



Scott J. Budde, CFA
Managing Director
Global Social and Community Investing
T: 212.916.5990
SBudde@TIAA-CREF.org

August 3, 2007

Dr. Neil Wollman
Peace Studies Institute
Manchester College
North Manchester, IN 46962-1276

Dear Neil:

I am writing in response to the questions about Community Investing posed to Amy and me in your email message dated July 16. I also would like to provide additional details about our Community Investing activities.

Over the past years TIAA-CREF has taken a number of steps to enhance its Community Investing programs including:

- Strengthening our Corporate Social Real Estate Investment Program by adding a dedicated Director-level position and broadening the scope of the program;
- Creating a new Community Bank Deposit Program starting with \$22 million in ShoreBank deposits and recently working with the Calvert Foundation on options for enhancing this program;
- Creating a new \$100 million Global Microfinance Investment Program, and starting with our \$43 million investment in ProCredit Holding AG.
- Adding the new 2 percent target for Proactive Social Investments within the fixed income portion of the CREF Social Choice Account.
- Strengthening ties with domestic and international organizations involved in a very broad range of global community economic development, including ShoreBank, the Calvert Foundation, Impact Community Capital, the ProCredit Group, the Grameen Foundation and Accion International.

Overall, our Community Investing strategy reflects our joint goals of achieving both positive social

social impact and competitive investment returns. In addition, we believe that focusing on a smaller number of programs in greater depth will allow us to have more informed investment decisions, facilitate larger investment programs within TIAA-CREF funds and increase the involvement of other institutional investors. Thus, while we know there are varied strategies for Community Investing, we intend to focus on enhancing the above programs and possibly adding a fourth program within our General Account (see below).

With those considerations in mind, please see below for my responses to your specific questions.

What is in the 2% target allocation within the CREF Social Choice Account?

Under the new target allocation, the investment professionals who manage the account will seek opportunities to invest in publicly-traded fixed-income securities that finance initiatives in such areas as affordable housing, alternative energy, and economic development programs in the United States and abroad. These investments will be selected based on the same financial criteria TIAA-CREF employs in selecting fixed-income investments for the organization's other funds.

Examples of investments that fall within the two percent allocation include bonds issued by the International Facility For Immunization, which facilitates more rapid vaccination programs in developing countries; New York State Environmental Facility Bonds which finance pollution control and clean water facilities across the state; and various bonds issued by Government National Mortgage Association and others to help finance affordable housing.

In general our fixed income team looks for competitive returns within its overall valuation framework and this applies to the new two percent allocation as well. From a social perspective, we think the emphasis on liquid, mainstream, socially-oriented debt securities will help stimulate creation and issuance of these types of securities in the future. We also expect to work with the fixed income team to broaden the range of fixed income securities in which the fund may invest. We believe that promoting market-based approaches that can tap the enormity of the capital markets is a *very* important aspect of this 2% allocation.

What is TIAA-CREF doing about Social Venture Capital (SVC)?

We think that many of our microfinance and some of our corporate social real estate investments constitute SVC. Some of these investments represent early stage, equity-like investments in firms or programs with a combination of competitive returns and positive social impact. In fact, Investors' Circle recently agreed with the microfinance assessment by recently profiling MicroVest Capital Management as one of their top ideas for making capital markets work for the entrepreneurial poor.

In addition to our current programs, we are examining areas where TIAA-CREF might have a positive social impact, achieve competitive returns and capitalize on our expertise. I have spoken at length with members of the board and staff of the Investors' Circle – who have been quite

helpful – and we are currently looking at SVC type strategies that would take advantage of the capabilities across the TIAA-CREF organization.

Finally, there may be examples of SVC that seem like viable business ideas but where we do not see the broad social appeal to a wide range of our participants. For example, companies with socially responsible products that only target upper income consumers in developed countries might fall into this category.

What about including SVC in CREF Social Choice?

For Community Investment programs that involve alternative assets (e.g., SVC, direct real estate, instruments other than stocks and bonds), TIAA-CREF believes we can best serve our participants and targeted community investing areas by making these types of investments out of the pool of assets behind TIAA Traditional (what we call the “General Account”). For the reasons discussed above, we also believe that there are many opportunities for what we can do with our fixed income team within the new 2% target allocation for Pro-Active Social Investments within the CREF Social Choice Account.

While I appreciate that SVC-related investing within CREF Social Choice is a priority for you, our decision reflects several considerations related to advantages of investing through the General Account that include the following:

- Because the General Account is a more flexible vehicle for holding alternative investments than is CREF Social Choice Account, investments from the General Account cost participants less, in aggregate, to manage than comparable investments placed in the Social Choice Account. In fact, adding even very small amounts of SVC to the Social Choice Account would divert resources from community investing activities to the administrative, operational and legal projects associated with the change.
- The General Account, with approximately \$170 billion in assets, has far greater capacity for alternative assets – including SVC & other community investing programs - than the CREF Social Choice Account, which has approximately \$9 billion in assets under management. These assets represent approximately 40% of TIAA-CREF’s total combined assets under management, the General Account is better able to achieve the scale that is essential for larger investment programs.
- The General Account presents other practical advantages for our target investments. For example, at present we are examining a potential international investment in a company that, if invested in through the Social Choice Account, would require the target investment company to produce financial statements according to Generally Accepted Accounting Principles (GAAP) in force in the United States. In contrast the General Account can often accept financial statements according to International Financial Reporting Standards

(IFRS) common in most of the world and already produced by the target investment company.

- From a social impact perspective, the recipients of the investment funds remain agnostic about the fund or account from which the investment originates. Similarly, most TIAA-CREF participants who invest in the Social Choice Account also invest in the TIAA Traditional.

Finally, the CREF Social Choice Account now offers a straightforward 60/40 equity/fixed income asset allocation which appeals to investment consultants and other intermediaries. We believe that even small allocations to SVC or other alternative investments have the potential to make adoption of the CREF Social Choice Account in institutions' retirement plans more difficult for these key decision makers.

* * *

I encourage you to learn more about TIAA-CREF's community investing programs, particularly the Corporate Social Real Estate Program managed by Cherie Santos-Wuest. With US housing affordability shrinking and communities becoming more polarized by class, we are seeing significant competitive investment opportunities in this area – often in partnership with CDFI and local community-development organizations and sometimes in conjunction with low-income tax credit financing. In fact, we have long track record in this program including some pioneering work such as being among the founding shareholders of Impact Community Capital LLC in California. We have recently broadened our strategy to invest in urban infill and retail projects, which promote jobs and provide retail in underserved communities, as well as “Green” and sustainable development to reduce the environmental impact of buildings. Cherie or I would be happy to help arrange a visit with one of Impact's developers or management to understand better their financial and social objectives.

Similarly, I would be happy to help arrange an opportunity for you to meet with ShoreBank or our other domestic community investing partners. A visit to ShoreBank on Chicago's South Side may give you a feel for the social impact of our Community Bank Deposit Investment Program. If possible, I also encourage you to visit a branch of ProCredit Bank for a first-hand look at how responsible banking in developing countries can contribute to economic development as part of our Global Microfinance Investment Program.

I appreciate your continuing interest in our work. Ideas and proposals from you and other participants inform our community investing programs. Please don't hesitate to contact me if you would like to discuss these programs or have additional questions.

Sincerely,



Cc: Helen Alexander, Managing Director, ProCredit Holding AG
Shari Barenbach, Executive Director, Calvert Foundation
John Biebel, Director, Calbre Advisory Services (& Investors Circle Board Member)
Jesse Chancellor, Consultant, Calvert Foundation
Marjorie Fine-Knowles, Professor of Law, Georgia State University (TIAA Trustee and
Co-Chair of the Corporate Governance and Social Responsibility Committees
at TIAA-CREF)
Elizabeth Glenshaw, Director of Community Investment and Industry Development,
Calvert Foundation
Jean Pogge, Executive Vice President, ShoreBank Corporation
James M. Poterba, Mitsui Professor of Economics, MIT (CREF Trustee and
Co-Chair of the Corporate Governance and Social Responsibility Committees
at TIAA-CREF)
Steve J. Schueth, President, First Affirmative Financial Network
Dan Sheehey, CEO, Impact Community Capital LLC
Tim Smith, Director of Socially Responsive Investing, Walden Asset Management
John Taylor, President and CEO, National Community Reinvestment Coalition
Lisa Woll, Chief Executive Officer, Social Investment Forum