

TARGET DATE FUND COMMENTARY 3RD QUARTER, 2021

CHARLIE MACBAIN

ANALYST, MANAGER RESEARCH

Our mission is to enrich the lives of our clients, colleagues and communities through sound financial advice, integrity, and commitment to service beyond expectation.



TIAA-CREF LIFECYCLE

MEETING DATE: OCTOBER 21, 2021

FOCUS AREA

Organizational Update

COMMENTARY

There were no changes to the target date portfolio management team during the quarter.

Investments Update

COMMENTARY

As we wrote last quarter, we have been expecting TIAA-CREF to increase the amount of international equity in the Lifecycle series, moving the U.S./non-U.S. split from 70%/30% to 65%/35%. TIAA-CREF officially announced this change on September 30, 2021 and completed the change on October 15, 2021.

This change does not affect our view of either the TIAA-CREF Lifecycle series.

The firm's most recent long-term capital market assumptions lowered expected returns for U.S. equities while international equity expected returns were more stable, making them more attractive. As a result, the team began researching a larger allocation to non-U.S. equities in the target date funds.

This change reflects a trend we have observed across the target date and broader asset management industry. Several of TIAA-CREF's largest peers in the target date universe have increased their international equity exposures in recent years. Given the outperformance of U.S. equities over the past several years, many asset managers are now forecasting better returns in international markets.

In addition, the Lifecycle team replaced the TIAA-CREF Large-Cap Growth Index strategy with the Nuveen Growth Opportunities ETF in the large-cap equity portfolio of the Lifecycle target date series.

The target date team had added TIAA-CREF Large-Cap Growth Index to Lifecycle in Q4 2020 as an interim replacement for TIAA-CREF Quant Large-Cap Growth, which was liquidated.

The Nuveen Growth Opportunities ETF was recently launched by the firm and is managed by Karen Hiatt, who joined Nuveen in 2021 from Allianz Global Investors.

The Lifecycle team added Nuveen Santa Barbara Dividend Growth to the watch list in the third quarter. The strategy has been lagging peers over the past 12 months and this pushed its quantitative and due diligence scores into the on-watch range. The team will continue to monitor the strategy for improvement over the next year before deciding to hold or replace it.

Nuveen Dividend Value and Nuveen International Growth remain on watch. Nuveen Dividend Value was added in Q1 2021 and Nuveen International Growth was added in Q2. Both strategies have a year from the date they were added to the watch list to show improvement before the Lifecycle team decides to hold or replace them.



TIAA-CREF LIFECYCLE

MEETING DATE: OCTOBER 21, 2021

FOCUS AREA

Performance and Positioning Update

COMMENTARY

TIAA-CREF Lifecycle Performance Update:

The TIAA-CREF Lifecycle series had mixed results relative to peers and the benchmark in the third quarter.

- Relative to peers, the series further-dated vintages from 2040 – 2065 underperformed peers while the near-dated vintages from 2010 – 2035 outperformed.
- The primary reason for this difference in performance is how TIAA-CREF accounts for its allocation to private real estate.
- In the further-dated vintages, it is sourced from the fixed income portfolio, giving those vintages a larger equity allocation. This weighed on results as most equity markets were negative during the quarter.
- The series also experienced broad underperformance by its equity managers, which further detracted from results.
- In the near-dated vintages, the private real estate position is sourced from the equity portfolio, giving those vintages a slightly higher fixed income allocation, which helped relative performance given the weakness in equities.
- In addition, the private real estate portfolio produced solid returns during the quarter, which helped the near-dated vintages outperform, but was not enough to offset losses from the series' equity managers in the further-dated vintages.
- Relative to the benchmark, Lifecycle's underlying equity managers were the main detractors from performance.
- TIAA-CREF Emerging Markets Equity and TIAA-CREF Large-Cap Growth struggled the most during the quarter.
- Emerging Markets Equity was hampered by difficult environment stemming from increased regulatory uncertainty in China and delayed re-openings in many emerging economies.
- Large-Cap Growth was also weighed down by Delta variant concerns along with unfavorable stock selection in the consumer discretionary, communication services, and information technology sectors.

Positioning Update:

The Lifecycle team opened an overweight to non-U.S. equities relative to U.S. equities in June 2021. The position was based on more attractive valuations overseas and the belief that U.S. growth had peaked while growth in other regions was still accelerating. The team closed this position at the end of the third quarter as it was no longer necessary following the increase in the series' strategic international equity allocation.

There are currently no other tactical positions in the portfolio.

Note: Benchmark relative performance refers to the series' performance compared to the S&P Target Date Indices.



TIAA-CREF LIFECYCLE INDEX

MEETING DATE: OCTOBER 21, 2021

FOCUS AREA

Organizational Update

COMMENTARY

There were no changes to the target date portfolio management team during the quarter.

Investments Update

COMMENTARY

As we wrote last quarter, we have been expecting TIAA-CREF to increase the amount of international equity in the Lifecycle Index series, moving the U.S./non-U.S. split from 70%/30% to 65%/35%. TIAA-CREF officially announced this change on September 30, 2021 and completed the change on October 15, 2021.

This change does not affect our view of either the TIAA-CREF Lifecycle Index series.

The firm's most recent long-term capital market assumptions lowered expected returns for U.S. equities while international equity expected returns were more stable, making them more attractive. As a result, the team began researching a larger allocation to non-U.S. equities in the target date funds.

This change reflects a trend we have observed across the target date and broader asset management industry. Several of TIAA-CREF's largest peers in the target date universe have increased their international equity exposures in recent years. Given the outperformance of U.S. equities over the past several years, many asset managers are now forecasting better returns in international markets.

Note: Benchmark relative performance refers to the series' performance compared to the S&P Target Date Indices.



TIAA-CREF LIFECYCLE INDEX

MEETING DATE: OCTOBER 21, 2021

FOCUS AREA

Performance and Positioning Update

COMMENTARY

TIAA-CRE Lifecycle Index Performance Update:

The TIAA-CREF Lifecycle Index series had mixed performance in the third quarter, outperforming peers, but underperforming the benchmark.

- Relative to peers, Lifecycle Index's larger exposure to U.S. equities was the primary driver of outperformance as the U.S. outperformed foreign markets during the quarter.
- The series' dedicated allocation to TIPS also helped performance.
- Relative to the benchmark, Lifecycle Index was held back by its emerging markets equity position.
- While the series has a smaller overall international equity allocation, it is overweight emerging markets compared to the benchmark.
- This weighed on results as emerging markets underperformed broader international markets.
- The series' exclusion of high yield debt also detracted from performance as high yield performed well driven by investors' search for yield, despite the risk-off environment at the end of the quarter.

There were no changes made to the series' strategic asset allocation during the quarter.

Note: Benchmark relative performance refers to the series' performance compared to the S&P Target Date Indices.

