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Think EQuilibrium

Climate of change: 2022 Global institutional investor study

Finding balance amid momentous shifts in markets, the environment and society

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Welcome to Nuveen's second annual EQuilibrium survey.

Our global research is designed to uncover new insights about the challenges and opportunities facing institutional investors and consultants.

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Markets

Investors brace for new market paradigms

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Climate

Widespread recognition of climate impact is changing how institutions build portfolios

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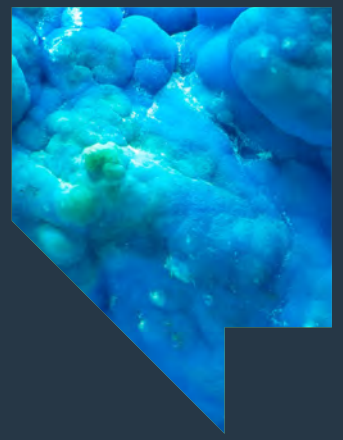

03

Social

Investors are progressing social impact on many fronts

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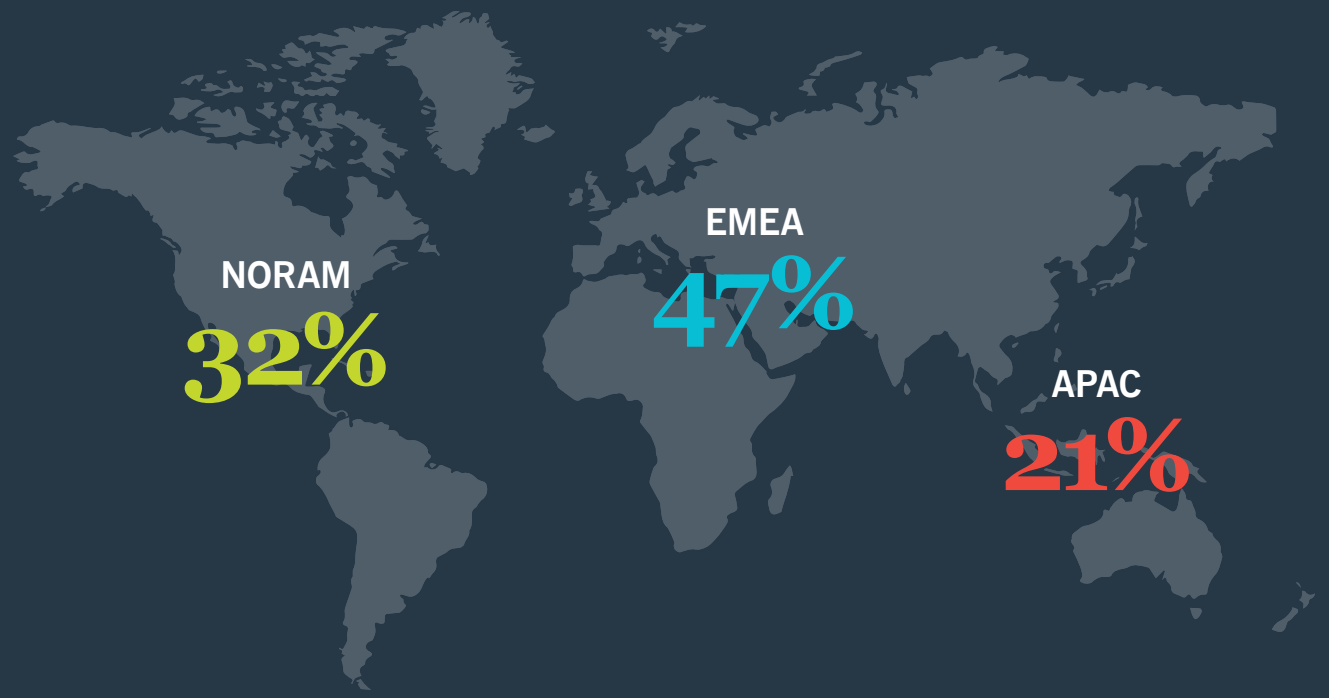
Survey demographics overview

- **Region** ▶
- **Respondents**
- **Asset owner AUM**



About this year's survey:

800

Global institutional investors and consultants
Decision-maker roles only

$500M+

Asset levels
All respondents represented funds of at least $500M

±3.5%

Margin of error at a 95% confidence level
Fielded by CoreData from October to November 2021

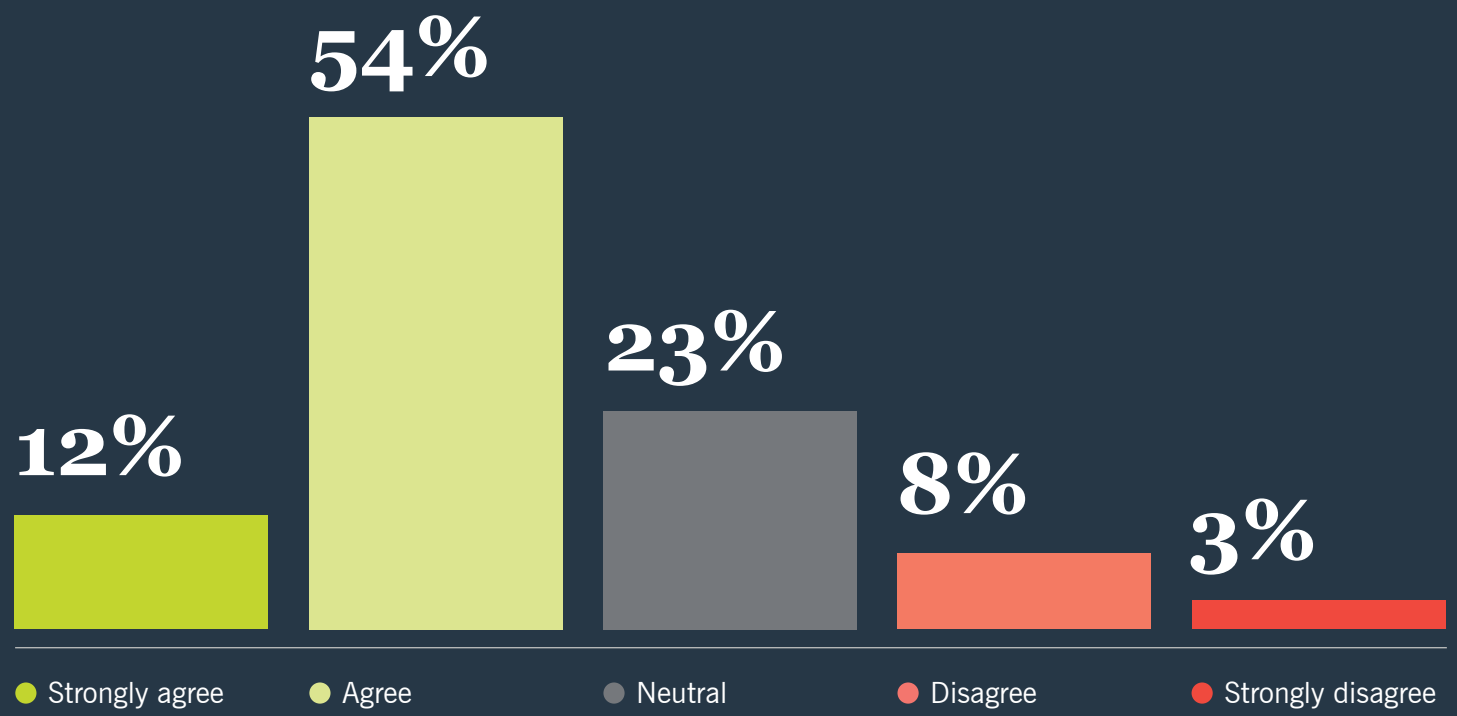
Investors globally are trying to find balance as fundamentals shift

The climate is changing—and this shift is about much more than just the weather. Our survey found that asset owners and consultants are reexamining traditional approaches to investing as they grapple with highly volatile markets, rising inflation, tightening monetary policy, ongoing disruptions from a global pandemic and increased awareness of social inequality.

New realities beckon a shift in strategy

Figures may not sum to 100 due to rounding.

I am more concerned today than I was two years ago about the possibility of extreme events disrupting our investment strategies



Q: *Please indicate your level of agreement with these statements. Includes all 800 respondents.*

Over the last two years, the fundamentals of long-term market dynamics have increasingly lost their relevancy

Today, more than ever, there is a greater need for investors to completely re-think how they approach portfolio construction strategies

Dive deeper into differences among regions and investor types

To see additional data about how survey responses differed by region and investor type, as well as additional insights about the shifts facing investors, visit: Nuveen.com/equilibrium.

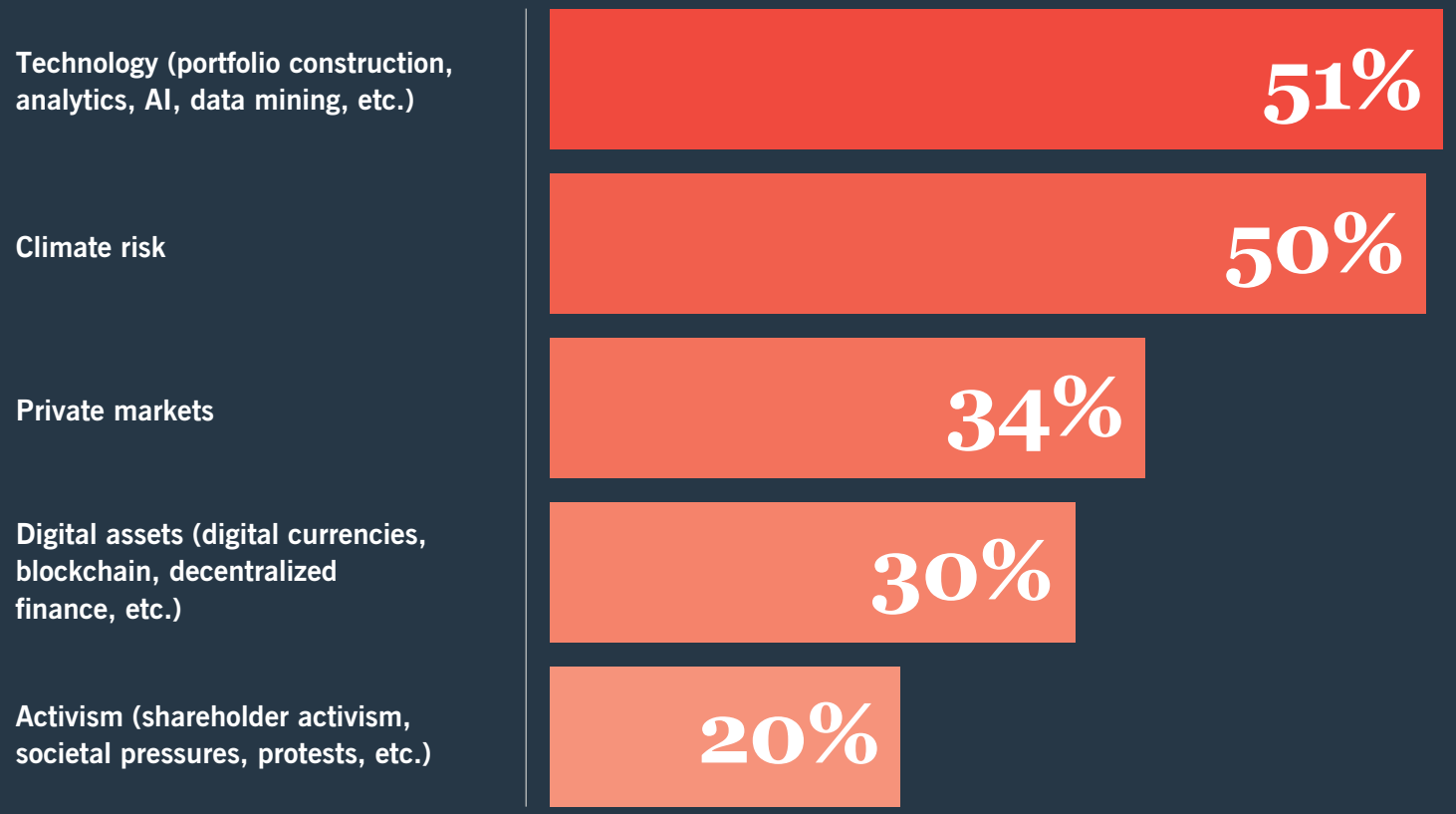
	Global views	Highlights from regions and investor types
Rethinking portfolio construction	Nearly two-thirds (64%) of investors say that today's markets impose a greater need for investors to completely rethink how they approach portfolio construction strategies.	An even higher percentage (74%) of APAC public pensions and insurance companies share this view. While this percent is generally lower in the Nordics, still, 45% of Nordic respondents agree and only 25% disagree.
Concern about extreme events	Two-thirds of investors (66%) are more worried now than they were two years ago about extreme events disrupting their investment strategies.	This concern is even higher in Japan, where 80% of respondents are more worried today than they were two years ago.
Eroding fundamental market dynamics	Just over half (51%) of investors say that fundamental long-term market dynamics have lost relevancy.	This percentage is even higher among insurance companies in the APAC (64%) and EMEA (65%) regions.

Climate risk is investment risk.

71%

of institutional investors agree with this statement

Climate risk and technology top the list of the most influential trends shaping institutional portfolios



Q: *Looking out longer-term (next five years), which of these emerging trends do you feel will be most influential for institutional investors' portfolios? Please select up to two. % Yes, multiple answers allowed. Includes all 800 respondents.*

Exploring the climate of change

Investors are adapting to this climate of change. Our survey shows that these efforts span from increasing investments in private assets to addressing the risks and opportunities of climate change in portfolios and incorporating diversity, equity and inclusion (DE&I) considerations into their internal hiring and manager selection.

I want systems to enable people like me, CIOs, to make better online, real-time decisions and improve portfolio efficiency and make portfolios more robust. … The array of instruments, particularly derivatives, is going to explode."

— Australia, public pension, CIO

Two to three years ago, [climate risk] wasn't even in our lexicon, when we talked about risk. Together with volatility and correlation, this is now the third axis in our risk framework, which didn't exist before. But it's not just about the risk. … We are trying to see this as a huge opportunity to go and assemble a portfolio that actually solves this problem and in the process also make money."

— U.K., public pension, CIO

Markets

Investors brace for new market paradigms

The market environment appears to be entering a different season, one defined by new patterns and regimes. In addition to the near-term challenges related to the COVID-19 pandemic and heightened geopolitical risks, investors are bracing for increased volatility, higher inflation and upward pressure on interest rates. These conditions reflect a fundamental change from what investors have experienced over the past several decades.

Against this backdrop, investors of all types increasingly are looking to private markets and other alternative asset classes to achieve daunting — and often competing — investment objectives.

As plan sponsors and asset allocators, we're tasked with achieving these lofty return expectations, north of 7%, all within the parameters of prudent risk management. Those two things are becoming incongruent. … It's challenging conventional wisdom, for sure."

— U.S., public pension, investment officer

Investors globally are focused on protecting against inflation ...

Nearly two-thirds of investors globally (61%) plan on increasing their efforts to mitigate inflation risk over the next 12 months, while only 12% of investors plan to decrease these efforts.

At the regional level, APAC asset owners appear to be the most aggressive in addressing inflation. Eighty-four percent of public/government pensions in the APAC region expect to increase their inflation-mitigation efforts, and 73% of all Australian investors expect to do so, as well.

... But views are split on other forms of risk

Institutions globally are much more split on their plans for the coming year. Roughly the same amount are planning to increase risk in these areas as are planning to decrease risk.

That said, several regions and investor types have more pronounced views toward non-inflation risks. For example, 43% of German and Nordic investors plan to take on more credit quality risk (with only 29% and 23%, respectively, planning to decrease this risk), and 48% of North American investors plan to increase liquidity risk (with only 27% decreasing this risk).

Inflation risk mitigation

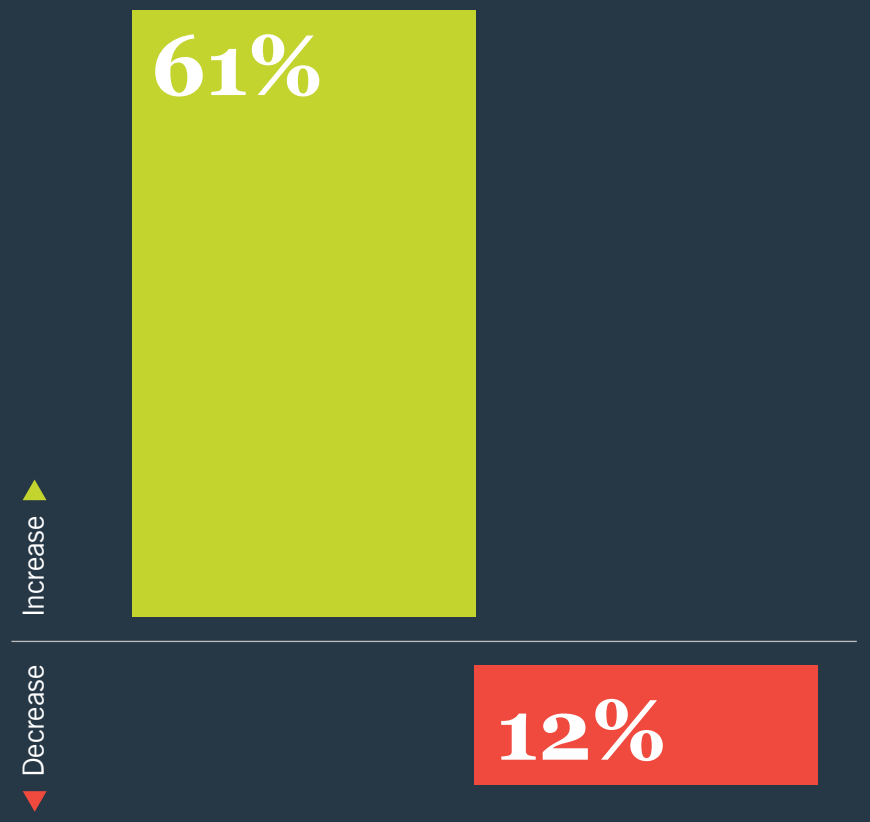
Liquidity risk

Credit quality risk

Market risk

Q: *In the next 12 months, which of these portfolio changes is your organization likely to take/are most likely for your institutional clients? Includes all 800 respondents.*

Inflation a concern, investors divided on other risks



Separating structural from transitory inflation risks

Despite widespread agreement about the need to address inflation over the next 12 months, the effects of the pandemic and the resulting monetary responses have made it difficult for investors to discern how long inflation will remain a concern.

We think long term, and I'm a firm believer that the inflationary concerns right now are not long-term issues. They're concerns for the next six to 18 months, and then we'll go through a period where it's a concern that there's a deflationary issue going on."

— U.S., public pension, investment officer (sustainable investing – ESG integration)

We have had a long period of very low bank rates and that seems to be coming to an end with inflation now rising. It does feel as though things are changing in that sense. At the same time, you need to disentangle the impact of the pandemic and what that means."

— U.K., endowment and foundation, head of investments

The march into alternatives intensifies

While real estate and private equity remain the two alternative asset classes most used by institutional investors, private credit is rapidly closing the gap. Seventy-two percent of institutions now own private credit, up from 62% last year; this increase of 10 percentage points is the largest year-over-year increase of any alternative asset class included in our survey. Furthermore, 31% of institutions plan on increasing their allocations to private credit over the next two years, a testament to the relative attractiveness of private credit in a low-rate, inflationary environment.

Majority investing in alternatives

Q: *Does your organization currently invest in alternatives? Includes 700 asset owners.*

83% Currently investing

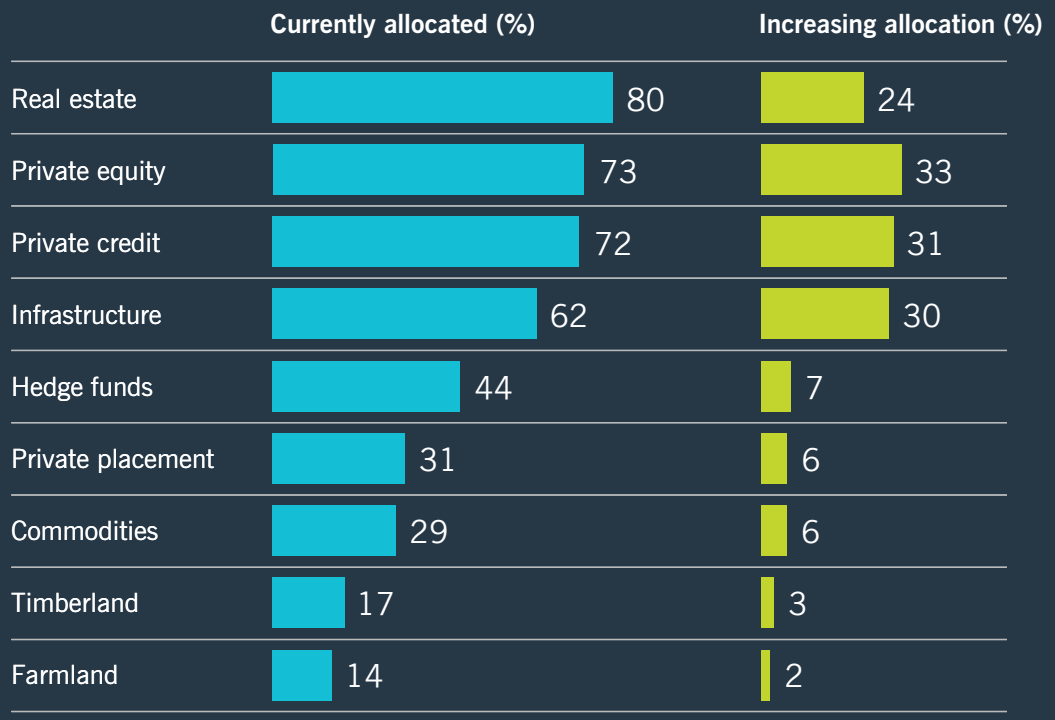
8% Not investing, but planning to in the next 12 months

9% Not invested, and do not plan to in the next 12 months

Private credit sees biggest year-over-year increase in current allocations

2021 ▸

2020



Q: *Please select the alternative investments you are currently allocated to and which alternatives you plan to increase allocations to in the next two years. 2020 includes 537 asset owners investing in alternatives. 2021 includes 583 asset owners investing in alternatives. % Yes, multiple answers allowed.*

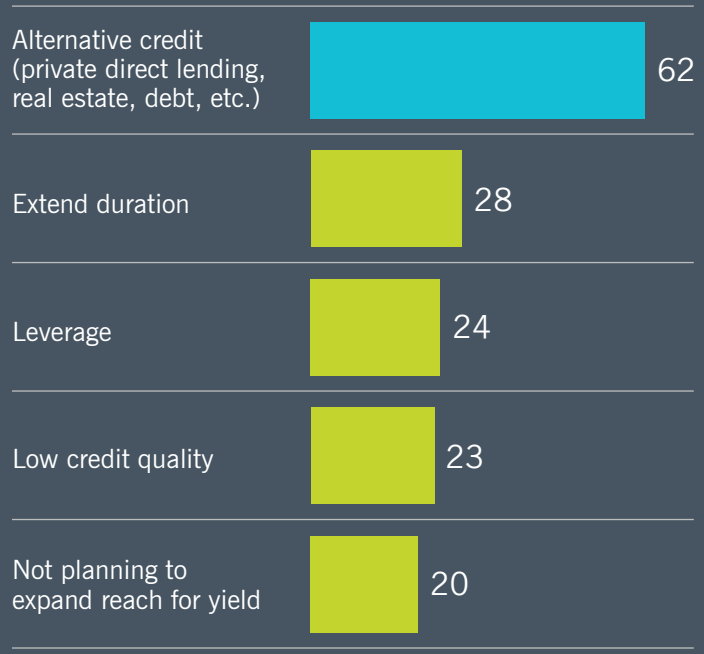
Investors' search for yield centers on private credit

An environment of low yet rising interest rates and high inflation can make middle-market loans, infrastructure debt, real estate debt and other forms of private credit particularly attractive.

Once upon a time, sovereign bonds used to be classed as risk-free return. I now class them as return-free risk. We are holding less in sovereign bonds and less in high-quality debt, and we are looking at credit alternatives, such as emerging market debt and private credit."

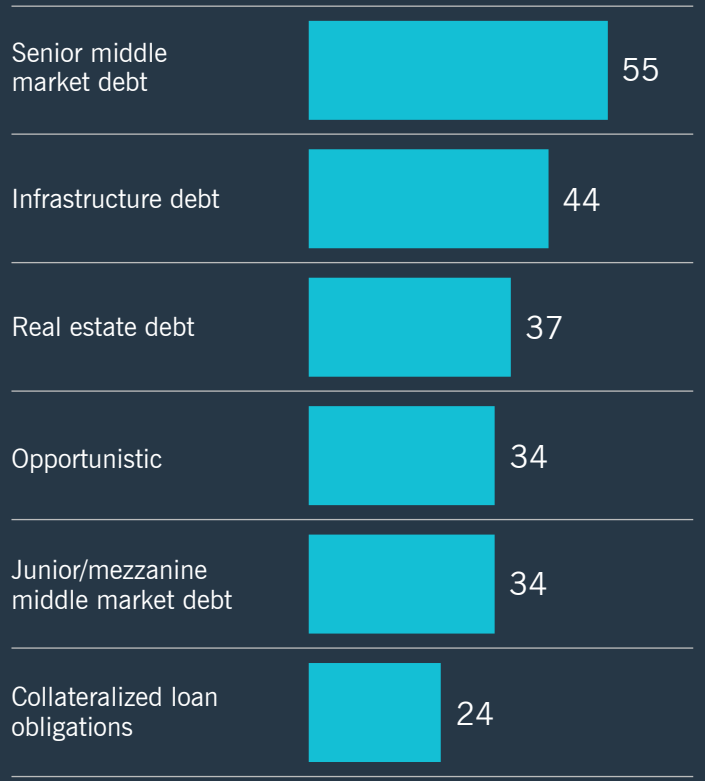
— Australia, public pension, CIO

Expanding reach for yield (%)



Q: *In the next two years, how does your organization plan to expand its reach for yield/how do you anticipate your clients will be expanding their reach for yield? Multiple answers allowed; includes all 800 respondents.*

Private credit investment (%)



Q: *Please indicate where your organization plans to allocate to private credit/those areas where you anticipate an increase in allocations in the next two years. Multiple answers allowed; includes 430 asset owners.*

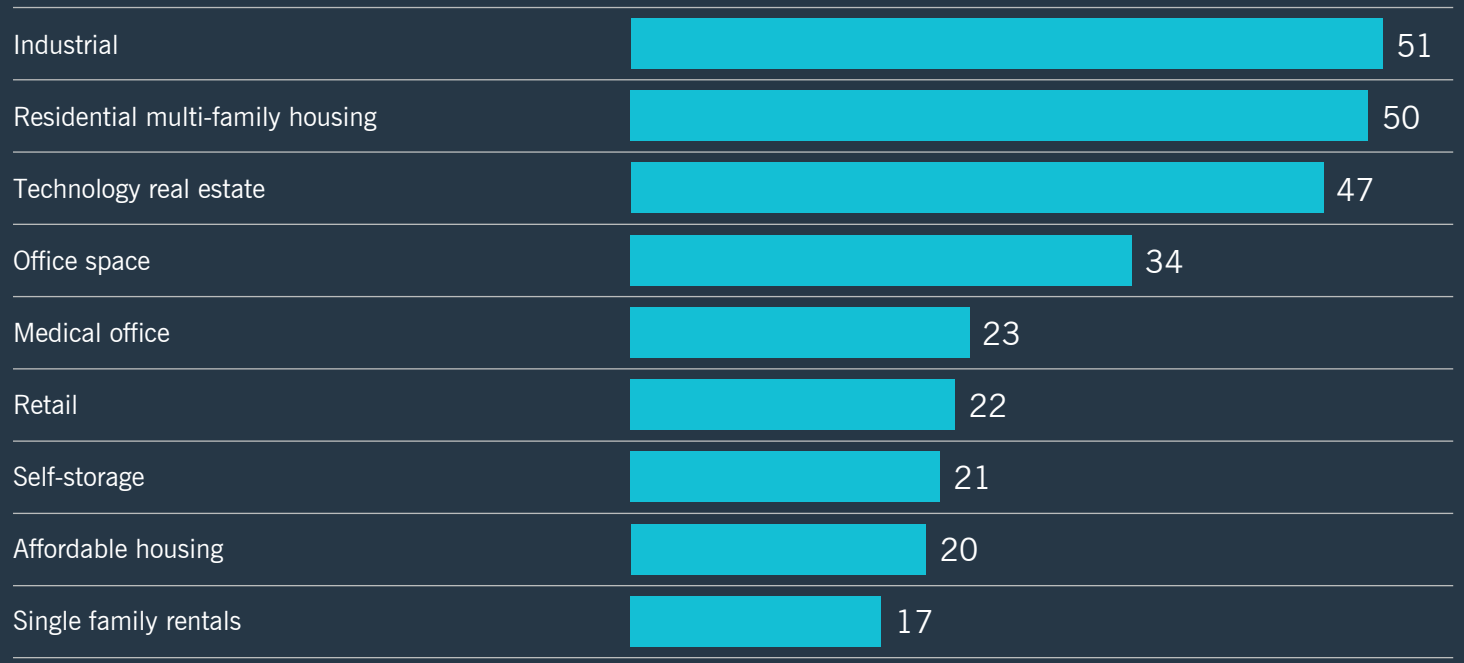
Where investors are searching for opportunity in private real estate

Real estate is the most commonly held alternative asset class, with 80% of institutions currently holding the asset class. Nearly a quarter of asset owners plan to increase their private real estate allocations in the next two years. While industrial and residential topped the list, 69% of investors picked at least one of the more niche alternative real estate segments, including technology, medical office, self-storage, affordable housing or single family rentals.

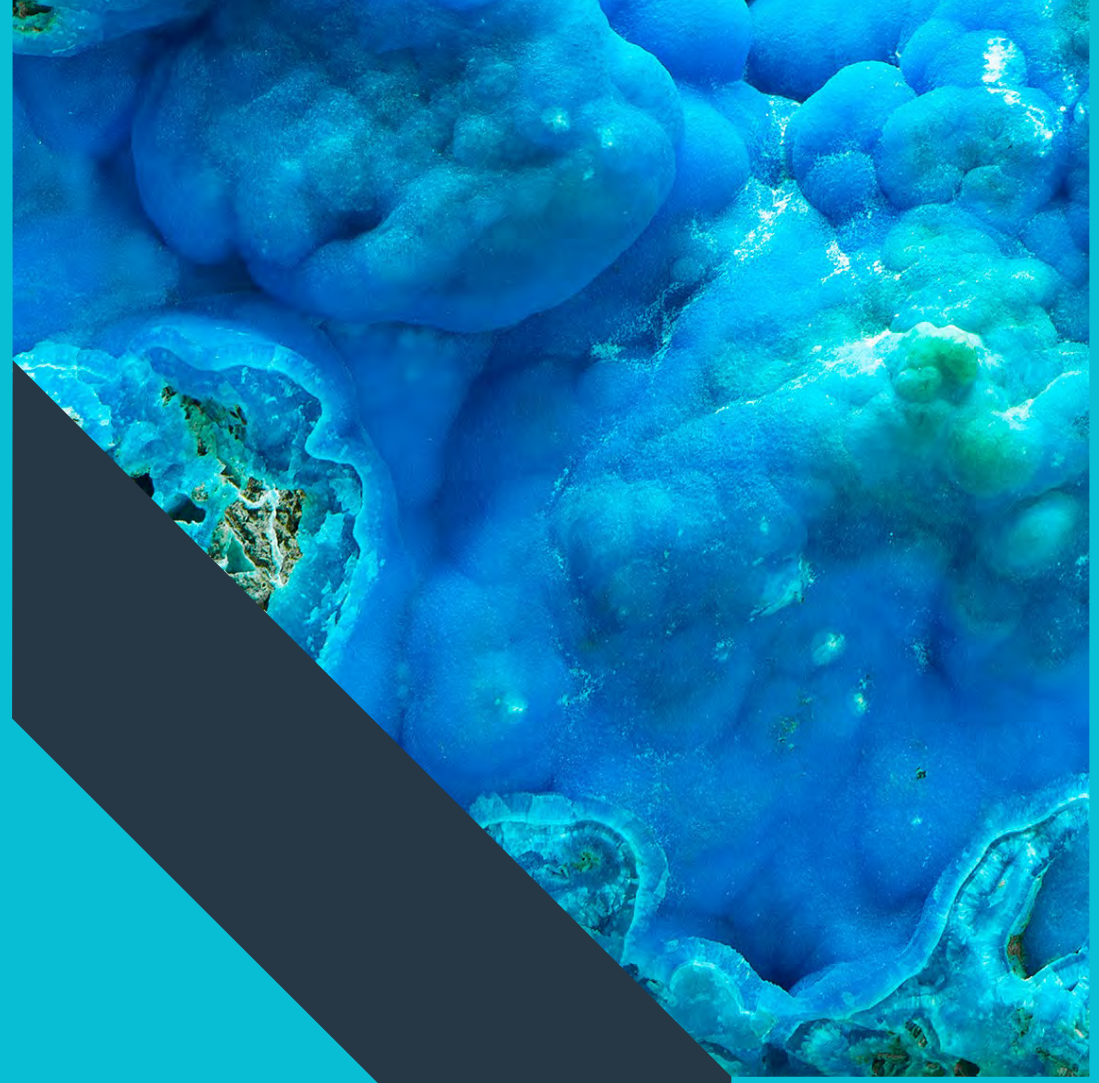
Multifamily housing is certainly attractive in certain markets, but with real estate, it is always about location. So, we're looking in specific markets for specific types of assets."

— U.S., public pension, investment officer (sustainable investing — ESG integration)

Private real estate targets (%)



Q: *You indicated your organization is planning to invest or is currently investing/increasing investments in real estate. Please indicate where your organization plans to allocate to real estate in the next two years. Includes 497 asset owners planning to invest or currently investing/increasing investments in real estate. % Yes, multiple answers allowed.*



Climate

Widespread recognition of climate impact is changing how institutions build portfolios

This year's survey results confirm what has been a palpable sense across the asset management industry: momentum has never been stronger for addressing climate change and confronting the risks and opportunities related to the transition to a low carbon economy.

While there is widespread recognition of climate risk as an investment risk, there are significant differences in how institutional investors are addressing climate change in their portfolios.

What investors are saying:

U.K., endowment and foundation, head of investments

U.K., public pension, CIO

U.S., corporate pension, CIO

It goes beyond thinking about reputational risk. There is an inherent danger in not taking into account the effects of climate in the future on portfolios and investments."

Money is being pulled away from 'old' or traditional industries to new, innovation-focused industries. Everything related to reducing energy consumption, finding new ways of transforming industries — and that also offers opportunities."

— Germany, corporate pension, head of investments

Low carbon transition presents enormous risks — and opportunities

The overwhelming majority of survey respondents agree that climate risk is investment risk (71%) and that the transition to a low carbon economy is inevitable (79%). An even higher percentage (86%) agree that the transition to a low carbon economy will present new opportunities.

Clearly, investors are recognizing that navigating the low carbon transition requires playing both defense and offense. Investors are looking to protect their portfolios from threats posed by stranded assets, more expensive energy prices from clean sources, disruptions to business activity and other direct and indirect consequences of climate change. In addition, investors are identifying ways to invest in technologies, infrastructure and other assets that will be necessary to facilitate the transition to a low carbon economy.

73% of institutions that invest in private infrastructure plan on allocating to clean energy in the next two years, the highest of any type of infrastructure

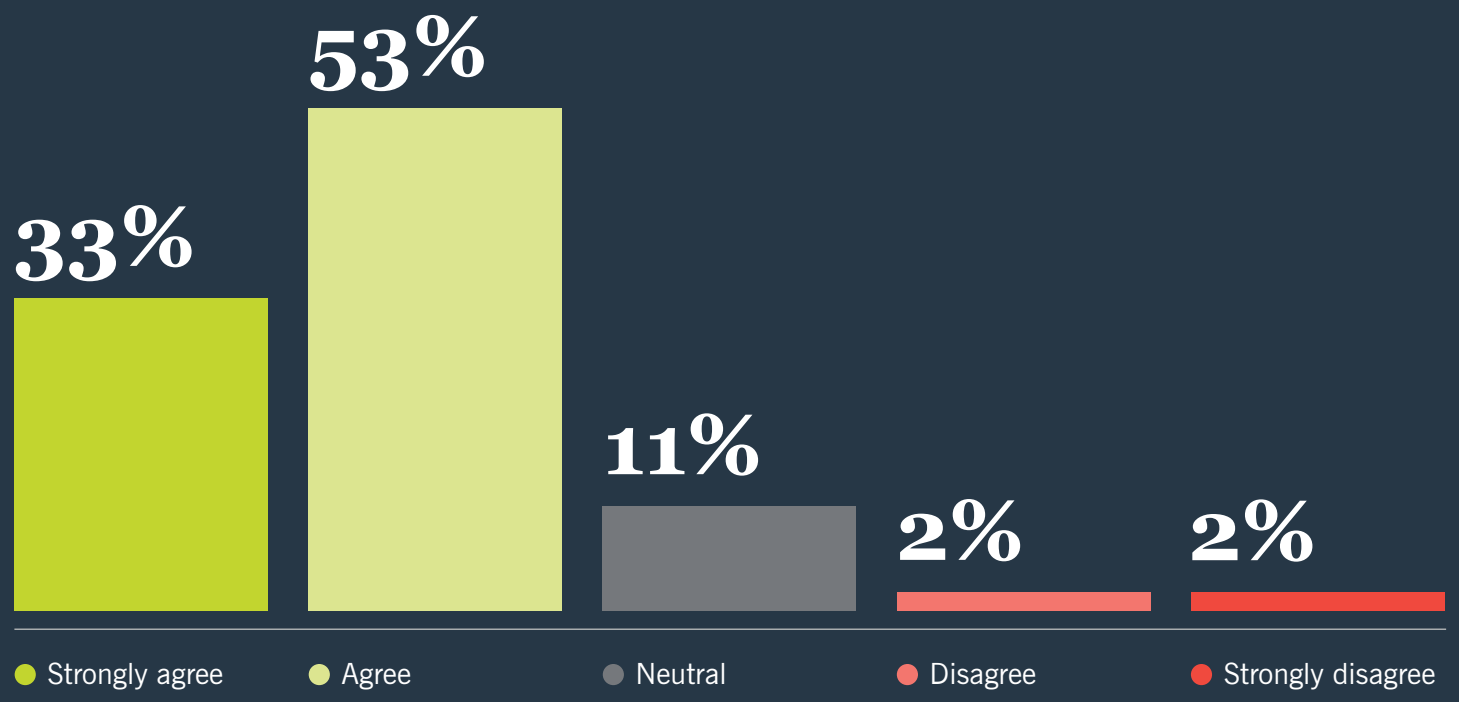
The transition to a low carbon economy will present new investment opportunities

The transition to a low carbon economy is inevitable

Climate risk is investment risk

Majority of institutions agree on climate risk and opportunity

Figures may not sum to 100 due to rounding.



Q: *Please indicate to what extent your organization would agree or disagree with the statements on the left. Includes all 800 respondents.*

Investors are setting their climate intentions

Survey responses indicated that investors are focused on balancing traditional tactical allocation needs with longer-term systemic changes.

We need to stay engaged with the companies that are involved with this transition, so we don't think that divestment is a valid approach. With divestment, you give up your seat at the table."

— U.S., public pension, investment officer (sustainable investing – ESG integration)

The reason why we do some impact investment is so that we can go beyond net zero, hopefully making a positive contribution to the carbon issue, rather than just making bold claims about being net zero."

— U.K., endowment and foundation, head of investments

Percent of asset owners that are taking these climate-related actions currently or plan to do so in the next two years

79%	Addressing climate risk in portfolios	90%
72%	Making a commitment to net zero carbon emissions	82%
80%	Defining climate objectives and a roadmap	
72%	Setting climate targets	

Insurance companies are moving more quickly:

Across several climate-related measures, insurance companies are moving faster than other types of institutional investors.

ESG integration continues gaining broader adoption

ESG integration is driven by multiple factors, including investors' concerns about reputational risk and a desire to achieve better risk-adjusted returns.

Data quality remains a barrier to more effective ESG integration. But regulatory changes and ongoing enhancement to the precision, consistency and transparency of ESG data — as well as more cohesion around how to properly map ESG to factors that materially affect a company's performance — should continue to propel further ESG integration.

ESG has become mainstream

The overwhelming majority of asset owners (87%) consider ESG factors when making investment decisions or plan to within the next year.

U.S. still lags in ESG integration, but momentum is building

The U.S. lags in ESG integration compared to other regions. Still, nearly three in four U.S. investors indicate that they currently integrate ESG into their investment processes or plan to do so in the next two years, indicating that momentum may be building in the U.S.

Impact and optics matter

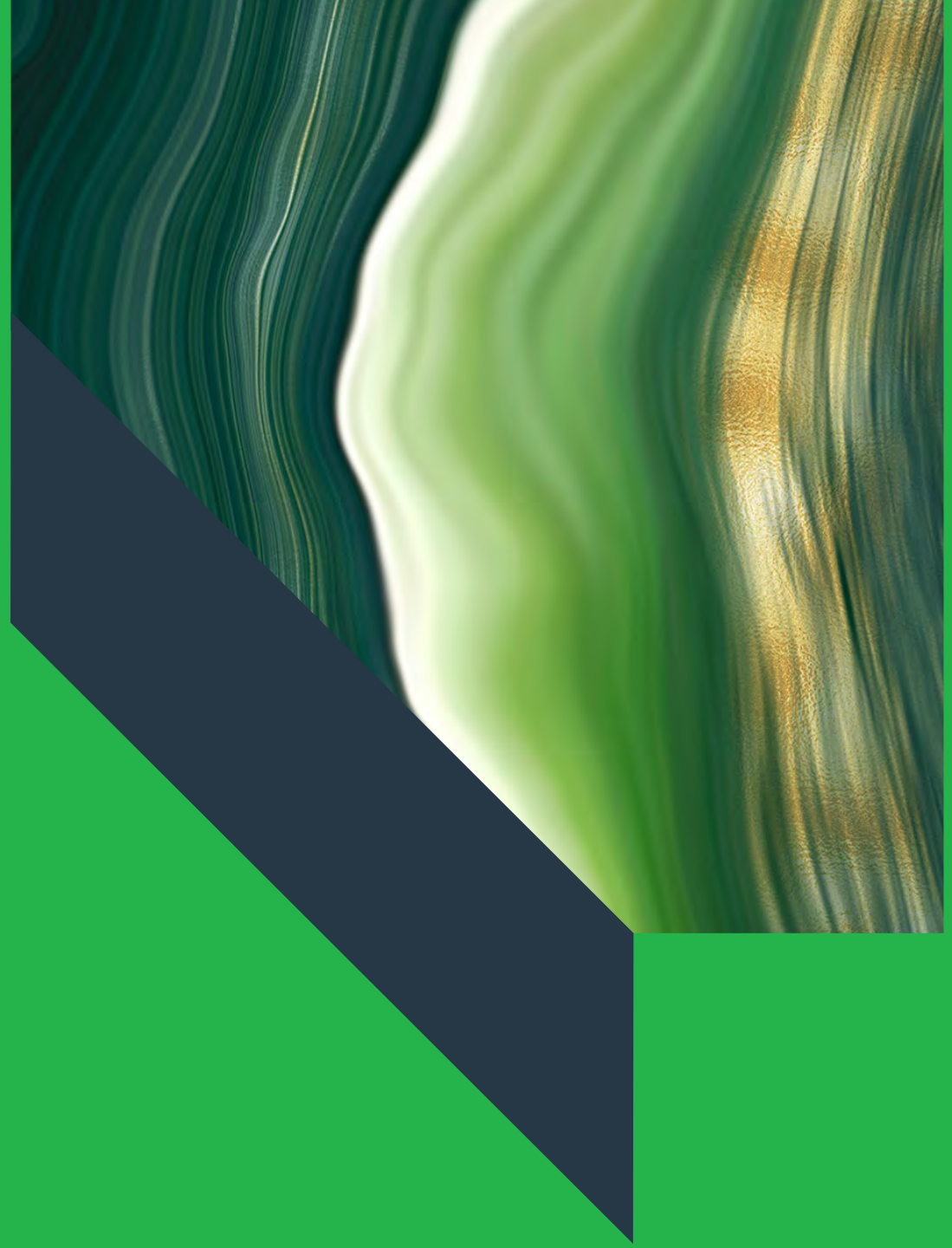
Reputation or headline risk and doing good while also investing well were named by asset owners as the most common primary motivations for ESG investing. One in three asset owners also cited stakeholder pressure as a motivation.

ESG data needs to definitely be at a different level. And it has to be more actionable and more consistent if this is to make sense for someone in my position."

— U.K., public pension, CIO

The next frontier, or the next big thing in ESG, is that we are going to stop talking about the three letters ESG. We will mainline all the things that are good in ESG into the investment process. Instead of having a bunch of ESG people over here and a bunch of investment people over there, we will see ESG as a good thing to do all the time."

— Australia, public pension, CIO



Social

Investors are progressing social impact on many fronts

More than half (52%) of survey respondents agree that investors can impact social inequality through investment choices. And investors today are addressing inequality in multiple ways.

For some institutions, this involves adding impact investments that address specific social causes to their portfolios. For others, it means incorporating DE&I practices into how they build their internal teams or select outside managers. In addition, investors increasingly are focused on the interaction of environmental and social investment decisions.

What investors are saying:

U.K., endowment and foundation, head of investments

U.S., public pension, investment officer

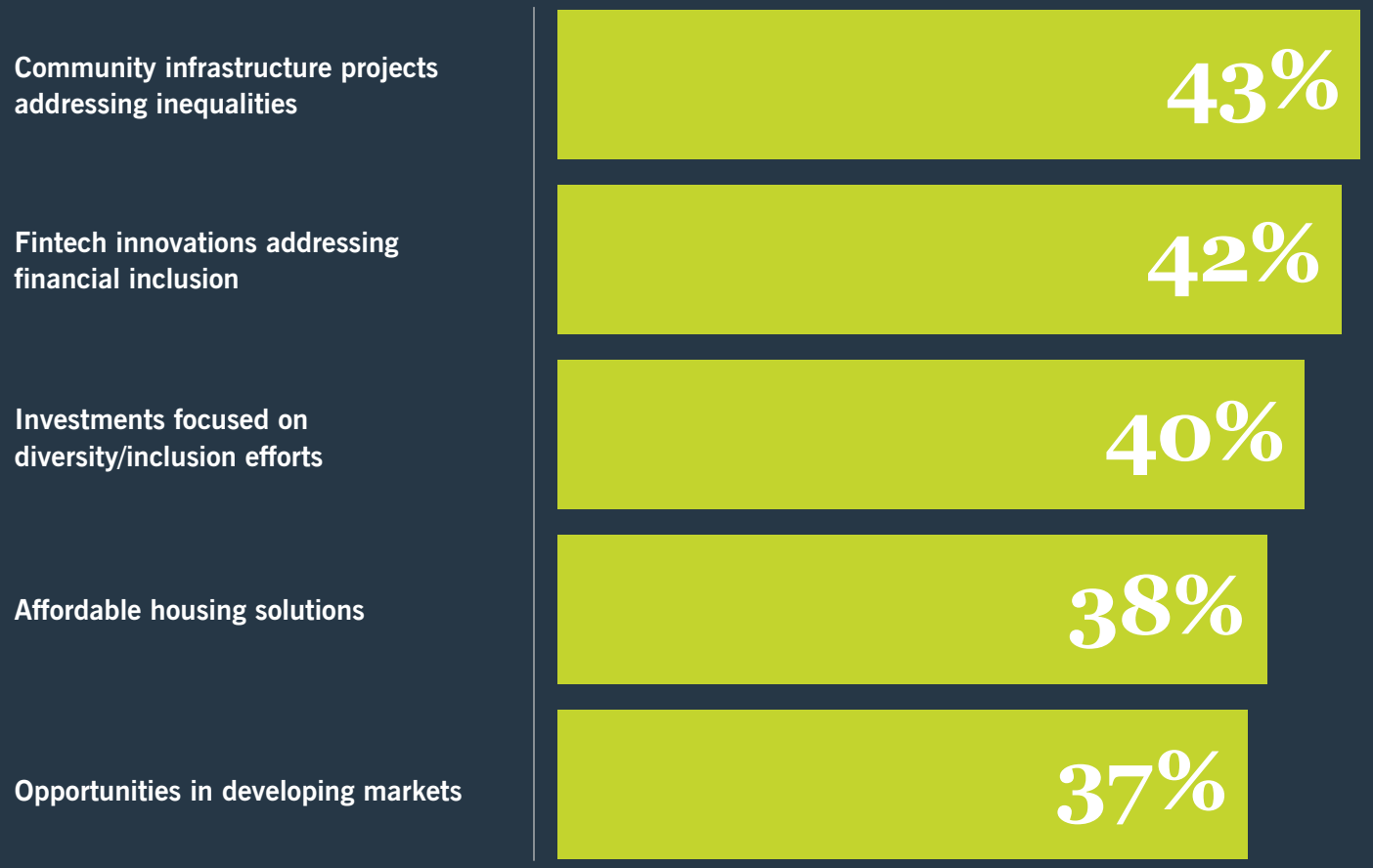
We are so focused across the portfolio on reducing our carbon emissions, and that generally means you are putting more and more money into tech. That can have a negative effect on social in terms of body consciousness, cyber-bullying and all the rest of it. You are improving your E score but potentially decreasing your S score."

Impact investing: where institutions are looking to invest in change

The maturation of the impact investing sector allows institutions more opportunities to direct capital to specific, measurable social and environment outcomes.

Approximately half (49%) of asset owners currently invest in social investments or plan to do so in the next two years. These institutions are exploring a vast array of opportunities, including community infrastructure projects, fintech innovations addressing financial inclusion, DE&I-focused investments and affordable housing.

Investable impact opportunities



Q: *Please indicate which of these are investable opportunities your organization is invested in, or will consider investing in, over the next two years? Includes 300 asset owners currently investing or planning to invest in social investments. % Yes, multiple answers allowed.*

Insurance companies show the greatest focus on social investing and DE&I

Given the nature of their underwriting risks, it is not surprising that, of all types of asset owners, insurance companies showed the greatest sensitivity to climate risk. What defies such a simple, financially driven explanation, however, is the fact that insurance companies also indicate having the strongest commitment to social investing and DE&I.

Compared to the average for all types of asset owners, insurance companies showed:

More appetite for investing in or planning to invest in social investments

64%

vs. 49%

average for all investors

Stronger belief that investors can impact social inequalities through investment choices

61%

vs. 51%

average for all investors

Greater likelihood to consider DE&I in investment manager selection

68%

vs. 54%

average for all investors

Investors increasingly use DE&I metrics to build stronger internal teams

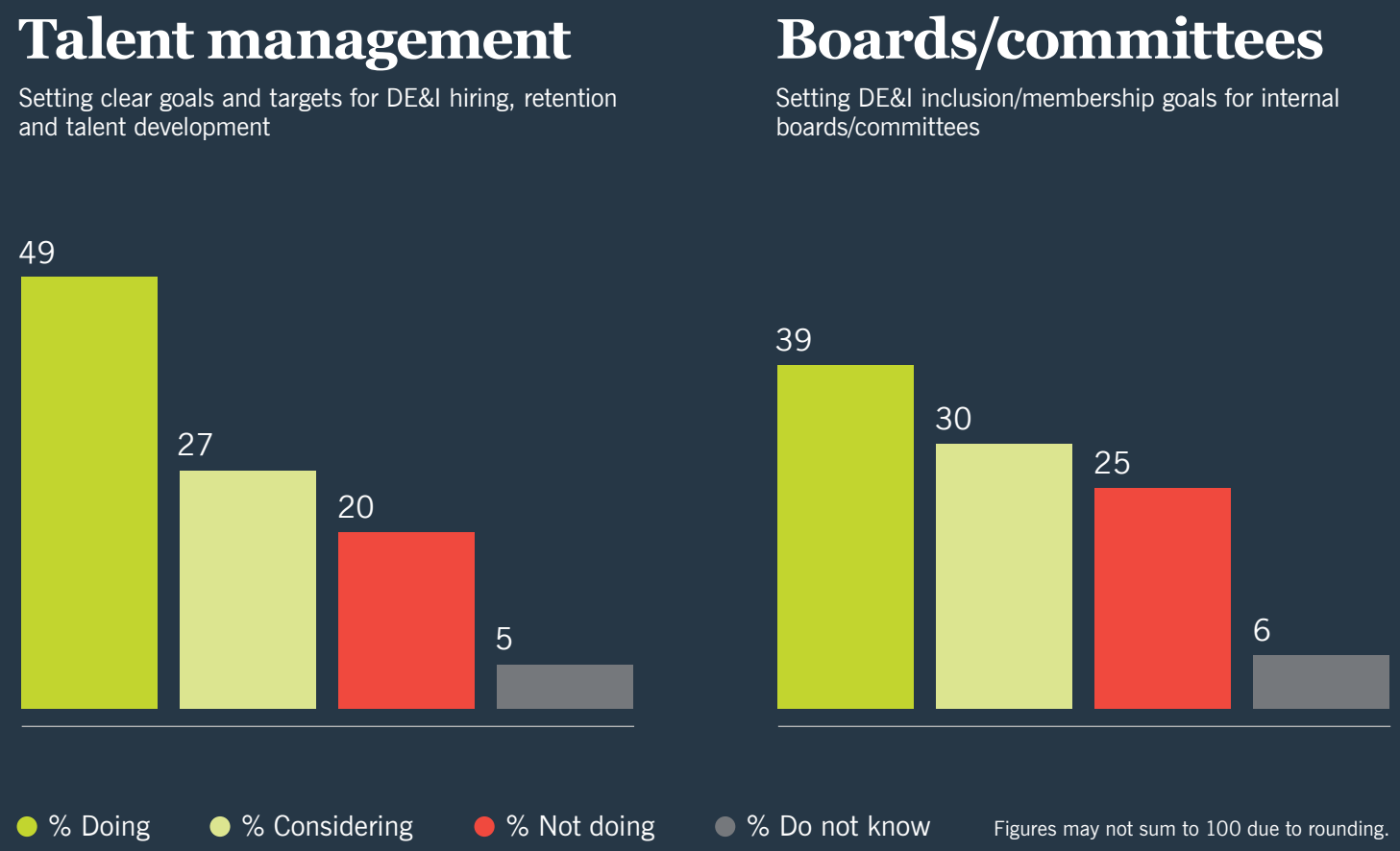
This coincides with a heightened awareness of the business risks that the lack of diversity and inclusion in the workplace can pose, as well as the potential benefits of a diverse workforce in terms of innovation and financial problem-solving.

DE&I initiatives are taking place at all levels of the organization. From adding diversity to the boardroom to attracting and developing diverse talent, most survey respondents indicated that they are currently setting DE&I goals or are considering doing so.

It comes from the top — having different viewpoints at the board level is what you need more of, and that is not going to happen in the next six months. It's a 10- to 20-year kind of journey, but that's where it needs to start."

— U.K., public pension, CIO

Institutions setting internal DE&I goals at all levels



Figures may not sum to 100 due to rounding.

Q: *Please indicate how your organization is engaging with the following efforts. Includes all 800 respondents.*

DE&I metrics influence investment decision-making

In addition to recognizing the benefits of setting DE&I goals for their internal hiring efforts, many investors are incorporating diversity considerations into their manager selection and investment decision-making. Nearly two-thirds (62%) of respondents agree that a diverse team of portfolio managers delivers better investment outcomes.

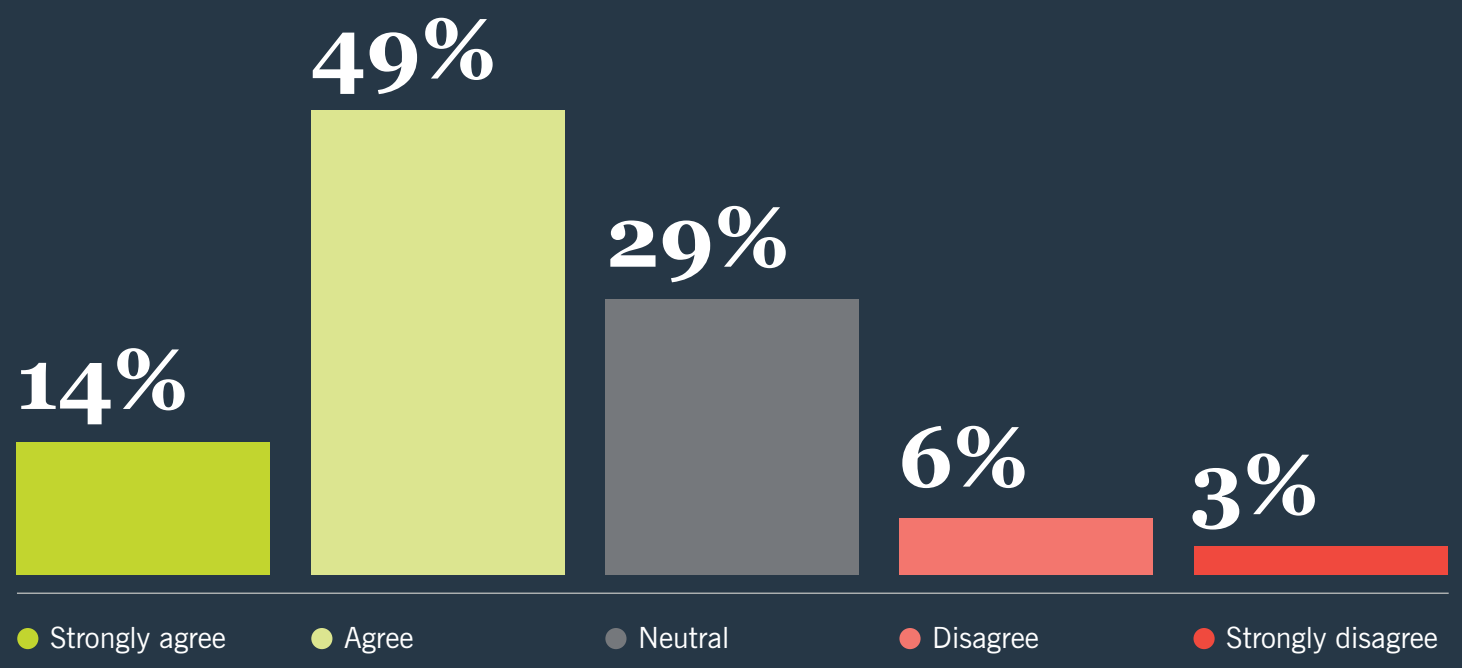
When you talk about diversity, you have to be very careful that you get true diversity, not just what percentage of women are in the fund manager's workforce. ... Diversity of thought leads to better decision-making."

— Australia, public pension, CIO

Beliefs that diversity impacts investment outcomes

Figures may not sum to 100 due to rounding.

A diverse team of portfolio managers delivers better investment outcomes (diverse meaning different backgrounds, genders, racial, etc.)



Q: *Please indicate your organization's level of agreement with the statement. Includes all 800 respondents.*

How DE&I informs manager selection

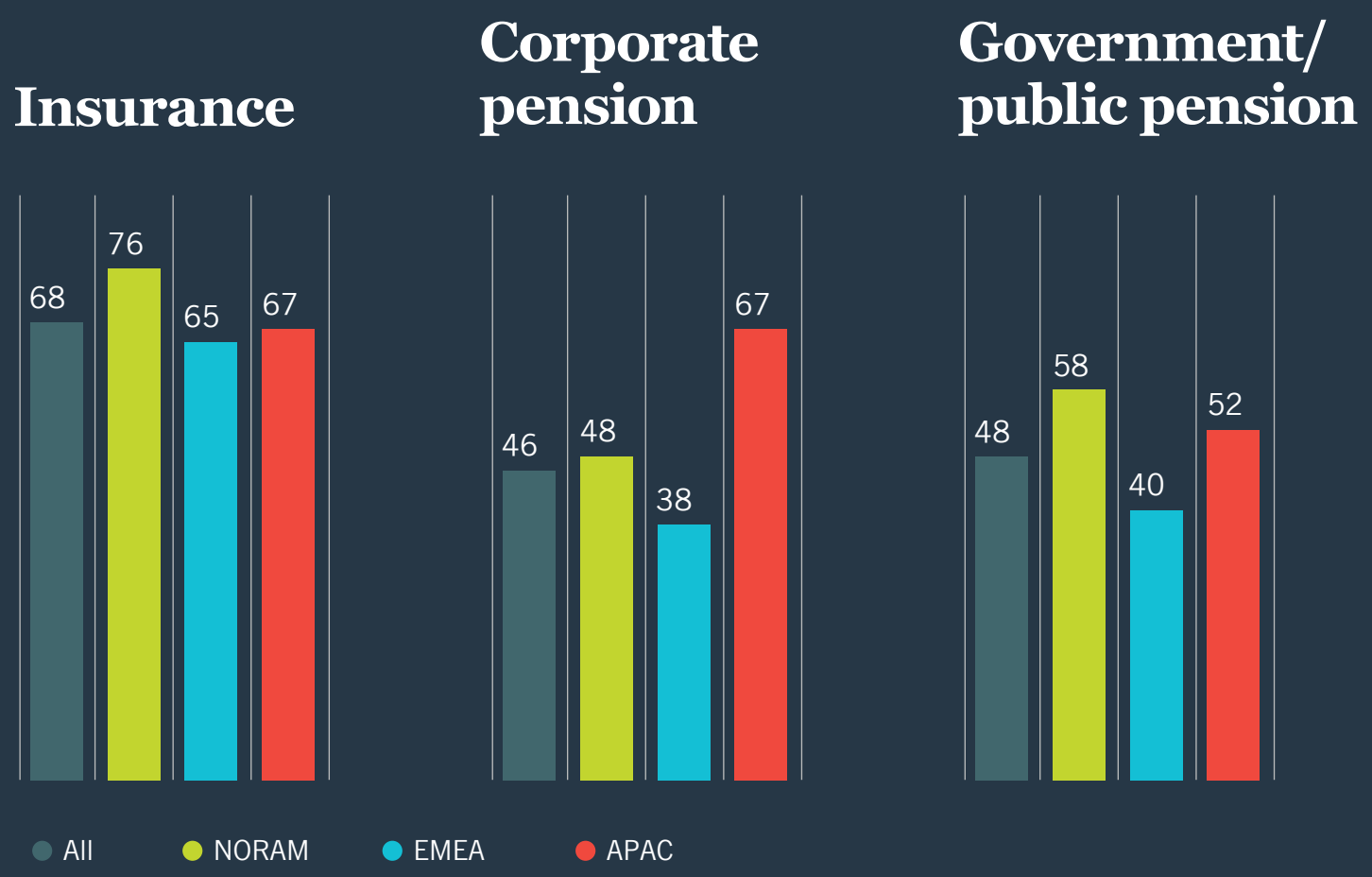
More than half of asset owners and consultants indicate that DE&I metrics influence their manager selection processes in some form.

- ***Consideration:*** 35% of investors say that DE&I is a consideration in their selection process
- ***Tie-breaker:*** 15% of investors consider DE&I as a tie-breaker, favoring organizations that are progressing in their DE&I efforts
- ***Deal-breaker:*** 5% of investors say that a manager's inability to measure DE&I progress is a deal-breaker

OF THE REMAINING RESPONDENTS:

- 19% say that DE&I is not critical in the investment process but want to check the box
- 20% do not use DE&I metrics as part of the investment manager selection process or most of their clients do not use DE&I metrics for their manager selection
- 7% don't know how DE&I metrics influence their manager selection process

Percent of organizations where DE&I metrics are a deal breaker, tie breaker or consideration in the selection of investment managers



Number of respondents: All asset owners 700; NORAM insurance 41, corporate pension 69, government/public pension 66; EMEA insurance 94, corporate pension 114, government/public plan 88; APAC insurance 39, corporate pension 43, government/public pension 31.

Learn more

At Nuveen we are committed to rethinking the future and developing investment solutions that can flex to the increasingly complex needs and objectives of investors. Whether it be addressing climate goals or re-evaluating income objectives, our investment teams are working with clients every day to help them work towards their near-term obligations in an uncertain market while also positioning for the systemic, longer-term changes that are to come.

Contact us to learn more, including specific findings from your region or related to your organization type.

Visit Nuveen.com/equilibrium to stay informed.

About the survey

Nuveen and CoreData surveyed 800 institutions globally (700 asset owners, 100 consultants) spanning North America (NORAM); Europe, Middle East and Africa (EMEA); and Asia Pacific (APAC) in October and November 2021. Respondents were decision-makers at corporate pensions, public/governmental pensions, insurance companies, endowments and foundations, superannuation funds, sovereign wealth funds, and central banks as well as consultants. Asset owner survey respondents represented organizations with assets of more than $10B (55%) and less than $10B (45%), with a minimum asset level of $500 million. The survey has a margin of error of ± 3.5% at a 95% confidence level.

About Nuveen

Nuveen, the investment manager of TIAA, offers a comprehensive range of outcome-focused investment solutions designed to secure the long-term financial goals of institutional and individual investors. Nuveen has $1.3 trillion in assets under management as of 31 December 2021 and operations in 27 countries. Its investment specialists offer deep expertise across a comprehensive range of traditional and alternative investments through a wide array of vehicles and customized strategies. For more information, please visit Nuveen.com.

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