

European investors lead search for innovative investments amid changing market dynamics



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Nuveen has seen significant growth from European clients over the past five years. As investors come to terms with the new normal amid the global pandemic, we are now seeing new opportunities to meet European clients' changing investment needs.

Given their relatively long-term investment horizon, many European institutional investors steered the course throughout pandemic volatility. Despite this, a new survey from Nuveen of 700 global institutional investors and consultants reveals that the pandemic's market impact (54%) and market volatility (42%) are the top drivers to investment strategy changes in 2021 for EMEA investors.

Changing market dynamics in the wake of the pandemic – particularly potential changes in interest rates and inflation – are leading European clients to reconsider their allocations, in many cases looking to further diversify their portfolios. Nuveen's survey reveals interest rate changes and inflation or deflation would drive significant investment strategy changes this year – 39% and 26% of EMEA respondents respectively identify these as drivers of change.

In addition, while many of our European clients were already prioritising responsible investment within their portfolios, the pandemic has magnified ESG considerations – such as the opportunity to build back better – with clients prioritising ESG more than before.

We have seen increasing requests from clients for products with sustainability integrated into the investment strategy and increasing scrutiny coming through in request for proposals (RFPs) and the due diligence process. Additionally, we are finding that Sustainable Finance Disclosure Regulation (SFDR) classifications are increasingly driving investor flows. The bulk of inflows we have seen have been in Article 8 and 9 funds, demonstrating the desire of our clients to prioritise ESG.

Opportunities in Europe

Against this backdrop, there is a significant opportunity in Europe to bring fresh solutions to institutional investors looking to diversify and minimise the potential impact of inflation and interest rate spikes, and to integrate ESG across asset classes.

The survey reveals European clients are more likely to seek out ESG-oriented alternatives than clients in any other region. Where some managers have historically found applying an ESG lens to alternatives challenging – real assets in particular – this sits at the heart of our offering and is an area where Nuveen is uniquely placed to support.

Alternatives

We have seen notable demand for our real assets solutions in the past year, which include real estate, farmland, infrastructure, timberland, agribusiness, and commodities. The combined platform has more than \$150 billion of private real assets, operating across over 60 cities globally.

As real assets increase in popularity, Nuveen's alternatives offer is well placed to deliver for European clients.

We combine leading real assets expertise and sustainability credentials to apply a credible ESG lens, and to report on this across the real assets portfolio. This provides European clients with the diversification they seek in the current environment, as well as the sustainability credentials that they increasingly view as essential.

Farmland

Within alternatives, farmland has been particularly well received among European clients. Nuveen manages approximately 2.3 million acres of farmland in seven countries, which produced 43 different crops over 2020. For over 35 years Nuveen has been acquiring, managing and marketing agricultural real estate assets around the world and today we manage \$8 billion of assets on behalf of global investors.

With a diversified portfolio of farmland assets and crops across geographies and operating strategies, we can capitalise on year-round supply, ensuring income stability and capital returns.

Westchester – a Nuveen company – operates higher-value permanent crops, such as wine grapes, citrus, avocado and tree nuts – but also leases out land for commodity-traded row crops production,

such as soybeans, corn, cotton, canola, and wheat. Our experience has shown that combining these complementary approaches can lead to more stable returns for European clients.

Respect for the land and prudent use of resources have been part of Westchester's DNA since its founding 35 years ago, working to protect and enhance natural capital. We work together with local farmers and landowners and constantly engage with them to ensure we can improve operational practices, as well as, a more efficient use of resources, influence water conservation, improve biodiversity, and reduce greenhouse gas emissions.

We have witnessed growing appetite from institutional investors for investments into 'natural capital' as they seek to reduce climate-related financial risk exposure and align portfolios with the transition to a sustainable low-carbon economy. Land-based investments in timberland, carbon sequestration and regenerative agriculture are the most scalable natural solutions to countering climate change and offer a cost-effective source of emissions reductions. European clients find this compelling, in their attempts to tackle sustainability through capital allocation.

Fixed Income

In a changing rate environment, allocations to fixed income for institutional investors – particularly pension funds required to meet their future obligations – are also front of mind.

This is an increasingly important entry point for conversations with European clients, with diverse fixed income requirements to complement holistic portfolios.

Responsible Investment

Both fixed income and alternatives can, and in Nuveen's case do, have an ESG overlay.

But we believe responsible investment should be a single thread throughout everything we do and not solely an ad hoc approach. For us, responsible investing is not a product suite, a standalone team or a new school of thought. Responsible investing is embedded in our DNA and has been so for over five decades.

For example, Nuveen's entire \$1.2 trillion AUM (as at 30 June 2021) is committed to the U.N. Principles for Responsible Investment and ESG factors are integrated into the investment process across all funds and asset classes.

Encouragingly, Nuveen's investor survey suggests European investors are the most positive on the potential for responsible investing to drive returns, compared with investors in NORAM and APAC – and this is a key point of engagement for us with clients on the continent.

When envisaging a future 'ESG Dream State', the survey reveals investors in EMEA are more bullish on the need to accelerate mandatory ESG disclosures for public companies than any other region (71% view this as important compared to a global average of 62%).

EMEA investors are also more bullish on the role for active engagement with companies to influence ESG factors (73% view this as important compared with a global average of 61%).

We are seeing this demand first-hand, with asset allocators taking an active interest in our voting record. Nuveen engages across the spectrum of stakeholders, including tenants, portfolio companies and shareholders, meeting and collaborating with industry peers.

In 2019/2020, we engaged 800 times across 598 companies. Climate and diversity issues were at the top of the agenda in Europe.

Climate change

Notably, EMEA investors are placing more emphasis on climate change as a driver for new investment strategies than any other region (23%, compared with 8% of investors in NORAM and 13% of investors in APAC according to Nuveen's investor survey).

Nuveen believes companies that proactively and strategically plan for climate risk will be better equipped to manage and support the transition to a low-carbon economy. We seek to mitigate associated financial risks across portfolios and to advance policies and practices essential to a low-carbon future.

We actively engage with companies on climate-risk management and supporting shareholder climate proposals that drive measurable improvements. With companies, Nuveen advocates board oversight of climate risk and overall climate strategy; stronger emissions reduction targets and goals and analysis of the effects of climate change scenarios.

We are at the forefront of the shift towards decarbonisation and use our influence to seek change in sectors including energy, infrastructure, agriculture, timberland, and real estate to benefit a shift to a lower-carbon economy. Nuveen's climate change strategy seeks to align practices with the Task Force on Climate-Related Financial Disclosure.

Nuveen Real Estate has committed to making its entire global portfolio of assets, over \$133 billion of assets, net zero carbon by 2040. This is one of the biggest and most ambitious global commitments to net zero in real estate and appeals to ESG focused European investors.

Diversity

Through Nuveen's investments, in our direct engagements with public and private companies, we aim to drive diversity and inclusion more broadly – a key talking point with European clients. Our efforts are focused on driving company disclosure on pay gaps and employee demographics across different job levels, addressing controversies over human capital management and promoting diversity on boards and in executive leadership.

In 2019, 80% of our 946 engagement touch points with public companies covered the topic of diversity. Of 800 total engagements between 2019-2020, 75% focused on diversity and inclusion.

Through Nuveen's own business, with offices operating globally across 27 countries, we proudly cultivate an environment of inclusion that celebrates diversity and empowers our employees, clients and the communities we serve.

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Impact Investing

Clients across the continent also continue to look for impact investments with tangible outcomes. Nuveen drives measurable outcomes in public and private markets and has already invested over \$1 billion in its private impact strategy over the past ten years.

Throughout 2021 we have put an additional emphasis on impact measurement, designing bespoke frameworks across asset classes to provide clients with a clear overview of impact from their investments.

Within our impact strategies, we continue to identify private companies with potential to drive significant progress against particular UN Sustainable Development Goals (UN SDGs). Through our impact investments in 2019-2020 Nuveen reached 311 million low-income beneficiaries; 139 million female beneficiaries and reduced 1.4 million metric tonnes of CO2.

For example, Nuveen invested in Sumunati – an Indian non-bank finance company focused on lending to various actors in the agricultural value chain which has historically struggled to obtain financing. This improves livelihoods of smallholder farmers and encourages climate-resilient agricultural practices.

Nuveen Real Estate's impact strategies also aim to address key challenges including housing affordability; health and wellbeing; education; and climate change. In Germany our residential impact framework targets regulated or restricted affordable housing (for tenants whose income is 60% or less of median income for the area) and under-served

groups or vulnerable populations.

We have mapped our impact investments to the UN SDGs at the SDG target level to demonstrate how they contribute to the achievement of each. European clients have a clear view of how their capital is allocated to sustainable causes.

Responding to these opportunities

Against this backdrop, Nuveen has seen significant growth in Europe in recent years, bringing leading, global expertise to clients Europe-wide. We now have \$38 billion assets under management (as at 30 June 2021) on behalf of European investors – both institutional and private wealth.

In particular we see opportunities in the U.K., Germany, the Nordics, Benelux and Italy where there is a rich pool of institutional investors open to new investment partners and strategies, evidenced by our new office openings in Stockholm, Milan and Amsterdam.

We continue to build the team in Europe – both within sales to maintain strong relationships with European investors, and within investment teams to bring a pipeline of opportunities to investors across asset classes.

Recent hires include Sergio Trezzi, our new Head of Southern Europe based in Milan, along with an additional hire to support him, several new hires to support the team in Germany and several new Directors within our U.K. Global Client Group team – including Rachel Green, who will support our institutional clients and Alex De Stefano who will help build out our wealth capability. We are also growing our specialist real asset sales team under Gabi Stein.

As we continue to see growing interest in ESG and income solutions, there has been notable demand for our global core impact, timberland, farmland and renewable / clean infrastructure offerings. Europe has raised \$2 billion in aggregate capital through June – with particular success in our key pillars across private credit, real estate, public fixed income, and private placements.

We have successfully been investing alongside our clients through market cycles for over 100 years. As the asset management arm of TIAA we understand the perspective of asset owners and this helps us align with our clients.

Our heritage as an asset owner means we are a like-minded partner; we wholly understand the challenges other like-minded investors face.

European investor demand is changing – and in our view for the better, with sustainability considerations front of mind across asset classes. We look forward to working with more clients to meet their broadening asset allocation requirements and ultimately - as stewards of their capital – to build a better, more sustainable world together.

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