management, whereas the compensation paid to Advisors for managing certain other clients is based on cost. However, no client currently pays Advisors a performance-based fee. Nevertheless, Advisors may be perceived as having an incentive to allocate securities that are expected to increase in value to accounts in which Advisors has a proprietary interest or to certain other accounts in which Advisors receives a larger asset-based fee.

## ABOUT THE TRUST AND THE SHARES

The Trust was organized as a Delaware statutory trust on April 15, 1999. A copy of the Trust's Certificate of Trust, dated April 15, 1999, as amended, is on file with the Office of the Secretary of State of the State of Delaware. As a Delaware statutory trust, the Trust's operations are governed by its Declaration of Trust. Upon the initial purchase of shares of beneficial interest in the Funds, each shareholder agrees to be bound by the Declaration of Trust, as amended from time to time.

### CLASS STRUCTURE

The Trust offers four classes of shares (Retirement Class, Premier Class, Institutional Class and Retail Class), which have the distribution and service fee arrangements described below. Each Fund may not offer all classes of shares.

**Retirement Class Shares.** Retirement Class shares of the Funds are offered primarily through accounts established by employers, or the trustees of plans sponsored by or on behalf of employers, in connection with certain employee benefit plans (the "plan(s)", such as plans described in sections 401(a) (including 401(k) and Keogh plans), 403(b) (7) or 457 of the Code. Retirement Class shares also may be offered through custody accounts established by individuals as IRAs pursuant to section 408 of the Code. Additionally, Retirement Class shares may be offered by certain intermediaries who have entered into a contract or arrangement with the Funds or their investment adviser or distributor that enables the intermediaries to purchase this class of shares. This class is subject to a service fee paid to Advisors for providing or arranging for the provision of certain administrative and shareholder services.

**Premier Class Shares.** Premier Class shares of the Funds are offered primarily through accounts established by employers, or the trustees of plans sponsored by or on behalf of employers, in connection with certain employee benefit plans (the "plan(s)", such as plans described in sections 401(a) (including 401(k) and Keogh plans), 403(b) (7) or 457 of the Code. Premier Class shares also may be offered through custody accounts established by individuals as IRAs pursuant to section 408 of the Code. Additionally, Premier Class shares may be offered by certain intermediaries who have entered into a contract or arrangement with the Funds or their investment adviser or distributor that enables the intermediaries to make available this class of shares. Premier Class shares are subject to a distribution (12b-1) plan pursuant to which they may compensate TPIS for distributing, promoting and servicing Premier Class shares at an annual rate of 0.15% of average daily net assets.

**Institutional Class Shares.** Institutional Class shares of the Funds are only available for purchase by or through certain intermediaries affiliated with TIAA-CREF ("TIAA-CREF Intermediaries") or other unaffiliated persons or intermediaries, such as state-sponsored tuition savings plans, or employer-sponsored employee benefit plans, who have entered into a contract or arrangement with a TIAA-CREF Intermediary that enables them to purchase shares of the Funds, or other affiliates of TIAA-CREF or other persons that the Trust may approve from time to time. Under certain circumstances, this class may be offered through accounts established by employers, or the

trustees of plans sponsored by employers, through TIAA-CREF in connection with certain employee benefit plans, such as 401(a) (including 401(k) and Keogh plans), 403(a), 403(b) and 457 plans, or through custody accounts established by individuals through TIAA-CREF as IRAs. Minimum initial investment requirements will apply to certain investors in Institutional Class shares.

Shareholders investing through such plans may have to pay additional expenses related to the administration of such plans.

**Retail Class Shares.** Retail Class shares of the Funds are offered to many different types of investors, but are particularly aimed at individual investors. Minimum initial and subsequent investment requirements will apply to certain Retail Class investors, as well as a small account maintenance fee. Retail Class shares are subject to distribution (12b-1) plans pursuant to which they may reimburse TPIS (or compensate, with respect to the Bond Index Fund) for its expenses associated with distributing, promoting and servicing Retail Class shares in an annual amount up to 0.25% of average daily net assets.

### DISTRIBUTION (12b-1) PLANS

The Board of Trustees has adopted two distribution plans with respect to Retail Class shares and one plan with respect to Premier Class shares offered by the Funds (the "Distribution Plans") pursuant to Rule 12b-1 under the 1940 Act. Under the Retail Class Distribution Plan that is applicable to Bond Index Fund only ("BIF Retail Plan"), the Fund compensates TPIS for certain services that TPIS provides in connection with the promotion, distribution and shareholder servicing of Retail Class shares of the Fund. Under the other Retail Class Distribution Plan ("TCF Retail Plan"), each other Fund reimburses TPIS for all or part of certain expenses that TPIS incurs in connection with its promotion, distribution and shareholder servicing of these Funds' Retail Class shares. Under the Premier Class Distribution Plan, each Fund compensates TPIS an annual amount for its promotion, distribution and shareholder servicing of Premier Class shares. The expenses for which a Fund may reimburse or pay TPIS under the Distribution Plans include, but are not limited to, compensation of dealers and others for the expenses of their various activities primarily intended to promote the sale of Retail or Premier Class shares, as well as for shareholder servicing expenses.

Reimbursements by a Fund under the TCF Retail Plan are calculated daily and paid monthly up to a rate or rates approved from time to time by the Board, provided that no rate may exceed the annual rate of 0.25% of the average daily net assets of the Retail Class of the Fund. Please note, however, that TPIS contractually agreed not to seek any reimbursement under the TCF Retail Plan until August 1, 2009. Therefore, no 12b-1 fees were paid by the Funds pursuant to the Distribution Plan in fiscal year 2008 or prior years. Payments by the Bond Index Fund under the BIF Retail Plan are calculated daily and paid monthly at the annual rate of 0.25% of the average daily net assets for the Retail Class of the Fund. This Plan is newly operational so no fees were paid to TPIS under this Plan in fiscal year 2008 or prior years.

Payments by a Fund under the Premier Class Distribution Plan are calculated daily and paid monthly at the annual rate of 0.15% of the average daily net assets of the Premier Class of the Fund. The Premier Class is newly-operational, so no amounts have been paid to TPIS under this Plan as of the date of this SAI.

Amounts paid to TPIS by any class of shares of a Fund will not be used to pay the expenses incurred with respect to any other class of shares of that Fund; provided, however, that expenses attributable to the Fund as a whole will be allocated, to the extent permitted by law, according to a formula based upon gross sales dollars and/or average daily net assets of each such class, as may be approved from time to time by vote of a majority of the Trustees. From time to time, a Fund may participate in joint distribution activities with other mutual funds and the costs of those activities will be borne by each Fund in proportion to the relative NAV of the participating Fund.

The Distribution Plans have been approved by a majority of the trustees, including a majority of the trustees who are not interested persons of the Trust and who have no direct or indirect interest in the financial operation of either Distribution Plan (the "Independent Trustees"), by votes cast in person at a meeting called for the purpose of voting on such Distribution Plans. In adopting the Distribution Plans, the trustees concluded that the Distribution Plans would benefit the Retail Class or Premier Class shareholders of each Fund, as applicable.

One of the potential benefits of the Distribution Plans is that payments to TPIS (and from TPIS to other intermediaries) could lead to increased sales and reduced redemptions, which could assist a Fund in achieving scale and could contribute to the Fund's longer-term viability. Furthermore, the investment management of a Fund could be enhanced, as net inflows of cash from new sales might enable its portfolio management team to take advantage of attractive investment opportunities, and reduced redemptions could eliminate the potential need to liquidate attractive securities positions in order to raise the funds necessary to meet the redemption requests.

Pursuant to the Distribution Plans, at least quarterly, TPIS provides the Funds with a written report of the amounts expended under the Plans and the purpose for which these expenditures were made. The trustees review these reports on a quarterly basis to determine their continued appropriateness.

Each Distribution Plan provides that it continues in effect only as long as its continuance is approved at least annually by a majority of both the trustees and the Independent Trustees. Each Distribution Plan provides that it may be terminated without penalty with respect to any Fund at any time: (a) by a vote of a majority of the Independent Trustees; or (b) by a vote of a majority of the votes attributable to the Retail Class shares or Premier Class shares of that Fund, as applicable. Each Distribution Plan further provides that it may not be amended to increase materially the maximum amount of fees specified therein with respect to a Fund without the approval of a majority of the votes attributable to such Fund's Retail Class or Premier Class shares, as applicable. In addition, the Distribution Plans provide that no material amendment to the Plans will, in any event, be effective unless it is approved by a majority of both the trustees and the Independent Trustees with respect to the applicable Fund or Class. The Retail Class and Premier Class shareholders of each Fund have exclusive voting rights with respect to the application of the Distribution Plan with respect to the applicable share classes of each Fund.

## **INDEMNIFICATION OF SHAREHOLDERS**

Generally, Delaware statutory trust shareholders are not personally liable for obligations of the Delaware statutory trust under Delaware law. The Delaware Statutory Trust Act ("DSTA") provides that a shareholder of a Delaware statutory trust shall be entitled to the same limitation of liability extended to shareholders of private for-profit corporations. The Declaration of Trust expressly provides that the Trust has been organized under the DSTA and that the Declaration of Trust is to be governed by and interpreted in accordance with Delaware law. It is nevertheless possible that a Delaware statutory trust, such as the Trust, might become a party to an action in another state whose courts refuse to apply Delaware law, in which case shareholders of the Trust could possibly be subject to personal liability.

To guard against this risk, the Declaration of Trust (i) contains an express disclaimer of shareholder liability for acts or obligations of the Trust and provides that notice of such disclaimer may be given in each agreement, obligation and instrument entered into or executed by the Trust or its trustees, (ii) provides for the indemnification out of property of the Trust of any shareholders held personally liable for any obligations of the Trust or any series thereof, and (iii) provides that the Trust shall, upon request, assume the defense of any claim made against any shareholder for any act or obligation of the Trust and satisfy any judgment thereon. Thus, the risk of a Trust shareholder incurring financial loss beyond his or her investment because of shareholder liability is limited to circumstances in which all of the following factors are present: (1) a court refuses to apply Delaware law; (2) the liability arose under tort law or, if not, no contractual limitation of liability was in effect; and (3) the Trust itself would be unable to meet its obligations. In the light of DSTA, the nature of Trust's business, and the nature of its assets, the risk of personal liability to a shareholder of a series of the Trust is remote.

## **INDEMNIFICATION OF TRUSTEES**

The Declaration of Trust further provides that Trust shall indemnify each of its Trustees and officers against liabilities and expenses reasonably incurred by them, in connection with, or arising out of, any action, suit or proceeding threatened against or otherwise involving such trustee or officer, directly or indirectly, by reason of being or having been a trustee or officer of the Trust. The Declaration of Trust does not authorize the Trust to indemnify any trustee or officer against any liability to which he or she would otherwise be subject by reason of or for willful misfeasance, bad faith, gross negligence or reckless disregard of such person's duties.

## **LIMITATION OF FUND LIABILITY**

All persons dealing with a Fund must look solely to the property of that particular Fund for the enforcement of any claims against that Fund, as neither the trustees, officers, agents nor shareholders assume any personal liability for obligations entered into on behalf of a Fund or the Trust. No Fund is liable for the obligations of any other Fund.

## SHAREHOLDER MEETINGS AND VOTING RIGHTS

Under the Declaration of Trust, the Trust is not required to hold annual meetings to elect trustees or for other purposes. It is not anticipated that the Trust will hold shareholders' meetings unless required by law or the Declaration of Trust, although the Trust may do so periodically. The Trust will be required to hold a meeting to elect Trustees to fill any existing vacancies on the Board if, at any time, fewer than 75% of the trustees holding office were elected by the shareholders of the Trust. The Trust may also hold special meetings to change fundamental policies, approve a management agreement, or for other purposes. The Funds will mail proxy materials to shareholders for these meetings, and the Trust encourages shareholders who cannot attend to vote by proxy.

Shares of the Trust do not entitle their holders to cumulative voting rights, so that the holders of more than 50% of the net asset value represented by the outstanding shares of the Trust may elect all of the trustees, in which case the holders of the remaining shares would not be able to elect any trustees. Shareholders are entitled to one vote for each dollar of net asset value they own, so that the number of votes a shareholder has is determined by multiplying the number of shares of each Fund held times the next asset value per share of the applicable Fund.

## SHARES

The Trust is authorized to issue an unlimited number of shares of beneficial interest in the Funds. Shares are divided into and may be issued in a designated series representing beneficial interests in one of the Fund's investment portfolios.

Each share of a series issued and outstanding is entitled to participate equally in dividends and distributions declared by such series and, upon liquidation or dissolution, in net assets allocated to such series remaining after satisfaction of outstanding liabilities. The shares of each series, when issued, will be fully paid and non-assessable and have no preemptive or conversion rights.

## ADDITIONAL FUNDS OR CLASSES

Pursuant to the Declaration of Trust, the trustees may establish additional Funds (technically, "series" of shares) or "classes" of shares in the Trust without shareholder approval. The trustees have established another series of funds of the Trust, known as the "Lifecycle Funds," which are addressed in separate prospectuses and a separate statement of additional information. The establishment of additional Funds or classes does not affect the interests of current shareholders in the existing Funds or their classes.

## DIVIDENDS AND DISTRIBUTIONS

Each share of a Fund is entitled to such dividends and distributions out of the income earned on the assets belonging to that Fund as are declared in the discretion of the trustees. In the event of the liquidation or dissolution of the Trust as a whole or any individual Fund, shares of the affected Fund are entitled to receive their proportionate share of the assets that are attributable to such shares and which are available for distribution as the trustees in their sole discretion may determine. Shareholders are not entitled to any preemptive, conversion or subscription rights. All shares, when issued, will be fully paid and nonassessable.

## PRICING OF SHARES

The assets of the Funds are valued as of the close of each valuation day in the following manner:

### INVESTMENTS FOR WHICH MARKET QUOTATIONS ARE READILY AVAILABLE

Investments for which market quotations are readily available are valued at the market value of such investments, determined as follows:

### EQUITY SECURITIES

Equity securities listed or traded on a national market or exchange are valued based on their sale price on such market or exchange at the close of business (usually 4:00 p.m. Eastern Time) on the date of valuation, or at the mean of the closing bid and asked prices if no sale is reported. For securities traded on NASDAQ, the closing price quoted by NASDAQ for that security (either the NASDAQ Official Closing Price or the Closing Cross price) is used. Equity securities that are traded on neither a national securities exchange nor on NASDAQ are valued at the last sale price at the close of business on the New York Stock Exchange, if a last sale price is available, or otherwise at the mean of the closing bid and asked prices. Such an equity security may also be valued at fair value as determined in good faith using procedures approved by the Board of Trustees if events materially affecting its value occur between the time its price is determined and the time a Fund's NAV is calculated.

### FOREIGN INVESTMENTS

Investments traded on a foreign exchange or in foreign markets are valued at the closing values of such securities as of the date of valuation under the generally accepted valuation method in the country where traded and converted to U.S. dollars at the prevailing rates of exchange on the date of valuation. Since the trading of investments on a foreign exchange or in foreign markets is normally completed before the end of a valuation day, such valuation does not take place contemporaneously with the determination of the valuation of certain other investments held by the Fund of the Fund's net asset value. If events materially affecting the value of foreign investments occur between the time their share price is determined and the time when a Fund's net asset value is calculated, such investments will be valued at fair value as determined in good faith using procedures approved by the Board of Trustees. The fair value of foreign securities may be determined with the assistance of a pricing service, which attempts to calculate a fair value for securities based on numerous factors including correlations of a securities price with securities indices and other appropriate indicators, such as ADRs and futures contracts.

### DEBT SECURITIES

Debt securities (excluding money market instruments) with remaining maturities of more than 60 days for which market quotations are readily available are valued based on the most recent bid price or the equivalent quoted yield for such securities (or those of comparable maturity, quality and type). These values will be derived utilizing an independent pricing services, except

when it is believed that the prices do not accurately reflect the security's fair value.

Values for money market instruments (other than those in the Money Market Fund) with maturities of more than 60 days are valued in the same manner as debt securities stated in the preceding paragraph, or derived from a pricing matrix that has various types of money market instruments along one axis and various maturities along the other.

Debt securities with remaining maturities of 60 days or less generally are valued using their amortized cost.

All debt securities may also be valued at fair value as determined in good faith using procedures approved by the Board of Trustees.

### **SPECIAL VALUATION PROCEDURES FOR THE MONEY MARKET FUND**

For the Money Market Fund, all of its assets are valued on the basis of amortized cost in an effort to maintain a constant net asset value per share of \$1.00. The Board has determined that such valuation is in the best interests of the Fund and its shareholders. Under the amortized cost method of valuation, securities are valued at cost on the date of their acquisition, and thereafter a constant accretion of any discount or amortization of any premium to maturity is assumed. While this method provides certainty in valuation, it may result in periods in which value as determined by amortized cost is higher or lower than the price the Fund would receive if it sold the security. During such periods, the quoted yield to investors may differ somewhat from that obtained by a similar fund that uses available market quotations to value all of its securities. The Board of Trustees has established procedures reasonably designed, taking into account current market conditions and the Money Market Fund's investment objective, to stabilize the net asset value per share for purposes of sales and redemptions at \$1.00. These procedures include review by the Board of Trustees, at such intervals as it deems appropriate, to determine the extent, if any, to which the net asset value per share calculated by using available market quotations deviates by more than 1/2 of one percent from \$1.00 per share. In the event such deviation should exceed 1/2 of one percent, the Board of Trustees will promptly consider initiating corrective action. If the Board of Trustees believes that the extent of any deviation from a \$1.00 amortized cost price per share may result in material dilution or other unfair results to new or existing shareholders, it will take such steps as it considers appropriate to eliminate or reduce these consequences to the extent reasonably practicable. Such steps may include: (1) selling securities prior to maturity; (2) shortening the average maturity of the Fund; (3) withholding or reducing dividends; or (4) utilizing a net asset value per share determined from available market quotations. Even if these steps were taken, the Money Market Fund's net asset value might still decline.

### **OPTIONS AND FUTURES**

Portfolio investments underlying options are valued as described above. Stock options written by a Fund are valued at the last quoted sale price, or at the closing bid price if no sale is reported for the day of valuation as determined on the principal exchange on which the option is traded. The value of a Fund's net

assets will be increased or decreased by the difference between the premiums received on writing options and the costs of liquidating such positions measured by the closing price of the options on the date of valuation.

For example, when a Fund writes a call option, the amount of the premium is included in the Fund's assets and an equal amount is included in its liabilities. The liability thereafter is adjusted to the current market value of the call. Thus, if the current market value of the call exceeds the premium received, the excess would be unrealized depreciation; conversely, if the premium exceeds the current market value, such excess would be unrealized appreciation. If a call expires or if the Fund enters into a closing purchase transaction, it realizes a gain (or a loss if the cost of the transaction exceeds the premium received when the call was written) without regard to any unrealized appreciation or depreciation in the underlying securities, and the liability related to such call is extinguished. If a call is exercised, the Fund realizes a gain or loss from the sale of the underlying securities and the proceeds of the sale are increased by the premium originally received.

A premium paid on the purchase of a put will be deducted from a Fund's assets and an equal amount will be included as an investment and subsequently adjusted to the current market value of the put. For example, if the current market value of the put exceeds the premium paid, the excess would be unrealized appreciation; conversely, if the premium exceeds the current market value, such excess would be unrealized depreciation.

Stock and bond index futures, and options thereon, which are traded on commodities exchanges, are valued at their last sale prices as of the close of such commodities exchanges.

### **INVESTMENTS FOR WHICH MARKET QUOTATIONS ARE NOT READILY AVAILABLE**

Portfolio securities or other assets for which market quotations are not readily available will be valued at fair value as determined in good faith using procedures approved by the Board of Trustees. For more information about the Funds' fair value pricing procedures, see "Calculating Share Price" in the Prospectus.

### **TAX STATUS**

*The following discussion of the federal tax status of the Funds is a general and abbreviated summary based on tax laws and regulations in effect on the date of this SAI. Tax law is subject to change by legislative, administrative or judicial action.*

This discussion does not address all aspects of taxation (including state, local and foreign taxes) that may be relevant to particular shareholders in light of their own investment or tax circumstances, or to particular types of shareholders (including insurance companies, tax-deferred retirement plans, financial institutions, broker-dealers, foreign corporations and persons who are not citizens or residents of the United States) subject to special treatment under the federal income tax laws. This summary is based on the Internal Revenue Code of 1986, as amended (the "Code"), the regulations thereunder, published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis.

**YOU ARE ADVISED TO CONSULT YOUR OWN TAX ADVISOR WITH RESPECT TO THE TAX CONSEQUENCES OF AN**

INVESTMENT IN A FUND IN LIGHT OF YOUR PARTICULAR CIRCUMSTANCES. THIS DISCUSSION IS NOT INTENDED AS A SUBSTITUTE FOR CAREFUL TAX PLANNING.

#### QUALIFICATION AS REGULATED INVESTMENT COMPANY

Each Fund is treated as a separate taxpayer for federal income tax purposes. Each Fund intends to elect to be treated as a *regulated investment company* under Subchapter M of Chapter 1 of the Code and to qualify as a *regulated investment company* each year. If a Fund: (1) continues to qualify as a *regulated investment company*, and (2) distributes to its shareholders an amount at least equal to the sum of 90% of its investment company taxable income (including for this purpose its net ordinary investment income and realized net short-term capital gains) and 90% of its tax-exempt interest income (reduced by certain expenses) (the “90% distribution requirement”), which the Trust intends each Fund to do, then under the provisions of Subchapter M of the Code the Fund should have little or no liability for federal income taxes. In particular, a Fund will not be subject to federal income tax on the portion of its investment company taxable income and net capital gain (*i.e.*, realized net long-term capital gain in excess of realized net short-term capital loss) it distributes to shareholders (or treats as having been distributed to shareholders).

Each Fund generally will endeavor to distribute (or treat as deemed distributed) to shareholders all of its investment company taxable income and its net capital gain, if any, for each taxable year so that it will not incur federal income taxes on its earnings.

A Fund must meet several requirements to maintain its status as a *regulated investment company*. These requirements include the following: (1) at least 90% of its gross income for each taxable year must be derived from (a) dividends, interest, payments with respect to loaned securities, gains from the sale or disposition of securities (including gains from related investments in foreign currencies), and other income (including gains from options, futures or forward contracts) derived with respect to its business of investing in such securities or currencies; and (b) net income derived from an interest in a qualified publicly traded partnership (“PTP”); and (2) at the close of each quarter of the Fund’s taxable year, (a) at least 50% of the value of the Fund’s total assets must consist of cash, cash items, securities of other *regulated investment companies*, U.S. Government securities and other securities that, with respect to any one issuer, do not represent more than 5% of the value of the total assets of the Fund or more than 10% of the outstanding voting securities of such issuer; or more than 10% of a PTP’s equity securities and (b) the Fund must not invest more than 25% of its total assets in the securities of any one issuer (other than U.S. Government securities or the securities of other *regulated investment companies*), the securities of two or more issuers that are controlled by the Fund and that are engaged in the same or similar trades or businesses or related trades or business, or the securities of one or more PTPs.

If for any taxable year a Fund fails to qualify as a *regulated investment company* or fails to satisfy the 90% distribution require-

ment, then all of its taxable income would be subject to federal, and possibly state, income tax at regular corporate rates (without any deduction for distributions to its shareholders) and distributions to its shareholders would generally constitute ordinary income (including dividends derived from interest on tax-exempt obligations) to the extent of such Fund’s available earnings and profits).

#### EQUALIZATION ACCOUNTING

Each Fund may use the so-called “equalization method” of accounting to allocate a portion of its “earnings and profits,” which generally equals a Fund’s undistributed net investment income and realized capital gains, with certain adjustments, to redemption proceeds. This method permits a Fund to achieve more balanced distributions for both continuing and redeeming shareholders. Although using this method generally will not affect a Fund’s total returns, it may reduce the amount that the Fund would otherwise distribute to continuing shareholders by reducing the effect of redemptions of Fund shares on Fund distributions to shareholders. However, the IRS has not expressly sanctioned the particular equalization method used by a Fund, and thus the Fund’s use of this method may be subject to IRS scrutiny.

#### DISTRIBUTIONS TO AVOID FEDERAL EXCISE TAX

A *regulated investment company* generally must distribute in each calendar year an amount equal to at least the sum of: (1) 98% of its ordinary taxable income for the year; (2) 98% of its capital gain net income for the twelve months ended on October 31 of that calendar year; and (3) any ordinary income or net capital gain income not distributed or taxed for prior years (the “excise tax avoidance requirements”). To the extent that a *regulated investment company* fails to do this, it is subject to a 4% nondeductible federal excise tax on undistributed earnings. Therefore, in order to avoid the federal excise tax, each Fund must make (and the Trust intends that each will make) the foregoing distributions.

#### CAPITAL LOSS CARRYFORWARDS

As of September 30, 2008, the following Funds have capital loss “carryforwards” as indicated below. To the extent provided in the Code and regulations thereunder, a Fund may carry forward such capital losses to offset realized capital gains in future years. To the extent that these losses are used to offset future capital gains, it is probable that the gains so offset will not be distributed to shareholders because they would be taxable as ordinary income.

Due to the reorganization on April 20, 2007, involving the TIAA-CREF Mutual Funds (the “Target Funds”), into a corresponding series of the Funds (the “Acquiring Funds”), the use of capital loss carryovers in future fiscal years for the Growth & Income Fund may be subject to limitations under the Internal Revenue Code and Regulations thereunder.

Fund	Date of Expiration								Total
	9/30/09	9/30/10	9/30/11	9/30/12	9/30/13	9/30/14	9/30/15	9/30/16	
Growth & Income	\$ —	\$ 4,882,834	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 4,882,834
Large-Cap Growth	129,325,426	60,601,952	9,870,740	1,691,917	—	—	—	—	201,489,855
Large-Cap Value	—	—	—	—	—	—	—	141,610	141,610
Small-Cap Equity	—	—	—	—	—	—	—	2,890,078	2,890,078
Bond	—	—	—	—	—	330,469	17,090,688	—	17,421,157
Bond Plus	—	—	—	—	4,900,372	120,262	—	1,547,153	6,567,787
Short-Term Bond	—	—	—	734,605	2,605,737	501,909	—	—	3,842,251
High-Yield	—	398,437	—	—	—	—	—	—	398,437
Inflation-Linked Bond	—	—	—	—	—	—	2,826,986	—	2,826,986
Money Market	—	—	—	4,739	219	373	—	—	5,331

## INVESTMENTS IN FOREIGN SECURITIES

Investment income received from sources within foreign countries, or capital gains earned by a Fund investing in securities of foreign issuers, may be subject to foreign income taxes withheld at the source. In this regard, withholding tax rates in countries with which the United States does not have a tax treaty are often as high as 35% or more. The United States has entered into tax treaties with many foreign countries that may entitle a Fund to a reduced rate of tax or exemption from tax on this related income and gains. The effective rate of foreign tax cannot be determined at this time since the amount of a Fund's assets to be invested within various countries is not now known. The Funds intend to operate so as to qualify for applicable treaty-reduced rates of tax. If a Fund qualifies as a *regulated investment company* under the Code, and if more than 50% of the Fund's total assets at the close of the taxable year consists of securities of foreign corporations, then the Trust may elect, for U.S. federal income tax purposes, to treat foreign income taxes paid by the Fund (including certain withholding taxes that can be treated as income taxes under U.S. income tax principles) as paid by its shareholders. The International Equity Fund, International Equity Index Fund and Enhanced International Equity Index Fund anticipate that they may qualify for and make this election in most, but not necessarily all, of their taxable years. If a Fund makes such an election, an amount equal to the foreign income taxes paid by the Fund would be included in the income of its shareholders and the shareholders often would be entitled to credit their portions of this amount against their U.S. tax liabilities, if any, or to deduct those portions from their U.S. taxable income, if any. Shortly after any year for which such an election is made, the Fund will report to shareholders, in writing, the amount per share of foreign tax that must be included in each shareholder's gross income and the amount that will be available as a deduction or credit. Certain limitations based on the unique tax situation of a shareholder may apply to limit the extent to which the credit or the deduction for foreign taxes may be claimed by such shareholder.

If a Fund acquires stock in certain foreign corporations that receive at least 75% of their annual gross income from passive sources (such as interest, dividends, rents, royalties or capital gain) or hold at least 50% of their total assets in investments producing such passive income ("passive foreign investment companies"), that Fund could be subject to federal income tax and additional interest charges on "excess distributions" received from such companies or gain from the sale of stock in such companies, even if all income or gain actually received by the Fund is timely distributed to its shareholders. The Fund would not be able to pass through to its shareholders any credit or deduction for such a tax. Certain elections may, if available, ameliorate

these adverse tax consequences, but any such election requires the applicable Fund to recognize taxable income or gain without the concurrent receipt of cash. Any Fund that acquires stock in foreign corporations may limit and/or manage its holdings in passive foreign investment companies to minimize its tax liability.

Foreign exchange gains and losses realized by a Fund in connection with certain transactions involving non-dollar debt securities, certain foreign currency futures contracts, foreign currency option contracts, foreign currency forward contracts, foreign currencies, or payables or receivables denominated in a foreign currency are subject to Code provisions that generally treat such gains and losses as ordinary income and losses and may affect the amount, timing and character of distributions to shareholders. Any such transactions that are not directly related to a Fund's investment in securities (possibly including speculative currency positions or currency derivatives not used for hedging purposes) could, under future United States Treasury regulations, produce income not among the types of "qualifying income" from which the Fund must derive at least 90% of its annual gross income.

## INVESTMENTS WITH ORIGINAL ISSUE DISCOUNT

Each Fund that invests in certain payment-in-kind instruments, zero coupon securities or certain deferred interest securities (and, in general, any other securities with original issue discount or with market discount if the Fund elects to include market discount in current income) must accrue income on such investments prior to the receipt of the corresponding cash. However, because each Fund must meet the 90% distribution requirement to qualify as a *regulated investment company*, a Fund may have to dispose of its portfolio investments under disadvantageous circumstances to generate cash, or may have to leverage itself by borrowing the cash, to satisfy distribution requirements.

## OPTIONS, FUTURES, AND SWAPS

A Fund's transactions in options contracts and futures contracts are subject to special provisions of the Code that, among other things, may affect the character of gains and losses realized by the Fund (that is, may affect whether gains or losses are ordinary or capital), accelerate recognition of income to the Fund and defer losses of the Fund. These rules (1) could affect the character, amount and timing of distributions to shareholders of a Fund, (2) could require the Fund to "mark to market" certain types of the positions in its portfolio (that is, treat them as if they were closed out) and (3) may cause the Fund to recognize income without receiving cash with which to make distributions in amounts necessary to satisfy the 90% distribution requirement and the excise tax avoidance requirements described above. To mitigate the

effect of these rules and prevent disqualification as a *regulated investment company*, each Fund seeks to monitor its transactions, seeks to make the appropriate tax elections and seeks to make the appropriate entries in its books and records when it acquires any option, futures contract or hedged investment.

The federal income tax rules applicable to interest rate swaps, caps and floors are unclear in certain respects, and a Fund may be required to account for these transactions in a manner that, in certain circumstances, may limit the degree to which it may utilize these transactions. Among other things, there is uncertainty concerning when income or loss is recognized for tax purposes and whether such income or loss is capital or ordinary. In addition, the application of the diversification tests described above with respect to such instruments is uncertain. As a result, any Fund investing in these instruments may limit and/or manage its holdings of these instruments in order to avoid disqualification of the Fund as a regulated investment company and to minimize the potential negative tax consequences to the Fund from a successful challenge by the IRS with respect to the Fund's treatment of these instruments.

## SHAREHOLDER TAXATION

*The following discussion of certain federal income tax issues of shareholders of the Funds is a general and abbreviated summary based on tax laws and regulations in effect on the date of this SAI.*

*Tax law is subject to change by legislative, administrative or judicial action. The following discussion relates solely to U.S. federal income tax law as applicable to U.S. taxpayers (e.g., U.S. residents and U.S. domestic corporations, partnerships, trusts or estates). The discussion does not address special tax rules applicable to certain classes of investors, such as qualified retirement accounts or trusts, tax-exempt entities, insurance companies, banks and other financial institutions or non-U.S. taxpayers. Dividends, capital gain distributions, and ownership of or gains realized on the redemption (including an exchange) of the shares of a Fund may also be subject to state, local and foreign taxes. Shareholders should consult their own tax advisers as to the federal, state, local or foreign tax consequences of ownership of shares of, and receipt of distributions from, the Funds in their particular circumstances.*

## DISTRIBUTIONS

Distributions of a Fund's investment company taxable income are taxable as ordinary income to shareholders to the extent of the Fund's current or accumulated earnings and profits, whether paid in cash or reinvested in additional shares. Any distribution of a Fund's net capital gain properly designated by a Fund as "capital gain dividends" is taxable to a shareholder as long-term capital gain regardless of a shareholder's holding period for his, her or its shares and regardless of whether paid in cash or reinvested in additional shares. Distributions, if any, in excess of earnings and profits usually constitute a return of capital, which first reduces an investor's tax basis in a Fund's shares and thereafter (after such basis is reduced to zero) generally gives rise to capital gains. Shareholders electing to receive distributions in the form of additional shares have a cost basis for federal income tax purposes in each share so received equal to the amount of cash they would have received had they elected to receive the distributions in cash.

At a Fund's option, it may retain some or all of its net capital gain for a tax year, but designate the retained amount as a "deemed distribution." In that case, among other consequences, the Fund pays tax on the retained amount for the benefit of its shareholders, the shareholders are required to report their share of the deemed distribution on their tax returns as if it had been distributed to them, and the shareholders may report a credit for the tax paid thereon by the Fund. The amount of the deemed distribution net of such tax is added to the shareholder's cost basis for his, her or its shares. Since the Funds are expected to pay tax on any retained net capital gain at their regular corporate capital gain tax rate, and since that rate is in excess of the maximum rate currently payable by individuals on long-term capital gain, the amount of tax that individual shareholders are treated as having paid will exceed the amount of tax that such shareholders would be required to pay on the retained net capital gains. A shareholder that is not subject to U.S. federal income tax or tax on long-term capital gains should be able to file a return on the appropriate form or a claim for refund that allows such shareholder to recover the taxes paid on his, her or its behalf. In the event the Funds choose this option, they must provide written notice to the shareholders prior to the expiration of 60 days after the close of the relevant tax year.

Any dividend declared by a Fund in October, November, or December of any calendar year, payable to shareholders of record on a specified date in such a month and actually paid during January of the following year, is treated as if it had been received by the shareholders on December 31 of the year in which the dividend was declared.

## BUYING A DIVIDEND

An investor should consider the tax implications of buying shares just prior to a distribution. Even if the price of the shares includes the amount of the forthcoming distribution, the shareholder generally will be taxed upon receipt of the distribution and is not entitled to offset the distribution against the tax basis in his, her or its shares. In addition, an investor should be aware that, at the time he, she or it purchases shares of a Fund, a portion of the purchase price is often attributable to realized or unrealized appreciation in the Fund's portfolio or undistributed taxable income of the Fund. Subsequent distributions from such appreciation or income may be taxable to such investor even if the net asset value of the investor's shares is, as a result of the distributions, reduced below the investor's cost for such shares, and the distributions in reality represent a return of a portion of the purchase price.

## QUALIFIED DIVIDEND INCOME

Individual shareholders may be eligible to treat a portion of a Fund's ordinary income dividends as "qualified dividend income" that is subject to tax at the same reduced maximum rates applicable to long-term capital gains. Corporations are not eligible for the reduced maximum rates on qualified dividend income. The Fund must designate the portion of its distributions that are eligible to be treated as qualified dividend income in a written notice within 60 days of the close of the relevant taxable year. In general, the maximum amount of distributions that may be designated as qualified dividend income for that taxable year is the

total amount of qualified dividend income received by that Fund during such year. If the qualified dividend income received by a Fund is equal to 95% (or a greater percentage) of the Fund's gross income (exclusive of net capital gain) in any taxable year, all of the ordinary income dividends paid by the Fund will be qualified dividend income. In order to constitute qualified dividend income to the Fund, a dividend must be received from a U.S. domestic corporation (other than dividends from tax-exempt corporations and certain dividends from real estate investment trusts and other regulated investment companies) or a qualified foreign corporation. In addition, the dividend must be paid in respect of the stock that has been held by the Fund, for federal income tax purposes, for at least 61 days during the 121-day period that begins 60 days before the stock becomes ex-dividend. In order to be eligible to treat a dividend from a Fund as qualified dividend income, individual shareholders must also meet the foregoing minimum holding period requirements with respect to their shares of the applicable Fund. Little, if any, of the ordinary dividends paid by the Fixed-Income Funds or the Money Market Fund are expected to constitute qualified dividend income. These special rules relating to qualified dividend income apply to taxable years beginning before January 1, 2011. Without additional Congressional action, all of the Funds' ordinary income dividends for taxable years beginning on or after such date will be subject to taxation at ordinary income rates.

#### **DIVIDENDS-RECEIVED DEDUCTION**

The Trust's ordinary income dividends to corporate shareholders may, if certain conditions are met, qualify for the dividends-received deduction to the extent that the Fund has received qualifying dividend income during the taxable year. Capital gain dividends distributed by the Fund are not eligible for the dividends-received deduction. In order to constitute a qualifying dividend, a dividend must be from a U.S. domestic corporation in respect of the stock of such corporation that has been held by the Fund, for federal income tax purposes, for at least 46 days during the 91-day period that begins 45 days before the stock becomes ex-dividend (or, in the case of preferred stock, 91 days during the 181-day period that begins 90 days before the stock becomes ex-dividend). The Fund must also designate the portion of any distribution that is eligible for the dividends-received deduction in a written notice within 60 days of the close of the relevant taxable year. In addition, in order to be eligible to claim the dividends-received deduction with respect to distributions from a Fund, corporate shareholders must meet the foregoing minimum holding period requirements with respect to their shares of the applicable Fund. If a corporation borrows to acquire shares of a Fund, it may be denied a portion of the dividends-received deduction it would otherwise be eligible to claim. The entire qualifying dividend, including the otherwise deductible amount, is included in determining the excess (if any) of a corporate shareholder's adjusted current earnings over its alternative minimum taxable income, which may increase its alternative minimum tax liability. Additionally, any corporate shareholder should consult its tax adviser regarding the possibility that its basis in its shares may be reduced, for federal income tax purposes, by reason of "extraordinary dividends" received with respect to the shares, for the purpose of computing its gain or loss on redemption or other disposition of the shares.

#### **GAINS AND LOSSES ON REDEMPTIONS**

A shareholder generally recognizes taxable gain or loss on a sale or redemption (including by exercise of the exchange privilege) of his, her or its shares. The amount of the gain or loss is measured by the difference between the shareholder's adjusted tax basis in his, her or its shares and the amount of the proceeds received in exchange for such shares. Any gain or loss arising from (or, in the case of distributions in excess of earnings and profits, treated as arising from) the sale or redemption of shares generally is a capital gain or loss. This capital gain or loss normally is treated as a long-term capital gain or loss if the shareholder has held his, her or its shares for more than one year at the time of such sale or redemption; otherwise, it generally will be classified as short-term capital gain or loss. If, however, a shareholder receives a capital gain dividend with respect to any share of a Fund, and if the share is sold before it has been held by the shareholder for at least six months, then any loss on the sale or exchange of the share, to the extent of the capital gain dividend, is treated as a long-term capital loss.

In addition, all or a portion of any loss realized upon a taxable disposition of shares may be disallowed if other shares of the same Fund are purchased (including any purchase through a reinvestment of distributions from the Fund) within 30 days before or after the disposition. In such a case, the basis of the shares acquired will be adjusted to reflect the disallowed loss. Also, if a shareholder who incurred a sales charge on the acquisition of shares of a Fund sells his, her or its shares within 90 days of purchase and subsequently acquires shares of another Fund of the Trust on which a sales charge normally is imposed without paying such sales charge in accordance with the exchange privilege described in the prospectuses, such shareholder will not be entitled to include the amount of the sales charge in his, her or its basis in the shares sold for purposes of determining gain or loss. In these cases, any gain on the disposition of the shares of the Fund is increased, or loss decreased, by the amount of the sales charge paid when the shares were acquired, and that amount will increase the adjusted basis of the shares of the Fund subsequently acquired.

#### **LONG-TERM CAPITAL GAINS**

In general, non-corporate shareholders currently are subject to a maximum federal income tax rate of 15% (or 0% in the case of individual investors who are in the 10% or 15% tax bracket) on their net long-term capital gain (the excess of net long-term capital gain over net short-term capital loss) for a taxable year (including a long-term capital gain derived from an investment in the shares), while other income may be taxed at rates as high as 35%. These maximum rates on long-term capital gains apply to taxable years beginning prior to January 1, 2011. Without additional Congressional action, the maximum federal income tax rate on capital gains for taxable years beginning on or after such date will be 20% (10% in the case of individual investors who are in the 10% or 15% bracket). Corporate taxpayers currently are subject to federal income tax on net capital gain at the maximum 35% rate also applied to ordinary income. Tax rates imposed by states and local jurisdictions on capital gain and ordinary income may differ.

## DEDUCTION OF CAPITAL LOSSES

Non-corporate shareholders with net capital losses for a year (*i.e.*, capital losses in excess of capital gains) generally may deduct up to \$3,000 of such losses against their ordinary income each year; any net capital losses of a non-corporate shareholder in excess of \$3,000 generally may be carried forward and used in subsequent years as provided in the Code. Corporate shareholders generally may not deduct any net capital losses for a year, but may carryback such losses for three years or carry forward such losses for five years.

## REPORTS TO SHAREHOLDERS

The Fund sends to each of their shareholders, as promptly as possible after the end of each calendar year, a notice detailing on a per share and per distribution basis, the amounts includible in such shareholder's taxable income for such year as ordinary income (including any portion eligible to be treated as qualified dividend income or to be deducted pursuant to the dividends-received deduction) and as long-term capital gain. In addition, the federal tax status of each year's distributions generally is reported to the IRS.

## BACKUP WITHHOLDING

The Trust may be required to withhold U.S. federal income tax ("backup withholding") from all distributions payable to: (1) any shareholder who fails to furnish the Fund with his, her or its correct taxpayer identification number or a certificate that the shareholder is exempt from backup withholding and (2) any shareholder with respect to whom the IRS notifies the Fund that the shareholder has failed to properly report certain interest and dividend income to the IRS and to respond to notices to that effect. The backup withholding is not an additional tax and may be returned or credited against a taxpayer's regular federal income tax liability if appropriate information is provided to the IRS.

## SHARES HELD IN CERTAIN CUSTODY ACCOUNTS

Shares held in custody accounts as permitted by Code Sections 403(b) (7) and 408 (IRAs) are subject to special tax treatment. The federal income tax on earnings in such accounts is deferred, and there are restrictions on the amounts that can be distributed from such accounts without adverse federal income tax consequences for investors in such accounts. Distributions from such accounts may be subject to taxation as ordinary income in the year distributed and investors in such accounts may have to pay a penalty tax for certain distributions. Shareholders invested through such accounts should consult their tax adviser or TIAA-CREF for more information.

## TREATMENT OF TAX-EXEMPT BOND FUND

The Tax-Exempt Bond Fund expects to qualify to pay "exempt-interest dividends" which may be treated by shareholders as items of interest that is exempt from regular federal income tax. (Distributions derived from net long-term capital gains of the Tax-Exempt Bond Fund will ordinarily be taxable to shareholders as long-term capital gains, and any distributions derived from taxable interest income, net short-term capital gains and certain net realized foreign exchange gains will be taxable to shareholders as ordinary income.) The recipient of

exempt-interest dividends is required to report such income on his or her federal income tax returns, but if a shareholder borrows funds to purchase or carry shares of the Tax-Exempt Bond Fund, interest paid on such debt is not deductible. In addition, exempt-interest dividends will be taken into account in determining the extent to which a shareholder's Social Security or certain railroad retirement benefits are taxable. Any losses realized by shareholders who dispose of shares of the Tax-Exempt Bond Fund with a tax holding period of six months or less are disallowed to the extent of any exempt-interest dividends received with respect to such shares.

The Tax-Exempt Bond Fund may invest a portion of its assets in private activity bonds, the interest from which (including the Fund's distributions attributable to such interest) may be a preference item for purposes of federal alternative minimum tax (AMT), both individual and corporate. Income from securities that is a preference item is included in the computation of the AMT and, in the case of corporations, all exempt-interest income, whether or not attributable to private activity bond interest, may increase a corporate shareholder's liability, if any, for AMT.

Shareholders who have not held shares of the Tax-Exempt Bond Fund for such fund's full taxable year may have designated as tax-exempt interest or as a tax-preference item a percentage distribution which is not equal to the actual amount of tax-exempt income or tax-preference income earned by the Fund during the period of their investment.

A portion of the dividends to shareholders from the Tax-Exempt Bond Fund may be exempt from state and local taxes. Income from investments in the shareholder's state of residence is generally tax-exempt. The Tax-Exempt Bond Fund will direct the Transfer Agent to send shareholders a breakdown of income from each state in order to aid them in preparing tax returns.

## BROKERAGE ALLOCATION

Advisors is responsible for decisions to buy and sell securities for the Funds as well as for selecting brokers and, where applicable, negotiating the amount of the commission rate paid. It is the intention of Advisors to place brokerage orders with the objective of obtaining the best execution, which includes such factors as best price, research and available data. Advisors may consider other factors, including, among others, the broker's reputation, specialized expertise, special capabilities or efficiency. When purchasing or selling securities traded on the over-the-counter market, Advisors generally will execute the transactions with a broker engaged in making a market for such securities. When Advisors deems the purchase or sale of a security to be in the best interests of more than one Fund, it may, consistent with its fiduciary obligations, decide either to buy or to sell a particular security for the Fund at the same time as for other funds it may be managing, or that may be managed by its affiliate, Investment Management, another investment adviser subsidiary of TIAA. In that event, allocation of the securities purchased or sold, as well as the expenses incurred in the transaction, will be made in an equitable manner.

Domestic brokerage commissions are negotiated, as there are no standard rates. All brokerage firms provide the service of execution of the order made; some brokerage firms also provide

research and statistical data, and research reports on particular companies and industries are customarily provided by brokerage firms to large investors. In negotiating commissions, consideration is given by Advisors to the quality of execution provided and to the use and value of the data. The valuation of such data may be judged with reference to a particular order or, alternatively, may be judged in terms of its value to the overall management of the portfolio or the portfolios of other clients.

Advisors may place orders with brokers providing useful research and statistical data services even if lower commissions may be available from brokers not providing such services. When doing so, Advisors will determine in good faith that the commissions negotiated are reasonable in relation to the value of the brokerage and research provided by the broker viewed in terms of either that particular transaction or of the overall responsibilities of Advisors to the Funds or other clients. In reaching this determination, Advisors will not necessarily place a specific dollar value on the brokerage or research services provided nor determine what portion of the broker's compensation should be related to those services.

Research or services obtained for one Fund may be used by Advisors in managing other Funds and other investment company clients and advisory clients of Advisors. If such research or services are obtained for cash and not through the allocation of brokerage commissions, then the expenses incurred will be allocated equitably consistent with Advisors' fiduciary duty to the other Funds. Research or services obtained for the Trust also may be used by personnel of Advisors in managing other investment company accounts, or by Investment Management for the CREF accounts. If such research or services are obtained for cash, the expenses incurred will be allocated in an equitable manner consistent with the fiduciary obligations of personnel of Advisors to the Trust.

The following table shows the aggregate amount of brokerage commissions paid by the Funds to firms that provided research services in fiscal year 2008. Note that the provision of research services was not necessarily a factor in the placement of all this business with these firms.

Fund	Commissions
Growth & Income Fund	\$ 6,013
International Equity Fund	\$11,100,531
Large-Cap Growth Fund	\$ 1,776,494
Large-Cap Value Fund	\$ 3,903,560
Mid-Cap Growth Fund	\$ 666,221
Mid-Cap Value Fund	\$ 1,316,874
Small-Cap Equity Fund	\$ 1,972
Large-Cap Growth Index Fund	\$ 300
Large-Cap Value Index Fund	\$ 123
Equity Index Fund	\$ 840
S&P 500 Index Fund	\$ 298
Small-Cap Blend Index Fund	\$ 2,878
International Equity Index Fund	\$ 448
Enhanced International Equity Index Fund	\$ 0
Enhanced Large-Cap Growth Index Fund	\$ 3,299
Enhanced Large-Cap Value Index Fund	\$ 5,917
Social Choice Equity Fund	\$ 2,266
Real Estate Securities Fund	\$ 861,531

The aggregate amount of brokerage commissions paid by the Funds for the fiscal year ending September 30, 2006, 2007 and 2008 was as follows:

Fund	2006 Commissions	2007 Commissions	2008 Commissions
Growth & Income Fund	\$ 545,035	\$ 612,223	\$ 1,935,601
International Equity Fund	\$2,011,807	\$5,329,865	\$12,287,339
Large-Cap Growth Fund	\$ 24,444	\$ 453,218	\$ 1,873,780
Large-Cap Value Fund	\$1,384,478	\$2,469,045	\$ 4,036,405
Mid-Cap Growth Fund	\$ 333,501	\$ 446,670	\$ 767,767
Mid-Cap Value Fund	\$ 623,422	\$ 922,692	\$ 1,392,734
Small-Cap Equity Fund	\$ 359,980	\$ 192,822	\$ 250,082
Large-Cap Growth Index Fund	\$ 102,385	\$ 47,524	\$ 34,405
Large-Cap Value Index Fund	\$ 89,102	\$ 51,441	\$ 47,838
Equity Index Fund	\$ 52,639	\$ 58,945	\$ 44,469
S&P 500 Index Fund	\$ 77,021	\$ 32,561	\$ 51,621
Small-Cap Blend Index Fund	\$ 39,397	\$ 31,806	\$ 24,930
Enhanced International Equity Index Fund	\$ —	\$ XX	\$ 108,513
Enhanced Large-Cap Growth Index Fund	\$ —	\$ XX	\$ 29,904
Enhanced Large-Cap Value Index Fund	\$ —	\$ XX	\$ 32,604
International Equity Index Fund	\$ 15,508	\$ 215,463	\$ 317,802
Social Choice Equity Fund	\$ 11,132	\$ 19,611	\$ 28,733
Real Estate Securities Fund	\$2,812,739	\$1,394,864	\$ 929,526

During the fiscal year ending September 30, 2008, certain of the Funds acquired securities of certain regular brokers or dealers or their parents. These entities and the value of a Fund's aggregate holdings in the securities of those entities, as of September 30, 2008, are set forth below:

#### REGULAR BROKER OR DEALER BASED ON BROKERAGE COMMISSIONS PAID

Fund	Broker	Parent	Holdings (US\$)
Equity Index Fund	Bank of America	Bank of America	13,174,980.00
	Citigroup Inc	Citigroup Inc	9,233,089.25
	Friedman Billings Ramsey-A	Friedman Billings Ramsey-A	26,822.00
	Goldman Sachs Group Inc	Goldman Sachs Group Inc	4,167,552.00
	Investment Technology Group	Investment Technology Group	114,355.94
	Jefferies Group Inc (New)	Jefferies Group Inc (New)	230,496.00
	JPMorgan Chase & Co	JPMorgan Chase & Co	13,217,127.40
	KBW Inc	KBW Inc	69,931.62
	Knight Capital Group Inc-A	Knight Capital Group Inc-A	114,808.36
	Lazard Ltd-CLA	Lazard Ltd-CLA	242,491.96
	Legg Mason Inc	Legg Mason Inc	432,628.02
	Merrill Lynch & Co Inc	Merrill Lynch & Co Inc	3,143,398.50
	Morgan Stanley	Morgan Stanley	2,095,806.00
	Raymond James Financial Inc	Raymond James Financial Inc	250,746.94
	Sanders Morris Harris Grp IN	Sanders Morris Harris Grp IN	6,314.50
	Schwab (Charles) Corp	Schwab (Charles) Corp	2,008,214.00
	Stifel Financial Corp	Stifel Financial Corp	81,137.40
	TD Ameritrade Holding Corp	TD Ameritrade Holding Corp	321,910.20
	Thomas Weisel Partners Group	Thomas Weisel Partners Group	13,251.96

**REGULAR BROKER OR DEALER BASED ON BROKERAGE  
COMMISSIONS PAID (continued)**

Fund	Broker	Parent	Holdings (US\$)
Growth & Income Fund	Bank of America	Bank of America	10,867,360.00
	Citigroup Inc	Citigroup Inc	16,487,271.15
	Goldman Sachs Group Inc	Goldman Sachs Group Inc	8,594,432.00
	JPMorgan Chase & Co	JPMorgan Chase & Co	16,681,099.90
	Lazard Ltd-CI A	Lazard Ltd-CI A	6,665,728.12
	Merrill Lynch & Co Inc	Merrill Lynch & Co Inc	2,318,998.00
	Morgan Stanley	Morgan Stanley	5,776,266.00
International Equity Fund	Credit Suisse Group AG-Reg	Credit Suisse Group AG-Reg	30,604,932.80
	HSBC Holdings PLC	HSBC Holdings PLC	29,153,981.87
	Julius Baer Holding AG-Reg	Julius Baer Holding AG-Reg	10,512,627.16
	Mitsubishi UFJ Financial Group	Mitsubishi UFJ Financial Group	16,742,961.43
	Mizuho Financial Group Inc	Mizuho Financial Group Inc	10,179,343.47
	Royal Bank of Scotland Group	Royal Bank of Scotland Group	40,652,714.47
	Societe Generale	Societe Generale	1,850,803.46
	Sumitomo Mitsui Financial Gr	Sumitomo Mitsui Financial Gr	12,420,194.98
	UBS AG-Reg	UBS AG-Reg	82,183,755.36
	Westpac Banking Corp	Westpac Banking Corp	418,722.33
International Equity Index Fund	Banco Santander SA	Banco Santander SA	7,609,255.25
	BNP Paribas	BNP Paribas	6,215,559.50
	Credit Suisse Group AG-Reg	Credit Suisse Group AG-Reg	3,864,051.28
	Daiwa Securities Group Inc	Daiwa Securities Group Inc	771,610.23
	Deutsche Bank AG-Registered	Deutsche Bank AG-Registered	3,090,579.88
	HSBC Holdings PLC	HSBC Holdings PLC	15,833,882.97
	Macquarie Group Ltd	Macquarie Group Ltd	665,810.29
	Mitsubishi UFJ Financial Group	Mitsubishi UFJ Financial Group	7,138,784.91
	Mizuho Financial Group Inc	Mizuho Financial Group Inc	3,334,827.86
	National Bank of Greece	National Bank of Greece	1,593,662.21
	Nomura Holdings Inc	Nomura Holdings Inc	1,809,799.84
	Royal Bank of Scotland Group	Royal Bank of Scotland Group	4,378,089.92
	Societe Generale	Societe Generale	3,358,391.39
	Sumitomo Mitsui Financial Gr	Sumitomo Mitsui Financial Gr	3,275,655.82
	Sumitomo Trust & Banking Co	Sumitomo Trust & Banking Co	744,689.87
	UBS AG-Reg	UBS AG-Reg	4,016,286.84
	Westpac Banking Corp	Westpac Banking Corp	2,619,297.72

**REGULAR BROKER OR DEALER BASED ON BROKERAGE  
COMMISSIONS PAID (continued)**

Fund	Broker	Parent	Holdings (US\$)
Large-Cap Growth Index Fund	Goldman Sachs Group Inc	Goldman Sachs Group Inc	328,064.00
	Investment Technology Group	Investment Technology Group	72,879.85
	Lazard Ltd-CI A	Lazard Ltd-CI A	173,947.68
	MF Global Ltd	MF Global Ltd	5,620.30
	Morgan Stanley	Morgan Stanley	87,124.00
	Schwab (Charles) Corp	Schwab (Charles) Corp	1,500,954.00
	TD Ameritrade Holding Corp	TD Ameritrade Holding Corp	241,558.20
Large-Cap Value Fund	Bank of America Corp	Bank of America Corp	21,184,835.00
	Citigroup Inc	Citigroup Inc	21,661,308.34
	Goldman Sachs Group Inc	Goldman Sachs Group Inc	15,528,448.00
	JPMorgan Chase & Co	JPMorgan Chase & Co	29,393,166.80
	Legg Mason Inc	Legg Mason Inc	7,416,599.96
	Merrill Lynch & Co Inc	Merrill Lynch & Co Inc	5,097,089.80
	Morgan Stanley	Morgan Stanley	5,607,308.00
	Schwab (Charles) Corp	Schwab (Charles) Corp	2,252,276.00
	Societe Generale	Societe Generale	2,324,042.03
	UBS AG-Reg	UBS AG-Reg	5,624,955.22
US Bancorp	US Bancorp	11,144,227.80	
Wachovia Corp	Wachovia Corp	1,059,999.50	
Social Choice Equity Fund	Bank of America Corp	Bank of America Corp	10,205,510.00
	BB&T Corp	BB&T Corp	2,575,918.80
	Comerica Inc	Comerica Inc	505,949.70
	Fifth Third Bancorp	Fifth Third Bancorp	965,768.30
	Goldman Sachs Group Inc	Goldman Sachs Group Inc	4,189,568.00
	Investment Technology Group	Investment Technology Group	4,655.79
	Ladenburg Thalmann Financial	Ladenburg Thalmann Financial	85,836.60
	Lazard Ltd-CI A	Lazard Ltd-CI A	353,026.56
	Legg Mason Inc	Legg Mason Inc	396,242.66
	Northern Trust Corp	Northern Trust Corp	1,280,467.00
	PNC Financial Services Group	PNC Financial Services Group	3,462,942.60
	Popular Inc	Popular Inc	89,059.47
	Schwab (Charles) Corp	Schwab (Charles) Corp	2,064,582.00
	State Street Corp	State Street Corp	1,603,447.20
	Suntrust Banks Inc	Suntrust Banks Inc	2,094,419.47
	The Bank of New York Mellon	The Bank of New York Mellon	2,783,244.24
US Bancorp	US Bancorp	6,013,791.14	
Wells Fargo & Co	Wells Fargo & Co	9,262,891.89	

**REGULAR BROKER OR DEALER BASED ON BROKERAGE  
COMMISSIONS PAID (continued)**

Fund	Broker	Parent	Holdings (US\$)	
Small-Cap Equity Fund	National Financial Partners	National Financial Partners	711,000.00	
	Susquehanna Bancshares Inc	Susquehanna Bancshares Inc	534,848.00	
	The Bank of New York Mellon	The Bank of New York Mellon	521,280.00	
Small-Cap Blend Index Fund	Broadpoint Securities Group	Broadpoint Securities Group	13,638.70	
	Cascade Bancorp	Cascade Bancorp	35,897.82	
	Friedman Billings Ramsey-A	Friedman Billings Ramsey-A	57,230.00	
	Labranche & Co Inc	Labranche & Co Inc	47,601.00	
	Ladenburg Thalmann Financial	Ladenburg Thalmann Financial	39,911.40	
	Piper Jaffray Cos	Piper Jaffray Cos	156,824.50	
	Susquehanna Bancshares Inc	Susquehanna Bancshares Inc	336,114.88	
	Thomas Weisel Partners Group	Thomas Weisel Partners Group	43,658.97	
	S&P 500 Index Fund	Bank of America Corp	Bank of America Corp	16,820,090.00
		CIT Group Inc	CIT Group Inc	227,522.40
Citigroup Inc		Citigroup Inc	11,771,304.30	
Comerica Inc		Comerica Inc	505,097.16	
Goldman Sachs Group Inc		Goldman Sachs Group Inc	5,853,568.00	
JPMorgan Chase & Co		JPMorgan Chase & Co	18,061,458.50	
Legg Mason Inc		Legg Mason Inc	536,988.54	
Merrill Lynch & Co Inc		Merrill Lynch & Co Inc	4,027,456.40	
Morgan Stanley		Morgan Stanley	2,652,659.00	
National City Corp		National City Corp	164,020.50	
Northern Trust Corp		Northern Trust Corp	1,678,866.60	
PNC Financial Services Group		PNC Financial Services Group	2,712,879.90	
Schwab (Charles) Corp		Schwab (Charles) Corp	2,544,594.00	
State Street Corp		State Street Corp	2,536,279.20	
The Bank of New York Mellon		The Bank of New York Mellon	3,881,939.58	
US Bancorp		US Bancorp	6,535,000.54	
Wachovia Corp	Wachovia Corp	780,713.50		
Wells Fargo & Co	Wells Fargo & Co	13,087,349.01		

**REGULAR BROKER OR DEALER BASED ON BROKERAGE  
COMMISSIONS PAID (continued)**

Fund	Broker	Parent	Holdings (US\$)
Large-Cap Value Index Fund	Bank of America Corp	Bank of America Corp	11,919,880.00
	BB&T Corp	BB&T Corp	1,527,951.60
	CIT Group Inc	CIT Group Inc	143,675.28
	Citigroup Inc	Citigroup Inc	8,340,494.05
	Comerica Inc	Comerica Inc	369,871.20
	Fifth Third Bancorp	Fifth Third Bancorp	455,377.30
	Goldman Sachs Group Inc	Goldman Sachs Group Inc	3,362,304.00
	Investment Technology Group	Investment Technology Group	27,387.00
	Jefferies Group Inc (New)	Jefferies Group Inc (New)	209,148.80
	JPMorgan Chase & Co	JPMorgan Chase & Co	12,040,007.20
	Keycorp	Keycorp	439,571.10
	Legg Mason Inc	Legg Mason Inc	387,564.98
	Merrill Lynch & Co Inc	Merrill Lynch & Co Inc	2,883,871.10
	MF Global Ltd	MF Global Ltd	16,058.00
	Morgan Stanley	Morgan Stanley	1,789,078.00
	PNC Financial Services Group	PNC Financial Services Group	1,931,891.40
	Popular Inc	Popular Inc	163,901.59
Raymond James Financial Inc	Raymond James Financial Inc	219,580.84	
State Street Corp	State Street Corp	1,338,557.04	
Suntrust Banks Inc	Suntrust Banks Inc	1,195,924.18	
Synovus Financial Corp	Synovus Financial Corp	220,413.60	
The Bank of New York Mellon	The Bank of New York Mellon	2,782,429.74	
US Bancorp	US Bancorp	4,682,563.98	
Wachovia Corp	Wachovia Corp	564,616.50	
Wells Fargo & Co	Wells Fargo & Co	9,257,450.04	

**REGULAR BROKER OR DEALER BASED ON ENTITIES  
ACTING AS PRINCIPAL**

Fund	Broker	Parent	Holdings (US\$)
Growth & Income Fund	Goldman Sachs Group Inc	Goldman Sachs Group Inc	8,594,432.00
	JPMorgan Chase & Co	JPMorgan Chase & Co	16,681,099.90
Large-Cap Growth Fund	Goldman Sachs Group Inc	Goldman Sachs Group Inc	1,715,200.00
	JPMorgan Chase & Co	JPMorgan Chase & Co	2,528,478.10
Large-Cap Value Fund	Goldman Sachs Group Inc	Goldman Sachs Group Inc	15,528,448.00
Large-Cap Growth Index Fund	Goldman Sachs Group Inc	Goldman Sachs Group Inc	328,064.00
	Investment Technology Group	Investment Technology Group	72,897.85

**REGULAR BROKER OR DEALER BASED ON ENTITIES  
ACTING AS PRINCIPAL (concluded)**

Fund	Broker	Parent	Holdings (US\$)
Large-Cap Value Index Fund	Goldman Sachs Group Inc	Goldman Sachs Group Inc	3,362,304.00
Equity Index Fund	Goldman Sachs Group Inc	Goldman Sachs Group Inc	4,167,552.00
Mid-Cap Growth Fund	Investment Technology Group	Investment Technology Group	52,887.34
Enhanced Large-Cap Growth Index Fund	Goldman Sachs Group Inc	Goldman Sachs Group Inc	203,136.00
	Investment Technology Group	Investment Technology Group	36,156.00
Enhanced Large-Cap Value Index Fund	Goldman Sachs Group Inc	Goldman Sachs Group Inc	1,407,232.00
	Investment Technology Group	Investment Technology Group	189,791.00
	JPMorgan Chase & Co	JPMorgan Chase & Co	4,671,774.60
Social Choice Equity Fund	Goldman Sachs Group Inc	Goldman Sachs Group Inc	4,189,568.00

**DIRECTED BROKERAGE**

In accordance with the 1940 Act, as amended, the Funds have adopted a policy prohibiting the Funds to compensate brokers or dealers for the sale or promotion of Fund shares by the direction of portfolio securities transactions for the Funds to such brokers or dealers. In addition, Advisors has instituted policies and procedures so that Advisors' personnel do not violate this policy of the Funds.

**LEGAL MATTERS**

All matters of applicable state law pertaining to the Funds have been passed upon by Jonathan Feigelson, Senior Vice President of the Trust (and TIAA and CREF). Dechert LLP serves as legal counsel to the Funds and has provided advice to the Funds related to certain matters under the federal securities laws.

**EXPERTS**

The financial statements for the fiscal year ended September 30, 2008 incorporated by reference in this Statement of Additional Information have been audited by PricewaterhouseCoopers LLP, the Funds' independent registered public accounting firm, as stated in their report appearing therein and have been so included in reliance upon the report of such firm given upon its authority as experts in accounting and auditing.

**FINANCIAL STATEMENTS**

The audited and unaudited financial statements of the Funds are incorporated herein by reference to the Trust's report on Form N-CSR for the fiscal year ended September 30, 2008 and the Trust's report on Form N-CSRS for the six months ended March 31, 2009, which contain the Funds' Annual and Semiannual Reports, respectively. These financial statements have been filed with the SEC and the reports have been provided to all shareholders. The Funds will furnish you, without charge, another copy of the Annual or Semiannual Report on request.

# APPENDIX A

## TIAA-CREF POLICY STATEMENT ON CORPORATE GOVERNANCE

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### *I. Introduction; Historical Perspective*

The mission of Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF) is to “forward the cause of education and promote the welfare of the teaching profession and other charitable purposes” by helping secure the financial future of our participants who have entrusted us with their retirement savings.

TIAA and CREF’s boards of trustees and management have developed investment strategies that are designed to accomplish this mission through a variety of asset classes and risk/reward parameters, including investments in the equity securities of domestic, international and emerging-market companies.

TIAA-CREF is a long-term investor. Whether our investment is in equity, debt, derivatives or other types of securities, we recognize our responsibility to monitor the activities of portfolio companies. We believe that sound governance practices and responsible corporate behavior contribute significantly to the long-term performance of public companies. Accordingly, our mission and fiduciary duty require us to monitor and engage with portfolio companies and to promote better corporate governance and social responsibility.

TIAA-CREF was one of the first institutional investors to engage with companies on issues of corporate governance. During the 1970s and 1980s, the governance movement focused primarily on the protection of shareholder interests in the context of takeovers and contests for control. TIAA-CREF took a leadership role in opposing abusive antitakeover provisions and management entrenchment devices such as dead-hand poison pills. During the 1990s and following the collapse of the bubble market, governance has focused on director independence, board diversity, board committee structure, shareholder rights, accounting for options and executive compensation disclosure. Most recently, TIAA-CREF has led the movement to establish majority voting in director elections, as set forth in this Policy Statement. Corporate governance standards and best practices are now recognized as an essential means to protect shareholder rights, ensure management and board accountability and promote maximum performance.

TIAA-CREF is also concerned about issues of corporate social responsibility, which we have been addressing for more than three decades. In the 1970s we were one of the first institutional investors to engage in dialogue with portfolio companies on issues of automotive safety in the United States and apartheid policies in South Africa. Since then we have maintained a strong commitment to responsible investing and good corporate citizenship. Recognizing that many of our participants have strong views on social issues, in 1990 we introduced the CREF Social Choice Account to provide an investment vehicle that gives special consideration to social concerns. The Account invests only in companies that meet specified environmental, social and governance criteria.

In keeping with our mission and fiduciary duty, TIAA-CREF continues to establish policies and engage with companies on governance, environmental, social and performance issues. We believe that, consistent with their business judgment, companies and boards should: (i) pay careful attention to their governance, environmental and social practices; (ii) analyze the strategic impact of these issues on their business; and (iii) fully disclose their policies and decisions to shareholders. We expect boards and managers to engage constructively with us and other shareholders concerned about these issues.

TIAA-CREF recognizes that corporate governance standards must balance two goals — protecting the interests of shareholders while respecting the duty of boards and managers to direct and manage the affairs of the corporation. The corporate governance policies set forth in this Policy Statement seek to ensure board and management accountability, sustain a culture of integrity, contribute to the strength and continuity of corporate leadership and promote the long-term growth and profitability of the business enterprise. At the same time, these policies are designed to safeguard our rights as shareholders and provide an active and vigilant line of defense against fraud, breaches of integrity and abuses of authority.

This is the fifth edition of this Policy Statement, which is reviewed and revised periodically by the TIAA and CREF boards of trustees. The TIAA and CREF boards have delegated oversight of TIAA-CREF’s corporate governance program, including development and establishment of policies, to the joint

Committee on Corporate Governance and Social Responsibility, which is composed of independent trustees. This edition reflects current developments in corporate governance, social and environmental policy, technology, market structure, globalization, cross-border and emerging-market investing and proxy voting. For example, this edition includes new voting guidelines and highlights certain recent watershed events in corporate governance such as (i) adoption of the majority voting standard for director elections; (ii) enhanced disclosure regarding executive compensation as required by new SEC rules; and (iii) evolving research on the economic impact of companies' environmental and social practices.

Although many of the specific policies in this Statement relate primarily to companies incorporated in the United States, the underlying principles apply to all public companies in which TIAA-CREF invests throughout the world. TIAA-CREF's portfolio has become increasingly diversified internationally during the past decade. We have made substantial efforts to promote good corporate governance principles and practices at both the domestic and international level.

TIAA-CREF believes that a company whose board and executive management adopt sound corporate governance principles will set the right "tone at the top" and thereby reinforce an ethical business culture governing all its dealings with customers, employees, regulators and the communities it serves. We view this Policy Statement as the basis for collaborative efforts by investors and companies to promote good corporate governance and to ensure that companies establish the right "tone at the top."

This Policy Statement is intended to inform our clients and participants, portfolio companies, regulators, advocacy groups and other institutional investors about our governance policies. It serves as a basis for dialogue with boards of directors and senior managers. The Policy Statement is posted on our website ([www.tiaa-cref.org](http://www.tiaa-cref.org)).

## II. Shareholder Rights

As owners of equity securities, shareholders rely primarily on a corporation's board of directors to protect their interests. Unlike other groups that do business with the corporation (e.g., customers, suppliers and lenders), holders of common stock have no clear contractual protection of their interests. Instead, they place their trust in the directors, whom they elect, and use their right to vote at shareholder meetings to ensure the accountability of the board. We believe that the basic rights and principles set forth below should be guaranteed and should govern the conduct of every publicly traded company.

1. *Each Director Should Represent All Shareholders.* Shareholders should have the right to expect that each director is acting in the interest of all shareholders and not that of a particular constituent, special interest group or dominant shareholder.
2. *One Share, One Vote.* Shareholders should have the right to vote in proportion to their economic stake in the company. Each share of common stock should have one vote. The board should not create multiple classes of common stock with disparate or "super" voting rights, nor should it give itself the discretion to cap voting rights that reduce the proportional representation of larger shareholdings.

3. *Financial Equality.* All shareholders should receive fair and equal financial treatment. We support measures designed to avoid preferential treatment of any shareholder.
4. *Confidential Voting.* Shareholders should be able to cast proxy votes in a confidential manner. Tabulation should be conducted by an Inspector of Election who is independent of management. In a contest for control, it may be appropriate to modify confidentiality provisions in order to ensure the accuracy and fairness of the voting results.
5. *Vote Requirements.* Shareholders should have the right to approve matters submitted for their consideration with a majority of the votes cast. The board should not impose super-majority vote requirements, except in unusual cases where necessary to protect the interests of minority shareholders. Abstentions should not be included in the vote tabulation, except for purposes of determining whether a quorum is present. Shareholder votes cast "for" or "against" a proposal should be the only votes counted.  
The board should not combine or "bundle" disparate issues and present them for a single vote. Shareholders should have the right to vote on each separate and distinct issue.
6. *Authorization and Issuance of Stock.* Shareholders should have the right to approve the authorization of shares of common stock and the issuance of shares for corporate purposes in order to ensure that such actions serve a valid purpose and are consistent with shareholder interests.
7. *Antitakeover Provisions.* Shareholders should have the right to approve any provisions that alter fundamental shareholder rights and powers. This includes poison pills and other antitakeover devices. We strongly oppose antitakeover plans that contain "continuing director" or "deferred redemption" provisions limiting the discretion of a future board to redeem the plan. We believe that antitakeover measures should be limited by reasonable expiration periods.
8. *State of Incorporation.* Many states have adopted statutes that protect companies from takeovers, in some cases through laws that interfere with or dilute directors' accountability to shareholders. We will not support proposals to reincorporate to a new domicile if we believe the primary objective is to take advantage of laws or judicial interpretations that provide antitakeover protection or otherwise reduce shareholder rights.
9. *Board Communication.* Shareholders should have the ability to communicate with the board of directors. In accordance with SEC rules, companies should adopt and disclose procedures for shareholders to communicate their views and concerns directly to board members.
10. *Ratification of Auditors.* Shareholders should have the right to vote annually on the ratification of auditors.

## III. Director Elections — Majority Voting

As a matter of principle, TIAA-CREF endorses the majority vote standard in director elections, including the right to vote for, against or abstain on director candidates. We believe that the lack of majority voting reduces board accountability and causes shareholder activism to be confrontational and adversarial.

Developed markets outside the United States routinely mandate majority voting along with the right to vote against directors and to convene special meetings.

TIAA-CREF has long practiced an “engagement” model of shareholder activism, characterized by dialogue and private negotiation in our dealings with portfolio companies. We believe that majority voting increases the effectiveness of shareholder engagement initiatives and reduces the need for aggressive tactics such as publicity campaigns, proxy contests, litigation and other adversarial strategies that can be disruptive, time-consuming and costly.

The TIAA and CREF boards have adopted the following policy on director elections:

#### **TIAA-CREF Policy on Director Elections**

1. Directors should be elected by a majority rather than a plurality of votes cast.\*
2. In the election of directors, shareholders should have the right to vote “for,” “against,” or “abstain.”
3. In any election where there are more candidates on the proxy than seats to be filled, directors should be elected by a plurality of votes cast.\*
4. To be elected, a candidate should receive more votes “for” than “against” or “withhold,” regardless of whether a company requires a majority or plurality vote.
5. Any incumbent candidate in an uncontested election who fails to receive a majority of votes cast should be required to tender an irrevocable letter of resignation to the board. The board should decide promptly whether to accept the resignation or to seat the incumbent candidate and should disclose the reasons for its decision.
6. The requirement for a majority vote in director elections should be set forth in the company’s charter or bylaws, subject to amendment by a majority vote of shareholders.
7. Where a company seeks to opt out of the majority vote standard, approval by a majority vote of shareholders should be required.

\* Votes cast should include “withholds.” Votes cast should not include “abstains,” except that “abstains” should be counted as present for quorum.

#### *IV. The Board of Directors*

The board of directors is responsible for (i) overseeing the development of the corporation’s long-term business strategy and monitoring its implementation; (ii) assuring the corporation’s financial and legal integrity; (iii) developing compensation and succession planning policies; (iv) ensuring management accountability; and (v) representing the long-term interests of shareholders.

To fulfill these responsibilities, the board must establish good governance policies and practices. Good governance is essential to the board’s fulfillment of its duties of care and loyalty, which must be exercised in good faith. Shareholders in turn are obligated to monitor the board’s activities and hold directors accountable for the fulfillment of their duties.

Board committees play a critical governance role. Boards should constitute both standing and ad hoc committees to provide expertise, independent judgment and knowledge of shareholder interests in the specific disciplines they oversee. The full board should maintain overall responsibility for the work of the committees and for the long-term success of the corporation.

TIAA-CREF will closely monitor board performance, activities and disclosure. We will normally vote in favor of the board’s nominees. However, we will consider withholding or voting against an individual director, a committee chair, the members of a committee, or from the entire board in uncontested elections where our trustees conclude that directors’ qualifications or actions are questionable and their election would not be in the interests of shareholders. (See “Policy Governing Votes on Directors”). In contested elections, we will vote for the candidates we believe will best represent the interests of shareholders.

#### *V. Board Structure and Processes*

##### **A. Board Membership**

*1. Director Independence.* The board should be composed of a substantial majority of independent directors. Director independence is a principle long advocated by TIAA-CREF that is now widely accepted as the keystone of good corporate governance.

The definition of independence should not be limited to stock exchange listing standards. At a minimum, we believe that to be independent a director and his or her immediate family members should have no present or recent employment with the company, nor any substantial connection of a personal or financial nature other than ownership of equity in the company. Independence requirements should be interpreted broadly to ensure there is no conflict of interest, in fact or in appearance, that might compromise a director’s objectivity and loyalty to shareholders.

An independent director should not provide services to the company or be affiliated with an organization that provides goods or services to the company if a disinterested observer would consider the relationship “substantial.”

Director independence may sometimes be influenced by factors not subject to disclosure. Personal or business relationships, even without a financial component, can compromise independence. Boards should periodically evaluate the independence of each director based on all relevant information and should disclose their findings to shareholders.

*2. Director Qualifications.* The board should be composed of individuals who can contribute expertise and judgment, based on their professional qualifications and business experience. The board should reflect a diversity of background and experience. As required by SEC rules for service on the audit committee, at least one director should qualify as a financial expert. All directors should be prepared to devote substantial time and effort to board duties, taking into account their other professional responsibilities and board memberships.

*3. Director Election.* TIAA-CREF believes that directors should be elected annually by a majority of votes cast, as discussed in Section III. The requirement for annual election and a majority vote in director elections should be set forth in the company’s charter or bylaws.

*4. Discretionary Broker Voting.* TIAA-CREF supports the proposal by the New York Stock Exchange to amend NYSE Rule 452, thereby eliminating the practice of brokers voting “street name” shares for directors in the absence of instructions from their customers.

*5. Director Nomination and Access.* As required by SEC regulations, boards should establish and disclose the process by which

shareholders can submit nominations. TIAA-CREF believes that shareholders should have the right to submit resolutions asking companies to establish procedures and conditions for shareholders to place their director nominees on the company's proxy and ballot.

**6. Director Stock Ownership.** Directors should have a direct, personal and meaningful investment in the common stock of the company. We believe that stock ownership helps align board members' interests with those of shareholders. The definition of a meaningful investment will vary depending on directors' individual circumstances. Director compensation programs should include shares of stock or restricted stock. TIAA-CREF discourages stock options as a form of director compensation, as they are less effectively aligned with the long-term interests of shareholders.

**7. Director Education.** Companies should encourage directors to attend education programs offered by the company as well as those offered externally. Directors should also receive training to increase their knowledge and understanding of the company's businesses and operations. They should enroll in education programs to improve their professional competence and understanding of their responsibilities.

**8. Disclosure of Monetary Arrangements.** Any monetary arrangements between the company and directors outside normal board activities should be approved by the board and disclosed to shareholders. Such monetary arrangements are generally discouraged, as they may compromise a director's independence.

**9. Other Board Commitments.** To ensure that directors are able to devote the necessary time and energy to fulfill their board responsibilities, companies should establish policies limiting the number of public company boards that directors may serve on. As recommended by listing rules, companies should disclose whether any audit committee member serves on the audit committees of three or more public companies.

## **B. Board Responsibilities**

**1. Monitoring and Oversight.** In fulfilling its duty to monitor the management of the corporate enterprise, the board should: (i) be a model of integrity and inspire a culture of responsible behavior and high ethical standards; (ii) ensure that corporate resources are used only for appropriate business purposes; (iii) mandate strong internal controls, avoid conflicts of interest, promote fiscal accountability and ensure compliance with applicable laws and regulations; (iv) implement procedures to ensure that the board is promptly informed of any violations of corporate standards; (v) through the Audit Committee, engage directly in the selection and oversight of the corporation's external audit firm; and (vi) develop, disclose and enforce a clear and meaningful set of corporate governance principles.

**2. Strategic Business Planning.** The board should participate with management in the development of the company's strategic business plan and should engage in a comprehensive review of strategy with management at least annually. The board should monitor the company's performance and strategic direction, while holding management responsible for implementing the strategic plan.

**3. CEO Selection, Evaluation and Succession Planning.** One of the board's most important responsibilities is the selection, development and evaluation of executive leadership. Strong, stable leadership with proper values is critical to the success of the corporate enterprise. The board, with the active involvement of its

compensation committee, should continuously monitor and evaluate the CEO and senior executives, and should establish a succession plan to develop executive talent and ensure continuity of leadership.

The CEO evaluation process should be continuous and should be based on clearly defined corporate strategic goals as well as personal performance goals. Financial and nonfinancial metrics used to evaluate executive performance should be disclosed. Both the nominating and compensation committees, as discussed below, should participate in CEO evaluation and succession planning.

The succession plan should identify high potential executives within the company and should provide them with a clear career development path. Effective succession planning should seek to develop senior managers capable of replacing the CEO whenever the need for change might occur.

**4. Equity Policy.** The board should develop an equity policy that determines the proportion of the company's stock to be made available for compensation and other purposes. The equity policy should be disclosed to shareholders in the Compensation Discussion and Analysis (CD&A). The policy should establish clear limits on the number of shares to be used for options and other forms of equity grants. The policy should set forth the goals of equity compensation and their links to performance.

## **C. Board Operation and Organization**

**1. Annual Elections.** All directors should stand for election annually. A classified board structure, particularly in combination with takeover defenses such as a "poison pill" shareholder rights plan, can be a significant impediment to changes in control. Moreover, a classified board structure can limit a board's ability to remove an underperforming director.

**2. Board Size.** The board should be large enough to provide expertise and diversity and allow key committees to be staffed with independent directors, but small enough to encourage collegial deliberation with the active participation of all members.

**3. Executive Sessions.** The full board and each board committee should hold regular executive sessions at which no member of management is present. Executive sessions foster a culture of independence and provide opportunities for directors to engage in open discussion of issues that might be inhibited by the presence of management. Executive sessions can be used to evaluate CEO performance, discuss executive compensation and deal with internal board matters.

**4. Board Evaluation.** The board should conduct an annual evaluation of its performance and that of its key committees. Evaluation criteria linked to board and committee responsibilities and goals should be set forth in the charter and governance policies. In addition to providing director orientation and education, the board should consider other ways to strengthen director performance, including individual director evaluations.

**5. Director Retirement Policy.** Although TIAA-CREF does not support arbitrary limits on the length of director service, we believe boards should establish a formal director retirement policy. A director retirement policy can contribute to board stability, vitality and renewal.

**6. Indemnification and Liability.** Directors should be fully accountable and should not be indemnified for fraud, gross negligence or failure to fulfill their duties of care and loyalty. Exclusive

of such extreme conduct, it is appropriate for companies to indemnify directors for liability and legal expenses that arise in connection with their board service.

*Role of the Chairman.* In the past, TIAA-CREF has not expressed a preference as to whether the positions of CEO and chairman should be separate or whether a lead or presiding director should be designated. However, in recent years public confidence in board independence has been undermined by an array of scandals, fraud, accounting restatements, options backdating, abuses in CEO compensation, perquisites and special privileges. These issues have highlighted the need for boards to be (and to be perceived as) fully independent, cost conscious, free of conflicts, protective of shareholder interests and capable of objectivity, toughness and independence in their oversight of executive management.

For these reasons we recognize that separation of CEO and chair or appointment of a lead director may be appropriate in certain cases. Accordingly, although we do not have a strict policy, we will generally support appointment of a lead director in cases where the roles of CEO and board chair are not separate.

*Committee Structure.* Under existing regulations, boards are required to establish three standing committees — an audit committee, a compensation committee and a nominating/governance committee — all composed exclusively of independent directors. The credibility of the board will depend in large part on the vigorous demonstration of independence by these standing committees.

Boards should also establish additional committees as needed to fulfill their duties. These may include executive, corporate governance, finance, technology, investment, customers and product, operations and human resources committees.

Each board committee should adopt and disclose to shareholders a charter that clearly sets forth its responsibilities.

Each committee should have the power to hire independent experts and advisors.

Each committee should report to the full board on the issues and decisions for which it is responsible.

Whenever a company is the subject of a shareholder engagement initiative or resolution, the appropriate committee should review the matter and the proposed management response.

#### • *Compensation Committee*

The Compensation Committee, composed of independent directors, is responsible for oversight of the company's compensation and benefit programs, including performance-based plans and policies that attract, motivate, retain and incentivize executive leadership to create long-term shareholder value. Committee members should have an understanding of competitive compensation and be able to critically compare the company's plans and practices to those offered by the company's peers. Committee members should be independent-minded, well informed, capable of dealing with sensitive decisions and scrupulous about avoiding conflicts of interest. Committee members should understand the relationship of individual components of compensation to total compensation.

The Compensation Committee should be substantively involved in the following activities:

- Establishing goals and evaluating the performance of the CEO and executive management against those goals;

- Determining the compensation of the CEO and executive management and recommending it to the board for approval;
- Reviewing and approving the company's compensation policies;
- Ensuring that a strong executive team is in place;
- Working closely with the Corporate Governance/Nominating Committee to ensure continuity of leadership and effective succession planning;
- Ensuring the consistency of pay practices at all levels throughout the company;
- Establishing clear compensation metrics and practical incentives that will motivate superior executive performance while avoiding waste and excess, particularly in deferred compensation and perquisites; and
- Ensuring that the company's compensation disclosures meet SEC requirements and explain clearly to investors how pay and performance are linked.

The Compensation Committee may retain independent consultants to provide technical advice and comparative pay data. However, survey-based information is only one of many factors guiding compensation and should be evaluated carefully in the context of each company's circumstances and business goals. The Compensation Committee should be responsible for defining the scope of the consultant's engagement, including pay. In accordance with new SEC rules, the nature and scope of the consultant's work should be disclosed to shareholders.

The Compensation Committee is responsible for preparing the annual Compensation Committee Report and should participate substantively in the preparation of management's Compensation Discussion and Analysis (CD&A). These reports should describe each element of the compensation program and should include sufficient detail relating to the program's rationale, goals and metrics to enable shareholders to understand how compensation is intended to work, what it costs, how it is linked to the company's performance and how it will create long-term value.

#### • *Audit Committee*

The Audit Committee oversees the company's accounting, compliance and risk management practices. It is responsible for ensuring the financial integrity of the business. The Audit Committee operates at the intersection of the board, management, independent auditors and internal auditors. It has sole authority to hire and fire the corporation's independent auditors and to set and approve their compensation.

The Audit Committee should:

- Ensure that the auditor's independence is not compromised by any conflicts;
- Establish limits on the type and amount of nonaudit services that the audit firm may provide to the company;
- Require periodic submission of the audit contract to competitive bids; and
- Limit the company's hiring of employees from the audit firm consistent with legal requirements and be promptly informed when such hiring occurs.

In addition to selecting the independent auditors and ensuring the quality and integrity of the company's financial statements, the Audit Committee is responsible for the adequacy and effectiveness of the company's internal controls and the effectiveness of manage-

ment's processes to monitor and manage business risk. The internal audit team should report directly to the Audit Committee.

The Audit Committee should also develop policies and establish the means to monitor the company's compliance with ethical, legal and regulatory requirements.

The Audit Committee should establish procedures for employees to communicate directly and confidentially with its members.

- *Corporate Governance/Nominating Committee*

The Corporate Governance/Nominating Committee oversees the company's corporate governance practices and the selection and evaluation of directors. The committee is responsible for establishing board structure and governance policies that conform to regulatory and exchange listing requirements and standards of best practice. The committee's duties include:

- Development of the company's corporate governance principles and committee charters;
- Oversight of director selection, qualifications, training, compensation and continuing education;
- Evaluation of director nominees;
- Determination of board and committee size, structure, composition and leadership;
- Periodic evaluation of board and committee effectiveness and director independence;
- Establishment of procedures for communication with shareholders;
- Working with the Compensation Committee to establish succession planning; and
- Disclosure of these matters to shareholders.

## VI. Executive Compensation

As described above, the board through its Compensation Committee, is responsible for ensuring that a compensation program is in place which will attract, retain and incentivize executive management to strengthen performance and create long-term value for shareholders. The Committee, along with executive management, is responsible for providing shareholders with a detailed explanation of the company's compensation program, including the individual components of the program, through disclosure in the Compensation Discussion and Analysis (CD&A) and the board Compensation Committee Report. The compensation program should comply with the Compensation Committee's equity policy and should reflect an understanding of the total cost of executive compensation to shareholders.

In pursuit of these goals, the board should ensure that compensation plans include performance measures aligned with the company's short- and long-term strategic objectives. The Compensation Committee should ensure that the CD&A provides shareholders with a clear and comprehensive explanation of the company's compensation program, including the design, metrics, structure and goals of the program.

Because TIAA-CREF is a long-term investor, we support compensation policies that promote and reward creation of long-term shareholder value. In our review of compensation plans, we will assess the performance objectives established by compensation committees and the linkage of compensation decisions to the attainment of those objectives.

Executive compensation should be based on the following principles:

1. Compensation plans should encourage employees to increase productivity, meet competitive challenges and achieve performance goals that will lead to the creation of long-term shareholder value.
2. Compensation should be objectively linked to appropriate measures of company performance, such as earnings, return on capital or other relevant financial or operational parameters that are affected by the decisions of the executives being compensated.
3. Compensation should include cash, equity and long-term incentives as appropriate to meet the company's competitive and business goals.
4. Compensation plans should be based on a performance measurement cycle that is consistent with the business cycle of the corporation.
5. Compensation levels and incentives should be based on each executive's responsibilities and achievements as well as overall corporate performance.
6. In addition to being performance based, executive compensation should be reasonable by prevailing industry standards, appropriate to the company's size and complexity, and fair relative to pay practices throughout the company.
7. While Compensation Committees should consider comparative industry pay data, it should be used with caution.
8. Surveys that call for use of stock options inconsistent with the board's equity policy or clearly in excess of levels that can be justified to shareholders should be disregarded.
9. Compensation Committees should work only with consultants that are independent of management.
10. Consistent with SEC requirements, the CD&A should provide shareholders with a plain English narrative analysis of the data that appear in the compensation tables. The CD&A should explain the compensation program in sufficient detail to enable a reasonable investor to calculate the total cost and value of executive compensation, to understand its particular elements, metrics and links to performance, and to evaluate the board's and executive management's underlying compensation philosophy, rationale and goals.
11. Companies should disclose and explain the reasons for any differences in the peer group of companies used for strategic and business purposes and the peer group used for compensation decisions.
12. Compensation plans and policies should specify conditions for the recovery (clawback) of incentive or equity awards based upon reported results that have been subsequently restated and that have resulted in unjust enrichment of named executive officers.

### A. Equity-Based Compensation

#### *Oversight of Equity-Based Plans*

While equity-based compensation can offer great incentives to management, it can also have great impact on shareholder value. The need for directors to monitor and control the use of equity in executive compensation, particularly stock options, has increased in recent years. Amended rules requiring companies to

account for the cost of stock options as an expense on grant date provide an incentive for companies to exercise restraint in the use of options. SEC disclosure guidelines should further deter excesses in equity plans. However, in all cases it is the board of directors that is responsible for oversight of the company's equity compensation programs and for the adequacy of their disclosure.

#### *Composition of Equity-Based Plans*

In general, equity-based compensation should be based upon the following principles:

1. The use of equity in compensation programs should be determined by the board's equity policy. Dilution of shareholder equity should be carefully considered and managed, not an unintended consequence.
2. As required by exchange listing standards, all plans that provide for the distribution of stock or stock options should be submitted to shareholders for approval.
3. Equity-based plans should take a balanced approach to the use of restricted stock and option grants. Restricted stock, which aligns the interests of executives with shareholders, permits the value to the recipient and the cost to the corporation to be determined easily and tracked continuously.
4. Equity-based plans should be judicious in the use of stock options. When used inappropriately, option grants can provide incentives for management to focus on the company's short-term stock price rather than long-term performance.
5. When stock options are awarded, a company should consider: (i) performance-based options which set performance hurdles to achieve vesting; (ii) premium options with vesting dependent on a predetermined level of stock appreciation; or (iii) indexed options with a strike price tied to an index.
6. Equity-based plans should specifically prohibit "mega grants," defined as grants to executives of stock options whose value at the time of the grant exceeds a reasonable multiple of the recipient's total cash compensation.
7. Equity-based plans should establish minimum vesting requirements and avoid accelerated vesting.
8. Companies should support requirements for stock obtained through exercise of options to be held by executives for substantial periods of time, apart from partial sales permitted to meet tax liabilities caused by such exercise. Companies should establish holding periods commensurate with pay level and seniority.
9. Companies should require and specify minimum executive stock ownership requirements for directors and company executives.
10. Backdating of option grants should be prohibited. Issuance of stock or stock options timed to take advantage of nonpublic information with short-term implications for the stock price should also be prohibited.
11. Consistent with SEC guidelines, companies should fully disclose the size of equity grants, their estimated value to recipients and their current and projected cost to the company. Performance goals and hurdle rates should be transparent. Disclosure should include plan provisions that could have a material impact on the number and value of the shares distributed.

12. Disclosure should include information about the extent to which individual managers have hedged or otherwise reduced their exposure to changes in the company's stock price.

#### **B. Perquisites**

When awarding perquisites to senior executives, the board should be guided by the same principles of reasonableness, fairness, equity and transparency that govern other components of compensation plans. Perquisites can be overly complex, with potential for unintended and excessive value transfer to management and unanticipated costs and public relations problems for the company. Perquisites may be needed for purposes of executive security or efficiency, which should be disclosed. In principle, however, boards should minimize perquisites and give priority to other forms of compensation.

#### **C. Supplemental Executive Retirement Plans**

Supplemental executive retirement plans (SERPs) may be used to supplement "qualified" pension entitlements, but should be reasonable and should not enhance retirement benefits excessively. When designing SERPs, compensation committees should consider the value of SERP programs as part of an executive's total compensation package. They should also be sensitive to issues of internal pay equity. The following principles should guide the development of SERPs:

1. The eligibility requirements and terms of SERPs to named executive officers should be fully disclosed.
2. The value of the supplemental payment to which each named executive officer is entitled and the total cost of all supplemental plan obligations should be estimated and disclosed.
3. "Constructive credit" may be used to replicate full service credit, but should not exceed it.
4. Lump-sum distributions of SERPs may be appropriate in some circumstances. The discount rate used to calculate the lump-sum value of the pension entitlement should approximate the reinvestment rate available at retirement and should be disclosed.

#### **D. Executive Contracts**

Overly generous executive employment contracts, retention agreements and severance arrangements can result in excessive wealth transfer and expose the company to liability and unintended costs. The terms of contracts with named executive officers should be disclosed in detail with an estimation of their total cost. Companies should avoid providing by contract excessive perquisites either during employment or in the post-retirement period. Severance agreements should avoid payments to executives when they are terminated for misconduct, gross mismanagement or other reasons constituting a "for cause" termination. As in other areas, reasonableness, competitive practice and full disclosure are requirements, and such contracts should be in the best interest of the company and its shareholders.

#### *VII. TIAA-CREF Corporate Governance Program*

TIAA-CREF's corporate governance program is based on our mission to help secure the long-term financial future of our participants. Consistent with this mission and our fiduciary duty to our participants, TIAA-CREF is committed to engagement with portfolio companies for the purpose of creating economic value,

improving long-term performance and reducing financial and reputational risks.

### **A. Engagement Policy and Practices**

Our preference is to engage privately with portfolio companies when we perceive shortcomings in their governance (including environmental and social issues) or their performance. This strategy of “quiet diplomacy” reflects our belief that informed dialogue with board members and senior executives, rather than public confrontation, will most likely lead to a mutually productive outcome.

TIAA-CREF’s Corporate Governance Group administers a program of active monitoring and engagement with portfolio companies under the auspices of the standing trustee Committees on Corporate Governance and Social Responsibility.

We target portfolio companies for engagement based on research and evaluation of their governance and performance. Governance reviews are supplemented by analysis of companies’ financial condition and risk profile conducted in conjunction with our Asset Management Group.

In prioritizing issues for engagement, we take into account their materiality, their potential impact on TIAA-CREF’s investment performance, their relevance to the marketplace, the level of public interest, the applicability of our policies, the views of TIAA-CREF’s participants and institutional clients and the judgment of our trustees.

Our preference is for constructive engagement strategies that can utilize private communication, minimize confrontation and attain a negotiated settlement. While quiet diplomacy remains our core strategy, particularly for domestic companies, TIAA-CREF’s engagement program involves many different activities and initiatives, including the following:

- submit shareholder resolutions
- withhold or vote against one or more directors
- request other investors to support our initiative
- engage in public dialogue and commentary
- conduct a proxy solicitation
- engage in collective action with other investors
- support an election contest or change of control transaction
- seek regulatory or legislative relief
- commence or support litigation
- pursue other enforcement or compliance remedies

### **B. Proxy Voting**

Proxy voting is a key component of TIAA-CREF’s oversight and engagement program. It is our primary method for exercising our shareholder rights and influencing the behavior of portfolio companies. TIAA-CREF commits substantial resources to making informed voting decisions in furtherance of our mission and in compliance with the securities laws and other applicable regulations.

TIAA-CREF’s voting policies, established by the trustees and set forth in this Policy Statement, are administered on a case-by-case basis by the staff of our Corporate Governance Group. The staff has access to research reports from third-party advisory firms, seeks input from our Asset Management Group and, where appropriate, confers directly with trustees. Annual disclo-

sure of our proxy votes is available on our website and on the website of the Securities and Exchange Commission.

### **C. Influencing Public Policy and Regulation**

1. TIAA-CREF periodically publishes its policies on corporate governance, shareholder rights, social responsibility and related issues. These policies inform portfolio companies and provide the basis for our engagement activities.
2. TIAA-CREF participates in the public debate over issues of corporate governance and responsible corporate behavior in domestic and international markets.
3. TIAA-CREF participates in membership organizations and professional associations that seek to promote good corporate governance and protect shareholder rights.
4. TIAA-CREF sponsors research, hosts conferences and works with regulators, legislators, self-regulatory organizations, and other institutional investors to educate the business community and the investing public about governance and shareholder rights.
5. TIAA-CREF submits written comments on regulatory proposals and testifies before various governmental bodies, administrative agencies and self-regulatory organizations.
6. TIAA-CREF participates in corporate governance conferences and symposia in the United States and abroad.

### **D. Divestment**

TIAA-CREF is committed to engagement with companies rather than divestment of their securities. This policy is a matter of principle that is based on several considerations: (i) divestment would eliminate our standing and rights as a shareholder and foreclose further engagement; (ii) divestment would be likely to have negligible impact on portfolio companies or the market; (iii) divestment could result in increased costs and short-term losses; and (iv) divestment could compromise our investment strategies and negatively affect our performance. For these reasons, we believe that divestment does not offer TIAA-CREF an optimal strategy for changing the policies and practices of portfolio companies, nor is it the best means to produce long-term value for our participants.

As a matter of general investment policy, TIAA-CREF’s trustees and its Asset Management Group may consider divesting or underweighting a company’s stock from our accounts in cases where they conclude that the financial or reputational risks from a company’s policies or activities are so great that continued ownership of its stock is no longer prudent.

### *VIII. International Governance*

With an increasing share of our assets invested in equities of companies listed on foreign markets and with international holdings in over 50 countries, TIAA-CREF is recognized as one of the most influential investors in the world. We have a long history of acting on behalf of our participants to improve corporate governance standards globally. Our international governance activities, like our domestic program, are designed to protect our investments, reduce risk and increase shareholder value. We focus our governance efforts in those foreign markets where we currently have, or expect to have in the future, significant levels of capital at risk.

We believe that no matter where a company is located, once it elects to access capital from the public it becomes subject to basic principles of corporate governance. We recognize that companies outside the United States are subject to different laws, standards and customs. We are mindful that cultural differences must be respected. At the same time, we recognize our responsibility to promote global governance standards that help strengthen shareholder rights, increase accountability and improve the performance of portfolio companies.

TIAA-CREF has endorsed many of the governance standards of international associations and shareholder organizations. We agree with the widely-held view that harmonization of international governance principles and standards of best practice is essential to achieve efficiency in the global capital markets. Accordingly, our governance initiatives in less developed countries seek to deal with the following problems:

- Listed companies dominated by controlling shareholders often blend characteristics of private and public companies, giving management and insiders too much power and shareholders too little.
- Foreign governments retain ownership in many local listed companies and exercise special powers that interfere with capital market efficiency.
- Shareholder rights are not fully developed in many countries, increasing investment risk.
- Legal and regulatory systems are still underdeveloped and means of enforcement can often be lacking.
- Basic governance standards of board accountability and independence, full and timely disclosure and financial transparency are in many cases still only aspirational.
- Operational inefficiencies such as share blocking and clustering of shareholder meetings impede investor communications and proxy voting.
- Ambivalence about shareholder activism, control contests and takeover bids undermines management accountability and market vitality.

TIAA-CREF's international governance program involves both engagement with targeted portfolio companies and broad-based initiatives, often in conjunction with global governance organizations. We are willing to form strategic partnerships and collaborate with other institutional investors to increase our influence in foreign markets. We support regional efforts initiated by investor groups to improve local governance practices in line with global standards. We sponsor academic research, surveys and other activities that we believe will contribute to positive developments regionally.

In addition to maintaining a leadership role as an advocate for shareholder rights and good governance globally, TIAA-CREF is committed to voting our shares in international companies. Our trustees regularly update our international proxy voting policies and guidelines as new developments occur in the various markets. Our Proxy Voting Group is familiar with voting procedures in every country where we invest. We promote reforms needed to eliminate cross-border voting inefficiencies and to improve the mechanics of proxy voting globally.

We believe that basic corporate disclosure and proxy voting standards applicable to all public companies around the world should include the following:

- The one-share, one-vote principle should apply to all publicly traded companies to ensure that shareholders' voting power is aligned with their economic interest.
- Voting caps and super voting rights should be eliminated.
- Companies should treat all shareholders equally, equitably and fairly to ensure that minority and foreign shareholders are protected and that government-controlled securities are not given special rights.
- Companies should distribute disclosure documents in a timely fashion, preferably no less than 28 days before shareholder meetings so that international investors can make informed voting decisions and have sufficient time to vote their shares.
- Annual meeting agendas and disclosure documents should be published in English whenever a company has substantial international ownership.
- Companies should work to achieve transparency through disclosure and accounting practices that are acceptable under international governance and accounting standards.
- Companies should provide information on director qualifications, independence, affiliations, related party transactions, executive compensation, conflicts of interest and other relevant governance information.
- Shareholders should be able to vote their shares without impediments such as share blocking, beneficial owner registration, voting by show of hands or other unreasonable requirements.
- Shareholders should have the right to vote on separate and distinct issues; companies should not bundle disparate proposals.
- Voting results should be disclosed promptly after shareholder meetings and procedures should be available to audit and verify the outcome.
- Shareholders should receive confirmation that their votes have been received and tabulated.
- In addition, preemptive rights may have distinct value to shareholders in jurisdictions outside of the United States. For domestic companies, TIAA-CREF does not object to the elimination of preemptive rights, which can impede a company's ability to raise capital efficiently.

## IX. Environmental and Social Issues

TIAA-CREF recognizes that as a matter of good corporate governance and from the perspective of shareholder value, boards should carefully consider the strategic impact of issues relating to the environment and social responsibility. There is a growing body of research examining the economic consequences of companies' efforts to promote good environmental and social practices. We support companies' efforts to evaluate the strategic relevance of these factors, including their impact on business risk, reputation, competitive position and opportunities for growth.

TIAA-CREF believes that companies and boards should exercise diligence in their consideration of environmental and social issues, analyze the strategic and economic questions they raise and disclose their environmental and social policies and practices. Directors should encourage dialogue on these issues between the company and its investors, employees, customers,

suppliers and the larger community. The goal of our policy is to ensure that the board and management include environmental and social responsibility in their business planning and that they disclose relevant information and decisions to shareholders.

While our policies are not intended to be prescriptive, we believe that companies and boards should pay careful attention to the following issues in the course of their strategic planning:

- *Environment*: the short-term and long-term impact of the company's operations and products on the local and global environment.
- *Human Rights*: the company's labor and human rights policies and practices and their applicability through the supply and distribution chains.
- *Diversity*: the company's efforts to promote equal employment opportunities and fair treatment for all segments of the populations it serves.
- *Product Responsibility*: the company's attention to the safety and potential impact of its products and services.
- *Society*: the company's diligence in reviewing all its activities to ensure they do not negatively affect the common good of the communities in which it operates.

Our guidelines for voting on some of the more common environmental and social resolutions are set forth in the Voting Guidelines included in Appendix A.

#### X. Securities Lending Policy

TIAA-CREF believes that as a matter of good corporate governance shareholders have a responsibility to exercise their ownership rights with diligence and care. At the same time, however, institutional investors have a fiduciary duty to generate optimal financial returns for their beneficiaries. Balancing these two responsibilities — acting as responsible owners while maximizing value — can create a dilemma for institutional investors in choosing between short-term and long-term strategies. Stock lending practices can create such a potential conflict — whether to recall loaned stock in order to vote, or not to recall in order to preserve lending fee revenue.

To address these issues, TIAA-CREF has developed a securities lending policy governing its practices with respect to stock lending and proxy voting. The policy delineates the factors to be considered in determining when we should lend shares and when we should recall loaned shares in order to vote them.

Even after we lend the securities of a portfolio company, we continue to monitor whether income from lending fees is of greater value than the voting rights that have passed to the borrower. Using the factors set forth in our policy, we conduct an analysis of the relative value of lending fees versus voting rights in any given situation. We will recall shares when we believe the exercise of voting rights may be necessary to maximize the long-term value of our investments despite the loss of lending fee revenue.

Our Asset Management and lending staff, in consultation with our governance staff, are responsible for analyzing these issues, conducting the cost/benefit analysis and making determinations about restricting, lending and recalling securities consistent with this policy.

## APPENDIX A: PROXY VOTING GUIDELINES

### TIAA-CREF Proxy Voting Guidelines

TIAA-CREF's voting practices are guided by our mission and fiduciary duty to our participants. As indicated in this Policy Statement, we monitor portfolio companies' governance, social and environmental practices to ensure that boards consider these factors in the context of their strategic deliberations.

The following guidelines are intended to assist portfolio companies, participants and other interested parties in understanding how TIAA-CREF is likely to vote on governance, compensation, social and environmental issues. The list is not exhaustive and does not necessarily represent how TIAA-CREF will vote at any particular company. In deciding how to vote, the Corporate Governance staff takes into account many factors, including input from our Asset Management Group and third-party research. We consider specific company context, including governance practices and financial performance. It is our belief that a one-size-fits-all approach to proxy voting is not appropriate.

We establish voting policies with respect to both management proposals and shareholder resolutions. Our proxy voting decisions with respect to shareholder resolutions may be influenced by several additional factors: (i) whether the shareholder resolution process is the appropriate means of addressing the issue; (ii) whether the resolution promotes good corporate governance and is related to economic performance and shareholder value; and (iii) whether the information and actions recommended by the resolution are reasonable and practical. In instances where we agree with the concerns raised by proponents but do not believe that the policies or actions requested are appropriate, TIAA-CREF will generally abstain on the resolution.

Where appropriate, we will accompany our vote with a letter of explanation.

### Guidelines for Board-Related Issues

#### *Policy Governing Votes on Directors:*

TIAA-CREF will consider withholding or voting against some or all directors in the following circumstances:

- When TIAA-CREF trustees conclude that the actions of directors are unlawful, unethical, negligent, or do not meet fiduciary standards of care and loyalty, or are otherwise not in the best interest of shareholders. Such actions would include: issuance of backdated or spring loaded options, excessively dilutive equity grants, egregious compensation practices, unequal treatment of shareholders, adoption of inappropriate antitakeover devices, unjustified dismissal of auditors.
- When directors have failed to disclose, resolve or eliminate conflicts of interest that affect their decisions.
- When less than a majority of the company's directors are independent, by TIAA-CREF standards of independence.

In cases where TIAA-CREF decides to withhold or vote against the entire board of directors, we will also abstain or vote against a provision on the proxy granting discretionary power to vote on "other business" arising at the shareholders meeting.

#### *Majority Vote for the Election of Directors:*

*General Policy:* As indicated in Section III of this Policy Statement, TIAA-CREF will generally support shareholder resolutions asking that companies amend their governance documents to provide for director election by majority vote.

#### *Proxy Access Proposals:*

*General Policy:* TIAA-CREF will generally support shareholder resolutions seeking to establish reasonable conditions and procedures for shareholders to include their director candidates on a company's proxy and ballot.

#### *Reimbursement of Expenses for Dissident Shareholder Nominees:*

*General Policy:* TIAA-CREF will consider on a case-by-case basis shareholder resolutions asking that the company reimburse certain expenses related to the cost of dissident short-slate director campaigns or election contests.

#### *Annual Election of Directors:*

*General Policy:* TIAA-CREF will generally support shareholder resolutions asking that each member of the board stand for reelection annually.

#### *Cumulative Voting:*

*General Policy:* TIAA-CREF will generally not support proposals asking that shareholders be allowed to cumulate votes in director elections, as this practice may encourage the election of "special interest" directors.

### **Guidelines for Other Governance Issues**

#### *Separation of Chairman and Chief Executive Officer:*

*General Policy:* TIAA-CREF will consider on a case-by-case basis shareholder resolutions seeking to separate the positions of CEO and board chair or to appoint a lead director. We will generally support such resolutions when a company's corporate governance practices or financial performance are deficient.

#### *Ratification of Auditor:*

*General Policy:* TIAA-CREF will generally support the board's choice of auditor. However, TIAA-CREF will consider voting against the ratification of an audit firm where nonaudit fees are excessive, where the firm has been involved in conflict of interest or fraudulent activities in connection with the company's audit, or where the auditors' independence is questionable.

#### *Supermajority Vote Requirements:*

*General Policy:* TIAA-CREF will generally support shareholder resolutions asking for the elimination of supermajority vote requirements.

#### *Dual-Class Common Stock and Unequal Voting Rights:*

*General Policy:* TIAA-CREF will generally support shareholder resolutions asking for the elimination of dual classes of common stock with unequal voting rights or special privileges.

#### *Antitakeover Devices (Poison Pills):*

*General Policy:* TIAA-CREF will consider on a case-by-case basis proposals relating to the adoption or rescission of anti-takeover devices with attention to the following criteria:

- Whether the company has demonstrated a need for anti-takeover protection;
- Whether the provisions of the device are in line with generally accepted governance principles;
- Whether the company has submitted the device for shareholder approval;
- Whether the proposal arises in the context of a takeover bid or contest for control.

TIAA-CREF will generally support shareholder resolutions asking to rescind or put to a shareholder vote antitakeover devices that were adopted without shareholder approval.

#### *Reincorporation:*

*General Policy:* TIAA-CREF will generally vote against management proposals asking shareholders to approve reincorporation to a new domicile if we believe the objective is to take advantage of laws or judicial interpretations that provide antitakeover protection or otherwise reduce shareholder rights.

### **Guidelines for Compensation Issues**

#### *Equity-Based Compensation Plans:*

*General Policy:* TIAA-CREF will review equity-based compensation plans on a case-by-case basis, giving closer scrutiny to companies where plans include features that are not performance-based or where total potential dilution from equity compensation exceeds 10%.

*Comment:* TIAA-CREF understands that companies need to attract and retain capable executives in a competitive market for executive talent. We take competitive factors into consideration whenever voting on matters related to compensation, particularly equity compensation. As a practical matter, we recognize that more dilutive broad-based plans may be appropriate for human-capital intensive industries and for small- or mid-capitalization firms and start-up companies.

#### *Red Flags:*

- *Excessive Equity Grants:* TIAA-CREF will examine a company's past grants to determine the rate at which shares are being issued. We will also seek to ensure that equity is being offered to more than just the top executives at the company. A pattern of excessive grants can indicate failure by the board to properly monitor executive compensation and its costs.
- *Lack of Minimum Vesting Requirements:* TIAA-CREF believes that companies should establish minimum vesting guidelines for senior executives who receive stock grants. Vesting requirements help influence executives to focus on maximizing the company's long-term performance rather than managing for short-term gain.
- *Undisclosed or Inadequate Performance Metrics:* TIAA-CREF believes that performance goals for equity grants should be disclosed meaningfully. Performance hurdles should not be too easily attainable. Disclosure of these metrics should

enable shareholders to assess whether the equity plan will drive long-term value creation.

- **Insufficient Executive Stock Ownership:** TIAA-CREF supports equity ownership requirements for senior executives and directors. Whether or not equity is a significant portion of compensation, sufficient stock ownership should be required to align executives' and board members' interests with those of shareholders.
- **Reload Options:** TIAA-CREF will generally not support "reload" options that are automatically replaced at market price following exercise of initial grants. Reload options can lead to excessive dilution and overgenerous benefits and allow recipients to lock in increases in stock price that occur over the duration of the option plan with no attendant risk.
- **Mega Grants:** TIAA-CREF will generally not support mega grants. A company's history of such excessive grant practices may prompt TIAA-CREF to vote against the stock plans and the directors who approve them. Mega grants include equity grants that are excessive in relation to other forms of compensation or to the compensation of other employees and grants that transfer disproportionate value to senior executives without relation to their performance.
- **Undisclosed or Inappropriate Option Pricing:** TIAA-CREF will generally not support plans that fail to specify exercise prices or that establish exercise prices below fair market value on the date of grant.
- **Repricing Options:** TIAA-CREF will generally not support plans that authorize repricing. However, we will consider on a case-by-case basis management proposals seeking shareholder approval to reprice options. We are more likely to vote in favor of repricing in cases where the company excludes named executive officers and board members and ties the repricing to a significant reduction in the number of options.
- **Excess Discretion:** TIAA-CREF will generally not support plans where significant terms of awards — such as coverage, option price, or type of awards — are unspecified, or where the board has too much discretion to override minimum vesting and/or performance requirements.
- **Evergreen Features:** TIAA-CREF will generally not support option plans that contain evergreen features which reserve a specified percentage of outstanding shares for award each year and lack a termination date. Evergreen features can undermine control of stock issuance and lead to excessive dilution.

#### *Performance-Based Equity Compensation:*

**General Policy:** TIAA-CREF will generally support shareholder resolutions seeking alignment between executive compensation and performance.

#### *Advisory Vote on Compensation Disclosure:*

**General Policy:** TIAA-CREF will generally support shareholder resolutions seeking an advisory vote on companies' compensation disclosure.

#### *Limits on Executive Compensation:*

**General Policy:** TIAA-CREF will generally vote against shareholder resolutions seeking to impose limits on executive pay by use of arbitrary ratios or pay caps.

#### *Clawback Policies:*

**General Policy:** TIAA-CREF will vote on a case-by-case basis with respect to shareholder resolutions seeking the establishment of clawback policies.

#### *Golden Parachutes:*

**General Policy:** TIAA-CREF will generally support shareholder resolutions seeking shareholder approval of "golden parachute" severance agreements that exceed IRS guidelines.

#### *Supplemental Executive Retirement Plans:*

**General Policy:** TIAA-CREF will vote on a case-by-case basis with respect to shareholder resolutions seeking to establish limits on the benefits granted to executives in SERPs.

### **Guidelines for Environmental and Social Issues**

As indicated in Section IX, TIAA-CREF will generally support shareholder resolutions seeking reasonable disclosure of the environmental or social impact of a company's policies, operations or products. We believe that a company's management and directors have the responsibility to determine the strategic impact of environmental and social issues and that they should disclose to shareholders how they are dealing with these issues.

#### **Environment**

##### *Global Warming and Climate Change:*

**General Policy:** TIAA-CREF will generally support reasonable shareholder resolutions seeking disclosure of greenhouse gas emissions and the impact of climate change on a company's business activities.

**Comment:** The level of a company's greenhouse gas emissions and its vulnerability to climate change may represent both short-term and long-term potential risks. Companies and boards should analyze the impact of climate change on their business and disclose this information.

##### *Use of Natural Resources:*

**General Policy:** TIAA-CREF will generally support reasonable shareholder resolutions seeking disclosure or reports relating to a company's use of natural resources, the impact on its business of declining resources and its plans to improve energy efficiency or to develop renewable energy alternatives.

**Comment:** These considerations should be a part of the strategic deliberations of boards and managers and the company should disclose the results of such deliberations.

### *Impact on Community:*

*General Policy:* TIAA-CREF will generally support reasonable shareholder resolutions seeking disclosure or reports relating to a company's initiatives to reduce any harmful community impacts or other hazards that result from its operations or activities.

*Comment:* Community hazards at business facilities may expose companies to such risks as regulatory penalties, legal liability, diminished reputation, increased cost and loss of market share. Conversely, the elimination of hazards may improve competitiveness and provide business opportunities.

### **Human Rights**

#### *Human Rights Code of Conduct and Global Labor Standards:*

*General Policy:* TIAA-CREF will generally support reasonable shareholder resolutions seeking a review of a company's internal labor standards, the establishment of global labor standards or the adoption of codes of conduct relating to human rights.

*Comment:* Adoption and enforcement of human rights codes and fair labor standards can help a company protect its reputation, increase worker productivity, reduce liability, improve customer loyalty and gain competitive advantage.

### **Community**

#### *Corporate Response to Global Health Risks:*

*General Policy:* TIAA-CREF will generally support reasonable shareholder resolutions seeking disclosure or reports relating to the potential impact of HIV, AIDS, Avian Flu and other pandemics and global health risks on a company's operations and long-term growth.

*Comment:* Global health considerations should be factored into the strategic deliberations of boards and managers, and companies should disclose the results of such deliberations.

#### *Corporate Political Influence:*

*General Policy:* TIAA-CREF will generally support reasonable shareholder resolutions seeking disclosure or reports relating to a company's lobbying efforts and contributions to political parties or political action committees.

*Comment:* Given increased public scrutiny of corporate lobbying activities and campaign contributions, we believe it is the responsibility of company boards to review and disclose the use of corporate assets for political purposes.

#### *Corporate Philanthropy:*

*General Policy:* TIAA-CREF will generally support reasonable shareholder resolutions seeking disclosure or reports relating to a company's charitable contributions and other philanthropic activities. However, TIAA-CREF will vote against resolutions that promote a political agenda or a special interest or that unreasonably restrict a company's corporate philanthropy.

*Comment:* We believe that boards should disclose their corporate charitable contributions to avoid any actual or perceived conflicts of interest.

### **Diversity**

#### *General Policies:*

- TIAA-CREF will generally support reasonable shareholder resolutions seeking disclosure or reports relating to a company's nondiscrimination policies and practices, or seeking to implement such policies, including equal employment opportunity standards.
- TIAA-CREF will generally support reasonable shareholder resolutions seeking disclosure or reports relating to a company's workforce diversity.
- TIAA-CREF will generally vote against special purpose or discriminatory resolutions, such as those recommending that sexual orientation not be covered under equal employment opportunity policies.

*Comment:* Promoting diversity and maintaining inclusive workplace standards can help companies attract and retain a talented and diverse workforce and compete more effectively.

### **Product Responsibility**

*General Policy:* TIAA-CREF will generally support reasonable shareholder resolutions seeking disclosure or reports relating to the safety and impact of a company's products on the customers and communities it serves.

*Comment:* Companies that demonstrate ethical behavior and diligence with regard to product safety and suitability can avoid reputational and liability risks and strengthen their competitive position.

#### *Tobacco*

#### *General Policies:*

- TIAA-CREF will generally support reasonable shareholder resolutions seeking disclosure or reports relating to risks associated with tobacco use and efforts by a company to reduce youth exposure to tobacco products.
- TIAA-CREF will generally not support resolutions seeking to alter the investment policies of financial institutions or to require divestment of tobacco company stocks.

*Comment:* Effectively addressing these concerns can help companies protect their reputation and reduce legal liability risk.





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730 Third Avenue  
New York, NY 10017-3206