

The background of the slide features a dark blue globe with a network of white lines and arrows, suggesting global connectivity and data flow. The text is overlaid on this graphic.

TIIP

Introduction to Racial Inequity as a Systemic Risk: Why Investors Should Care and How They Can Take Action

June 2023

Understanding how we got here is essential to assessing what it will take to course correct, given the scale and ubiquity of the risk.

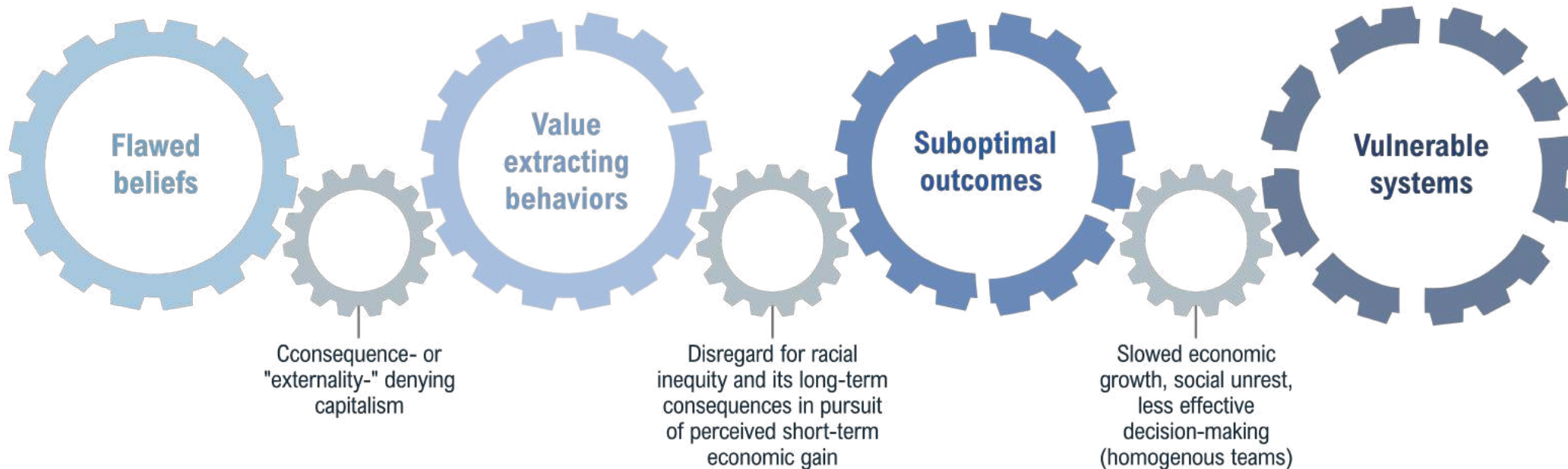
Flawed beliefs lead to vulnerable systems

Belief that abusive practices in service to short-term investment returns and/or White dominance—including the marginalization and dehumanization of Black people, Indigenous people and other people of color—are acceptable

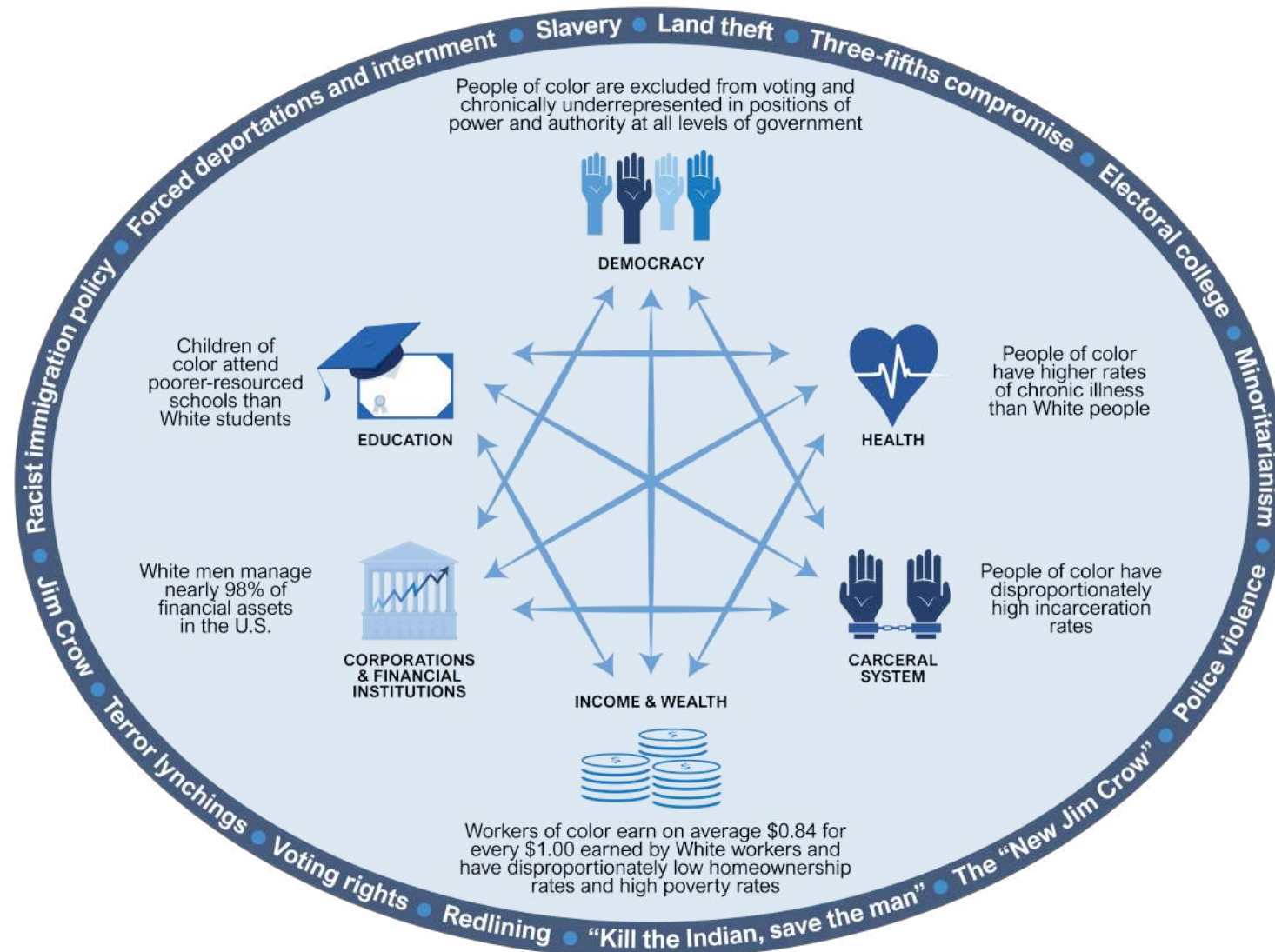
Investment in products, services, companies, and industries that underwrite racial inequity; financial industry dominated by White men that largely excludes people of color

Unequal participation in and outcomes related to democracy, education, income and wealth accumulation, health, the carceral system, and U.S. corporations and financial institutions for people of color

Weakened social and financial systems that harm the well-being and limit the economic gains of people of color and negatively impact growth and long-term investment returns



It's all interconnected



HOW INVESTORS CAN ADDRESS RACIAL INEQUITY

*There is a lot that investors can do – starting today –
to address the systemic risk of racial inequity.
Consciously or not, allowing racially inequitable
practices to persist is tantamount to co-signing them.*

Investors have two primary leverage points

If investors do not act now to address racial inequity and its risks, people of color will continue to suffer – and so too will investors' bottom lines.

- Investors must identify, confront, and address their contributions to the problem.
- There are two key actions that U.S. financial industry, with its more than \$100 trillion in AUM, can take to leverage its power and work alongside government and civil society to effectively influence racial inequity – not just to promote the equal distribution of resources, power, and economic opportunity across all races and ethnicities in the U.S., but also to support economic growth, improve business outcomes, fortify long-term investment returns, and help to set the U.S. on a path to racial justice.

INVESTOR ACTION #1

Ensure racial equity at U.S.
corporations and financial
institutions

INVESTOR ACTION #2

Contribute to the
development of racially
equitable social structures

Adapt conventional investing techniques

**Statements
of Investment
Beliefs**

**Security
Selection and
Portfolio
Construction**

**Manager Due
Diligence**

Engagement

**Think
systemically
through the
use of
advanced
techniques**



Collaborate



Enhance



Target

The legacy of racist policies and practices permeates all aspects of life in the U.S., from its democratic institutions, to education, income and wealth, health, the carceral system, and U.S. corporations and financial institutions.



Investor Action #1

Ensure racial equity at U.S. financial institutions and corporations

- Work to ensure parity, such that the racial and ethnic composition of the leadership and personnel of U.S. financial institutions, investee companies, and their supply chains mirrors that of society, and that personnel earn equal compensation for equal work.
- Do so to ensure equitable inclusion of people of color in U.S. corporations and financial institutions, and to promote their equitable participation in decisions about where and how capital is deployed.



Investor Action #1

Questions that can guide action

- Does the racial and ethnic composition of the leadership of our organization mirror that of U.S. society? What about of the leadership of our partners (e.g., asset managers and consultants), and our investee companies and the entities throughout their supply chains?
- What racial and ethnic biases exist in our recruitment and promotion policies and practices? In the recruitment and promotion practices of our partners (including asset managers), investee companies, and entities throughout their supply chains?
- Are our leaders and employees of color subjected to racially or ethnically based microaggressions that create an uncomfortable work environment and, ultimately, lead to the attrition of employees of color? What about in our partner organizations (including managers), investee companies, and entities throughout their supply chains?
- Do people in our organization receive equal compensation for equal work? In our partner organizations (including managers), investee companies, and entities throughout their supply chains?
- How can our organization partner with our peers from across the U.S. financial system to establish and promote standards – and related policies, procedures, and norms – for the racial and ethnic composition of personnel across finance and other industries?

Checklist for corporate governance and portfolio-level action for #1 (1 of 2)

Statements of Investment Beliefs

- Formally and publicly (a) recognize racial inequity as a risk to investment, and (b) commit to
- ☐ becoming a racially equitable organization and ensuring that your investee companies and their supply chains are racially equitable too – including their leadership (executives, board) and all other personnel.
 - ☐ Conduct an internal racial equity audit with input from stakeholders of leadership, personnel, hiring, promotion and compensation policies and practices, and of attrition rates for employees of color.
 - ☐ Revise policies – including investment belief statements and other governance materials – and practices accordingly.

Security Selection and Portfolio Construction

- ☐ Audit and refine security selection and portfolio construction criteria related to racial equity in personnel, leadership, and compensation.
- ☐ Audit racial equity within investee companies and throughout supply chains.
- ☐ Develop and adopt racial equity security selection and portfolio construction criteria.

Checklist for corporate governance and portfolio-level action for #1 (1 of 2)

Manager Due Diligence

- ☐ Assess managers' skills at managing the systemic social risk of racial inequity.
- ☐ Audit procedures (policies and practices) for manager selection for racial and ethnic biases (e.g., meeting minimum thresholds for AUM to win allocations from large institutional and minimum track record [20 years]) and revise policies accordingly.
- ☐ Require that managers provide data on the racial and ethnic composition and compensation of leadership teams and personnel. Hold them accountable for improvement over time.

Engagement

- ☐ Engage with managers, companies, and industries that do not meet your standards regarding racial equity in personnel, leadership, and compensation.
- ☐ Support shareholder proposals encouraging transparency and accountability related to the racial and ethnic composition and compensation of leadership teams and personnel.

Considerations for system-level action



COLLABORATE

- Identify opportunities to collaborate with other investors to amplify messaging and influence about racial and ethnic bias in governance, personnel, and compensation norms, policies, practices, and procedures across the financial industry, in investee companies, throughout their supply chains and within their investment practices



ENHANCE

- Identify or develop and utilize standards for the disclosure of data on the disaggregated racial and ethnic composition and compensation of leadership teams and personnel at financial institutions, investees, and throughout their supply chains.
- Identify or develop and utilize standards for engaging with industries and your investee companies therewithin about the racial and ethnic composition and compensation of leadership teams and personnel.



TARGET

- Identify financial products across asset classes that are explicitly designed to and focused on addressing racial inequity within financial institutions and corporations, and design new products as needed.
- Consider whether specific asset classes can be effectively utilized to address racial inequity within financial institutions and corporations.



Investor Action #2

Contribute to the development of racially equitable social structures

- Work to ensure that underlying social structures in the U.S. – structures related to democracy, education, income and wealth accumulation, health, and the carceral system – do not continue to propagate racial inequity and, instead, support and promote the full, equitable participation of people of color in society and the financial system.



Investor Action #2

Questions that can guide action

- Does our organization or our partner organizations (e.g., managers) invest in any services, products, companies, or industries that directly or indirectly underwrite racial inequity? Do we invest in any companies that engage in political spending, lobbying, or related activities that directly or indirectly underwrite racial inequity?
- Does our organization or our partner organizations (e.g., managers) invest in any services, products, companies, or industries that support racial equity? Do we invest in businesses owned and/or operated by people of color?
- Does our organization have the information that we need to make informed, thoughtful, proactive investment and other decisions related to racial equity (e.g., including the historical context of the issues we aim to address)? Have we solicited input about the wants and needs of impacted communities from those communities?
- Does our organization support public policies focused on reducing racial inequities / increasing racial equity related to U.S. democracy, education, income and wealth accumulation, health, and the carceral system? And reject those that propagate racial inequity?
- How can our organization partner with our peers from across the U.S. financial system to establish and promote standards – and related policies, procedures, and norms – related to racial equity in the U.S.?

Checklist for corporate governance and portfolio-level action for #2 (1 of 2)

Statements of Investment Beliefs

- ☐ Formally and publicly (a) recognize racial inequity as a risk to investment, and (b) commit to do everything your power to eliminate racial inequity and promote racial equity across U.S. society and the financial system.
- ☐ Update policies – including investment belief statements and other governance materials – and practices accordingly.
- ☐ Explicitly state that the inclusion of racial equity considerations in investment policies and practices aligns with fiduciary duty.

Security Selection and Portfolio Construction

- ☐ Develop and adopt security selection and portfolio construction criteria to ensure that you do not invest in any services, products, companies, or industries that directly or indirectly underwrite racial inequity (this might include, for example, customer discrimination and abuse, algorithmic bias in artificial intelligence, private prisons, or for-profit colleges).
- ☐ Audit your portfolio against your new racial equity criteria.
- ☐ Develop plans to engage with (and remove from your portfolio if necessary) those investments in services, products, companies, or industries that do not meet your new racial equity criteria. Require investee companies to disclose their political spending, lobbying, and related activities.

Checklist for corporate governance and portfolio-level action for #2 (1 of 2)

Manager Due Diligence

- ☐ Assess managers' skills at managing the systemic social risk of racial inequity.
- ☐ Audit procedures (policies and practices) for manager selection to determine whether they examine managers' investments in services, products, companies, or industries that directly or indirectly underwrite racial inequity.
- ☐ Update manager selection and due diligence procedures to ensure that they include analyses of managers' investments in services, products, companies, or industries that directly or indirectly underwrite racial inequity. Hold managers accountable for improvement over time.

Engagement

- ☐ Engage with those managers and investments in services, products, companies, or industries that do not meet your new racial equity criteria.
- ☐ Support shareholder proposals encouraging transparency and accountability related to racial equity and related political spending, lobbying, and activities.

Considerations for system-level action



COLLABORATE

- Disseminate and amplify information about racial inequity to peers, clients, and the public to build trust and increase the alignment needed establish shared goals and pursue collaborative action.
- Identify and join, or establish, organizations that (a) build the financial system's capacity to address racial inequity in U.S. society (e.g., encouraging clarification that addressing systemic risks like racial equity aligns with fiduciary duty), and (b) influencing positive public policy change related to racial inequity.



ENHANCE


- Identify or develop and utilize standards for the disclosure by companies and industries related to their services and products and racial inequity.
- Identify opportunities to invest in businesses and business models that promote racial equity and discourage racial inequity.
- Identify opportunities to support access to credit and affordability of credit for people of color and business owned by people of color.



TARGET

- Identify financial products across asset classes that are explicitly designed to and focused on addressing racial inequity (including cash with MDIs and other mechanisms to support CDFIs), and design new products as needed.
- Identify opportunities to focus investment within Indigenous sovereign nations, redlined communities, and sacrifice zones.

Investors are not powerless in the face of racial inequity. In fact, they can be quite powerful in generating meaningful change. The U.S. financial industry, with its more than \$100 trillion in AUM, can leverage its power and work alongside government and civil society to effectively influence to address racial inequity to improve well-being throughout society and to support economic growth, improve business outcomes, fortify long-term investment returns, and help to set the U.S. on a path to racial justice.



While we cannot change the past, we can shape the future.

Racial inequity is a systemic risk that, like climate change, investors cannot “diversify away.”

- Investors are not powerless in the face of racial inequity. In fact, they can be quite powerful in generating meaningful change. The U.S. financial industry, with its more than \$100 trillion in AUM, can leverage its power and work alongside government and civil society to effectively influence to address racial inequity to improve well-being throughout society and to support economic growth, improve business outcomes, fortify long-term investment returns, and help to set the U.S. on a path to racial justice.
- Specifically, investors can utilize both portfolio- and system-level tools to:
 1. Commit to equitably including people of color in the financial industry, and to ensuring that their investee companies and their supply chains do the same; and
 2. Use their individual and collective voices to help to reform discriminatory and biased social structures in the U.S.



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TIIP THE INVESTMENT
INTEGRATION PROJECT

Racial Equity Working Group



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