GIIN
GLOBAL IMPACT INVESTING NETWORK

GIIN INITIATIVE FOR INSTITUTIONAL IMPACT INVESTMENT
CASE STUDY: *Nuveen, a TIAA company*

The GIIN Initiative for Institutional Impact Investment supports institutional asset owners seeking to enter or deepen their engagement with the impact investing market, by providing educational resources, performance research, and a community of practice. The Initiative is made possible by the generous support of JPMorgan Chase & Co., a founding member and longtime partner to the GIIN.

This series of case studies represents one type of educational resource offered to the growing institutional community. Each case study profiles an institutional asset owner that is making impact investments, providing a snapshot of their work thus far. The case study series provides a useful resource for institutional investors seeking to understand how to make the case for, and then establish, an impact investment strategy, by gaining insights from the experience of other investors. If you are interested in contributing to this resource, please contact Josh Scott.

Nuveen is the investment management arm of TIAA, and manages nearly $1 trillion in a wide range of asset classes for institutional investors around the world as well for its parent company's general account. For this case study, we interviewed Rekha Unnithan, portfolio manager of Nuveen's Impact Investing who is responsible for implementing TIAA's impact investing strategy. Ms. Unnithan is also a member of the advisory committee for the GIIN Initiative for Institutional Impact Investment and a GIIN Investors' Council Member.

How do you define impact?

Nuveen has long defined impact investing as investments in companies, funds, and projects that have the intentional objective of creating social or environmental good alongside quantifiable and measurable investment performance. Today, impact investing is also defined in terms of a dedicated portfolio that is primarily focused on private markets—private equity, real estate, private debt, and other structured vehicles—though the firm acknowledges certain opportunities in the public domain as well. At the core of Nuveen's impact investment thesis is the emerging low-income consumer and the belief that the low-income consumer is underserved with respect to access to basic products and services, like housing, energy, education, and financial services. "We believe that globally there is a mismatch between the earning potential, or spending power, of the low-income consumer and their need and desire to access quality products for themselves and their families," notes Unnithan. Nuveen seeks investments that solve for this gap in the supply and demand of basic needs, taking a slightly longer-term view given the focus on private markets. Nuveen aligns all of its impact investing activities with the UN Sustainable Development Goals (SDGs) framework which is increasingly being used to identify and solve for pressing issues facing people and the planet.

Impact investing is considered one expression of Nuveen's overall Responsible Investing posture. The firm has been focused on responsible investing practices for decades; it was an early signatory to the UN Principles for Responsible Investment (UNPRI) and has integrated ESG considerations across its asset management strategies. When considering how impact investments differ from other ESG strategies, Unnithan notes, "It's not a choice of depth—how much impact we want to have and how much we are willing to give—but rather a function of where the investment opportunity lies and where we can create outsized, deliberate, and intentional impact. This is possible in certain markets, sectors, geographies, and asset classes. Themes such as affordable housing and financial inclusion are global investment opportunities that the impact portfolio invests in."

What have you done to start making impact investments?

Nuveen and its parent company, TIAA, have a long history of making responsible investments, including impact investments. One only needs to look at TIAA's client base to understand why this is the case: educators, healthcare professionals, researchers and other workers in the non-profit sector have a longstanding history of expressing the desire for their investments to align with their values. Recognizing that value goes beyond financial returns, TIAA began its journey into responsible investing in 1970 when its Trustees developed formal procedures for voting on shareholder proposals. The firm's first impact investments were made in the late 1990s in affordable housing in the US and in microfinance in emerging markets. These were one-off investments that were highly opportunistic but made with intentionality—well before the term "impact investing" was coined.

When Unnithan joined TIAA in 2012, she led a strategic review of the impact investing market to determine what it meant for a firm like theirs—one with a long-term investment posture and expertise in private markets across asset classes—to do impact investing well. What resulted was the impact investing thesis defined above and a request for funding proposal to the board's investment committee, which started the allocation process for a multi-year investment program funded from TIAA's general account. Between 2012 and 2017, the firm invested upwards of USD 600 million of new capital in impact investments.

To this day, Nuveen's impact investment portfolio is managed like any other with a deep focus and rigor on underwriting, intentionality, and value creation. In the early days of investing the portfolio, Unnithan led the effort but partnered with colleagues across relevant asset classes to underwrite each deal, taking an active portfolio management approach. Building out a separate team for impact investing was not possible early on, and would have added to the cost and burden of justifying the strategy. Instead, the focus was on creating dedicated partners who are part of the broader team, and who build muscle memory and expertise in sectors alongside impact investing professionals. As the portfolio has grown, it has become a sub-vertical under Nuveen's private markets business with a dedicated team of impact investing experts. It sits alongside Nuveen's other private investment functions as opposed to a carve-out that sits at corporate level or in the finance function. "A carve-out is not viewed favorably here," states Unnithan. "We didn't want to take the posture that impact investing is different, but instead tie success to doing things in a commercially viable way, proving both the impact story and the financial return story."

In terms of impact measurement—a defining yet often challenging feature of impact investing—Nuveen admits that it is still a work in progress. "Our situation as an asset owner is different—no one externally is asking for our impact reporting, because our impact allocation comes from the general account. It's all self-motivated," notes Unnithan. Most progress on impact measurement has been made in the affordable housing portfolio, where the team tracks and measures impact on an ongoing basis using a range of commonly-used social and environmental performance metrics. The firm has also made significant strides in aligning its responsible investing activities to the SDGs. Expanding resources and skillsets for impact measurement remains a priority for Nuveen, particularly as the firm considers the opportunity to raise third party capital in the coming year. Impact intentionality and measurement are imbedded in what Nuveen does today and the firm strives to deepen and formalize its impact management practice in the coming year.

Why did your approach work?

Unnithan points to a few things that have contributed to Nuveen's relative success to date: governance, talent, and ultimately, keeping it simple. "Impact investing is rapidly changing, and there is so much that is different about this space in terms of who we are trying to impact, where we are doing business, the type of companies and projects we choose to finance, track records, the emerging consumer, and the geographies we think are relevant. As such, it's important to keep some things more constant to drive adoption of eventual impact in these markets." For Nuveen's impact investing portfolio, this means strong governance and scrutiny of deal-making. "If you start overengineering on structure, it really detracts and makes it harder to do business," states Unnithan.

When setting up governance structures and teams that can determine the direction of impact investing efforts, Nuveen has found that it's also important to bring on people with high levels of motivation and influence. "Some people have high levels of influence given their stature within the firm, but may have very little motivation or interest in what you are doing. It's tough to find the perfect person or group that has nexus," notes Unnithan. This, in turn, contributes to talent management and retention at the firm. "People really feel that they are a part of something bigger. Investment professionals want to feel good about what their capital is achieving for society as a whole as well as being rewarded for being strong investment professionals."

How was it received?

Trying to convince a wider organization of the viability of impact can be a challenge. As Unnithan points out, "This was not a, 'Hey, investment team, you must do impact investing.' It was more like, 'Hey, we have an impact investing allocation, we have a lead to run this, and we need to tap into your people and pick the most valuable partners to underwrite this.'" It was not easy in the beginning. Initially, it was hard to build ownership due to a lack of understanding and consensus around the quality of the investments and the emerging consumer hypothesis. Unnithan, a portfolio leader with a strong background in investment management and an ability to speak the language of her investment partners, helped narrow the credibility gap. "Frankly, all that work has really paid off," recounts Unnithan. "We now know the impact story in a more holistic way, our partners have been a constant part of the team, and we are underwriting deals better and better because we have learned from prior investments and from each other."

For the TIAA general account, getting buy-in meant making a business case for impact through a strategic proposal and then continuously refining that case through annual portfolio reviews. The general account essentially wanted to know about the size of the market, its trajectory, and where the opportunity set lay. Unnithan responded by learning about the market from the GIIN and others, and by reviewing Nuveen's existing portfolio. "We looked at our past investments, what worked and didn't work, and what areas we would continue to invest in—and then reviewed supporting research that confirmed where we could achieve positive financial performance as well as an impact story," recounts Unnithan. Nuveen also spent time understanding how the opportunity set aligned with Nuveen's own expertise as a firm, in terms of investment talent and infrastructure, as well as what governance would look like. And finally, it was important for the team to consider the types of risks the firm would be willing to accept (impact deals are generally smaller than growth equity buyout types and thus can involve different types of risks) and what success looked like in the future. The TIAA general account and Nuveen teams now reviews these trends and considerations on an ongoing basis as part of the formal portfolio review process.