Investor Blueprint for Racial and Economic Equity

What investors can do to advance shared prosperity, combat inequality, and help bring about an equitable economy for all

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PolicyLink is a national research and action institute advancing racial and economic equity by Lifting Up What Works®. Our mission is to ensure all people in America—particularly those who face the burdens of structural racism—can participate in a just society, live in a healthy community of opportunity, and prosper in an equitable economy. Our guiding ethos is Equity—the just and fair inclusion into a society in which all of us can participate, prosper, and reach our full potential.

CapEQ is an impact investing and advisory firm changing how the world does business by advancing equitable impact.

FSG is a global nonprofit consulting firm that partners with foundations and corporations to create equitable systems change. Through customized consulting services, innovative thought leadership, and learning communities, we're working to create a world where everyone can live up to their full potential.

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Foreword

Our vision is a future free from inequality—where all people enjoy a dignified standard of living for themselves and their families, build generational wealth, live in healthy communities of opportunity, participate in fair democratic processes, and access what they need to thrive as human beings. Most simply, a society that embodies fairness, well-being, and shared prosperity.

This vision exemplifies humanity's highest ideals and brings to life the democratic ideals of our nation's founding. While the US continues to make progress, more progress is needed, and the pace must be accelerated. Widening inequality remains a defining challenge of our time. Over 40% of people of color and nearly 25% of white people are living in or near poverty in the US today. That is nearly 100 million people who deserve better from the contributions they make in the richest nation in history.

Confronting the scale of this challenge requires all institutions in our society to grapple with the role they play in our economy and democracy: Who really benefits from the ways in which we operate and do business? Who is harmed and left behind by how capital flows across our economy? What are the full costs, seen and unseen, of allowing poverty and racialized inequality to grow?

Though shared prosperity and well-being are not ubiquitous today, we know that we can get there by advancing racial and economic equity across our society. That means the just and fair inclusion into a society in which all can participate, prosper, and reach their full potential. The role for investors in bringing about this positive future is profound.

No matter the short-term politicized climate we currently live in, advancing equity is the most pragmatic approach to securing the precursors to stable, long-term profits and economic stability: a healthy labor force, an economically secure consumer base, stable democratic systems, and a well-functioning society.

We are therefore dedicated to supporting investors in becoming powerful champions of racial and economic equity. The stability of our economy and the health of our markets depend on it.

As the investment community grapples with playing a larger role in addressing climate change and other global challenges, attention toward investing equitably is no less critical. Investors can use the tools we share in this report to build expertise on the strategic power of advancing equity and chart a bold path forward that centers equitable outcomes in all investment activities.

Imagine celebrating our achievement of shared prosperity and the eradication of inequality. This future is within our reach. Collectively, we have the smarts, we have the resources, and we have the ideals to match. The innovation is just waiting to be unlocked.

Michael McAfee, President and Chief Executive Officer, PolicyLink

Tynesia Boyea-Robinson, President and Chief Executive Officer, CapEQ

Bobbi Silten, Interim Co-Chief Executive Officer, FSG

Executive Summary

In 30 years, the children of today will be the leaders of tomorrow. What kind of society will they inherit? Will it be one of greater fairness and opportunity for all people, without regard to race, gender, or zip code? Or will inequality continue to persist and threaten our stability? Collectively across sectors, we have the skills and the tools to create a fairer, more equitable society for all people.

Investors have an essential role to play in bringing about this positive future. By taking calculated risks and making big bets, investors have helped make our world what it is today—catalyzing access and innovation across all dimensions of life, from how we meet our basic needs to how we push the limits of human possibility.

While capital and investment are powerful drivers of innovation and prosperity in our society, they have also played a role in fostering racial and economic inequality. Today, the economic drag of inequality threatens all of us—from our ability to provide for our families and put food on the table to the stability of our economy and democracy. Unless inequality is addressed, the fate of investment portfolios and long-term value creation are also at risk.

The exponential increase in attention to social issues over the past few years, driven in part by environmental, social, and governance (ESG) interest and diversity, equity, and inclusion (DEI) momentum, marks a powerful shift toward a new normal. With nearly $34 trillion projected in ESG-focused funds by 2026,[1] it is more important than ever to ensure investments actually translate into meaningful outcomes for people and our planet.

This report aims to catalyze investors to focus on the imperative of integrating racial and economic equity holistically within their institutions—from the heart of their purpose to their decision-making processes, investment strategies, and measures of organizational effectiveness. Long term value creation depends on this, and so do our collective futures.

Part 1 explains "the why" of centering equity in investment strategies by outlining the scope of inequality in our economy, its racial dimensions, and how growing inequality constitutes a systemic risk that threatens all of society. Part 1 is intended to be a tool for gaining buy-in and driving alignment within investment firms. We introduce a bold new mindset—that all investing ought to be equitable investing—and make the case to support it. We share how advancing racial and economic equity not only improves the well-being of society, but is consistent with investors' fiduciary duties and a powerful pathway for value-creation. Importantly, we also include guidance on how to hold steady in the midst of backlash.

Part 2 shares "the how" with a comprehensive framework for action that leverages multiple pathways to advance the racial and economic equity outcomes that are most critical. The framework focuses on 10 critical equity outcomes investors should hold close and 3 powerful levers they can pull to bring about positive change: strengthening firm governance and culture; reevaluating perspectives on risk; and building equitable portfolios. Within the levers, we share

14 practical actions for investors to undertake, with guidance, resources, and key performance indicators to support execution. The framework can be used by asset owners and asset managers across a variety of asset classes, as well as intermediaries and service providers supporting them.

Our framework for action brings together and builds on two bodies of work to support corporate America in becoming lasting champions of racial and economic equity: our collaboration with the Global Impact Investing Network in developing the IRIS+ Racial Equity Theme and our initiative to develop corporate performance standards on racial and economic equity, both undertaken through the Corporate Racial Equity Alliance.

The report concludes by lifting up 5 bold goals—the highest-leverage performance indicators from the action framework that collectively exemplify equitable and inclusive growth and will tell us we are finally meeting success in dismantling centuries of discrimination and exclusion. They include meaningful racial and gender diversity in the leadership ranks of both investment firms and portfolio companies, meaningful capital deployed to businesses owned by people of color and historically underinvested communities, and the proliferation of new, inclusive investment structures that open greater opportunities for growth for smaller funds and smaller businesses—this will represent progress.

Ultimately, all of our work aims to support the adoption of new norms that unabashedly center equitable outcomes in all business activity. In doing so, we share hard truths in this report, but we hold those truths alongside a deep appreciation for enterprise and the undergirding pursuit of prosperity. Capital is a key pathway to an equitable economy where everyone has what they need to thrive as human beings and a fair shot to reach their full potential. This report is about the mindset and the mechanics for investors to play a productive role in bringing about an economy that strives for and embodies shared prosperity.

All investing ought to be equitable investing. Investor inaction on inequality contributes to growing systemic risks across our markets.

Racial and economic equity is abundantly achievable, but we will not succeed if we tinker around the edges, make small bets, or fail to hold ourselves accountable to results. It could very well be 10 or 20 years before our goals are achieved, but this is the work of a generation, not a few quarters or a few years, and we will only get there by staying the course and working together.

Investors, you have the unique skills and the right resources to design and deploy equitable investments, catalyze equitable businesses, and ultimately support the realization of an equitable economy and future that can sustain all of us for generations to come. The *Investor Blueprint* will support you on your journey.

In this report and in our work, we define equity as just and fair inclusion into a society in which all can participate, prosper, and reach their full potential.

When we refer to **racial equity**, we mean both a process and an outcome. As a process, racial equity aims to ensure no one is left behind by targeting resources and investments to dismantle the barriers affecting historically excluded racial and ethnic groups. As an outcome, racial equity is when race and ethnicity no longer influence how one fares in society. It means the absence of discrimination based on race or ethnicity, the absence of racial disparities in all dimensions of society, and the presence of values and systems that ensure fairness and justice for all people.

Similarly, **economic equity** is both a process and an outcome. As a process, economic equity aims to ensure no one is left behind in our economy by targeting resources and investments to historically excluded groups, including people of color and working-class people, so all people have good jobs, dignified and rising standards of living, and increased voice, power, and ownership in our economy. As an outcome, economic equity means the presence of values and systems that ensure fairness in the generation and distribution of economic wealth, tax liability, resources, and assets in our society.

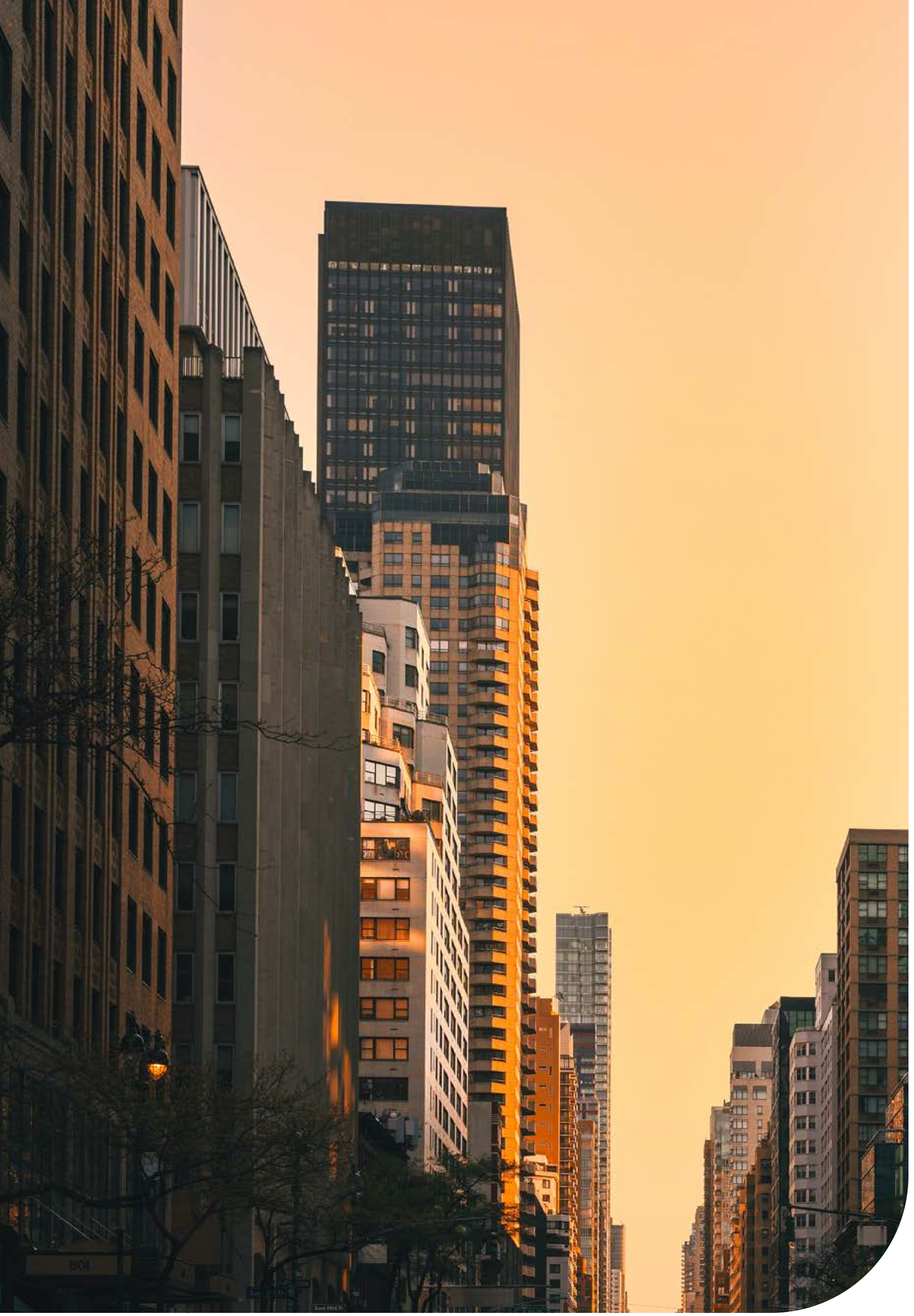
Though the term **equity** is more commonly used in finance and investing to denote an ownership interest in property or the stock of a corporation, there is a close connection with how we define equity here: both ultimately relate to value. This report invites investors to think about equity as it relates to how we value people. As a society, we have a collective interest in cultivating and protecting human value, which is a fundamental precursor to stable and long-term value of investment assets.

Learn about the Equity Manifesto and see the Appendix for a glossary of additional terms.

Equity addresses discrimination and exclusion by advancing fairness and inclusion. It aims to bring us together and ensures we do not leave anyone behind. That is not a left or right issue but is instead the democratic ideals of our nation's founding coming more fully to life.

PART 1

The Imperative to Advance Racial and Economic Equity



The role of capital in our society

America runs on business. It is a central feature of all our lives, from how we feed and shelter ourselves to how we take care of our health, travel, connect with each other, and learn. Capital and investment are the engines behind business, catalyzing access and innovation across all dimensions of life. Without a doubt, investors have helped spur incredible growth and innovation across our economy—from life-saving medical advancements to nation-building public infrastructure and seemingly boundless technology that brings joy and ease into our daily lives.

Yet while America is the richest country in history, nearly 100 million people—one in three—live in or near poverty, locked out of equal opportunities to thrive.[2] For too many of us, our dollars do not stretch far enough and opportunities to achieve financial stability, and even some prosperity, are limited. This is the everyday reality for over 40% of people of color and nearly 25% of white people.[3] Globally, widening inequality and racial and ethnic discrimination are no less serious—threatening peace, social cohesion, and economic stability.[4]

Governments and civil society have a significant role to play in addressing these complex challenges. Businesses and investors, however, also have a powerful and essential role to play. While capital and investment have been undeniably powerful drivers of innovation and prosperity in our society, where capital has landed, or failed to land, and how it has been deployed have fostered racial and economic inequality across our society and will continue to do so unless dramatic shifts are made. The economic drag of inequality is now more urgent to address than ever before, underscoring the need for investors to design and deploy equitable investments and catalyze equitable businesses.

In Part 1, we aim to connect the positive powers of investment to a defining opportunity of our time: building a just and equitable economy where everyone has what they need to thrive as human beings and a fair shot to reach their full potential.

Given the far-ranging influence of business and investment on the economic, political, social, and cultural dimensions of society, we need to redefine the ends they should achieve. The drivers of innovation and prosperity in our society should always be in harmony with our basic human needs and the social foundations necessary for a healthy society and stable economy.

The investment community has a unique opportunity and fundamental responsibility to ensure that economic growth and the pursuit of profit is balanced with an enduring interest in safeguarding the essential foundations of a healthy society and stable economy: equitable access to healthy food, clean water, affordable housing, good education, quality health care, a clean environment, positive social connection, opportunities to prosper, and fair political participation. Long-term value creation depends on this, and so do our collective futures.

For a sustainable future, cultivating and preserving life's essentials for all of us, not just for some of us, should be in enduring equipoise with economic growth and the pursuit of profit.

Many investors have long recognized that capital is not neutral and that all investments have social impacts. Striving to make a positive social impact, they have worked to balance the pursuit of profit with social concerns. With socioeconomic disparities now posing a grave threat to all of society, it is time for all investors to follow suit. Embracing the mindset that all investing ought to be equitable investing is the first step.

We make the case for this by first outlining the scope of inequality in our society and economy, its racial dimensions, and how growing inequality constitutes a systemic risk that threatens all of society. Next, we delve into the antidote to inequality—that is, advancing racial and economic *equity*, defining what it is and is not. We then share how investors have value creation opportunities by advancing racial and economic equity, and how the risks of inaction are a threat to investment portfolios. We close Part 1 with a call to action for all investors to harness their unparalleled skills to focus on equitable outcomes in all their investment activities.

Capital is a powerful driver of innovation and prosperity in our society, but it is not neutral. All investments have social impacts.

Investors and those in the investing ecosystem should use Part 1 to understand more deeply the imperative to advance racial and economic equity and their vested interest in playing a meaningful role in bringing it about. Part 1 is also a useful tool toward obtaining buy-in and driving alignment within organizations on the path forward.

No matter how difficult the road ahead is, PolicyLink, CapEQ, and FSG are here to support investors in playing a productive role in advancing an equitable economy and shared prosperity. Absent more concerted action across sectors, poverty, extreme wealth concentration, and structural racism will have detrimental effects on all of us.

Racial and economic inequality are systemic risks and unsustainable

Across all sectors, the consensus is growing that socioeconomic disparities pose a grave threat to all of society and necessitate urgent cross-sector action.[5] Over the past 30 years, economic inequality has steadily increased in most high-income countries, due primarily to the exponential rise in top incomes.[6] Just 1% of the world's population holds half of the world's wealth.[7] Of all the new wealth created since 2020 (worth $42 trillion), the richest 1% acquired nearly two-thirds of it.[8]

In stark contrast, in the US alone, 1 in 3 people struggle to achieve even a basic standard of living and are often unable to pay for groceries, rent, utilities, medical bills, and other life essentials.[9] The majority of people living in or near poverty are people of color (about 53% of the nearly 100 million) despite the fact that people of color account for only 39% of the total US population.[10] As in many parts of the world, inequality in the US is linked inextricably with race, specifically with inequitable socioeconomic outcomes for people of color across income, wealth, health, education, and other measures.[11]

While our focus on maximizing profit and shareholder returns has been wildly successful in increasing share ownership and wealth, the benefits have accrued almost exclusively to the overwhelmingly white, wealthy elite.[12] This approach to business and investment has concurrently suppressed worker wages, limited worker power to bargain for a greater share of corporate profits, and widened the racial wealth gap.[13] In turn, this has thwarted the upward mobility of ordinary families—especially for those most economically insecure—hampering their financial security and wealth accumulation.[14]

Increased share ownership and wealth are lauded as key indicators of a successful economic system, but our current system simultaneously fosters inequitable access to the most basic of human needs: healthy food, clean water, affordable housing, good education, quality health care, and a clean environment, to name just a few.[15] People of color and historically underinvested communities feel the greatest impact of these inequities.[16]

Today's structural barriers and socioeconomic disparities experienced by people of color and working-class people are emblematic of a serious design issue in our economy: it was never designed to work for everyone despite our highest ideal of America as the land of opportunity.[17] While America was founded on democratic ideals of equality and justice for all, our economy was built on a legacy of land theft, slavery, racial segregation, disenfranchisement, and other explicit discrimination against Black people, Indigenous people, and other people of color—and today, our economy continues to generate poor outcomes for the very same groups.[18]

As inequality grows, the cascading effects on our markets and economic stability are manifold. Inequality weakens labor force participation, limits the talent base for businesses, impacts market reach, threatens economic productivity, contributes to social unrest and political dysfunction, puts society and our democratic institutions at heightened risk of ongoing instability, and inflicts other harms that dampen our economy's strength and dynamism.[19] Left unaddressed, today's racial and economic inequality will define our future and mark the well-being and opportunities of generations to come.[20]

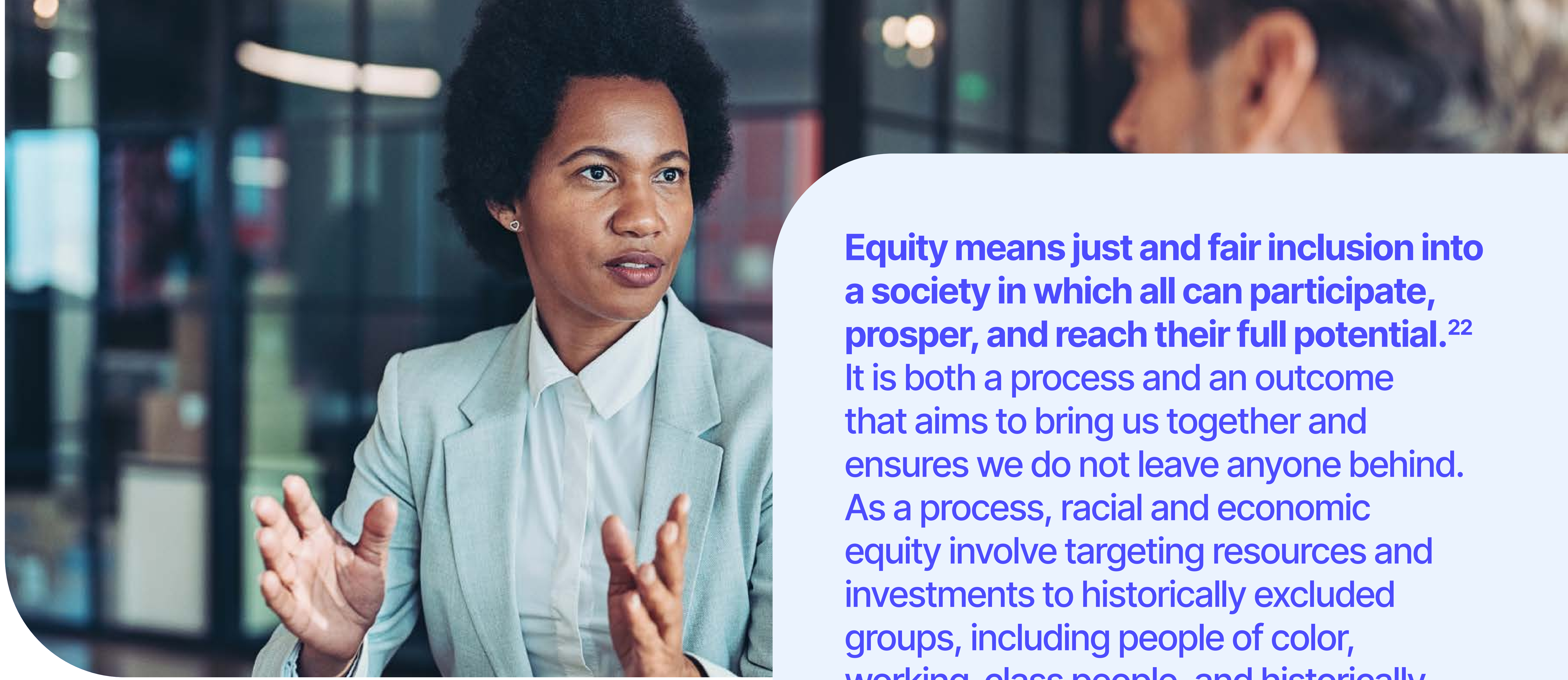
The breadth and depth of racial and economic inequality in America present profound systemic risks to our markets and economic stability.

As the US grows more racially and ethnically diverse, if conditions do not improve, a larger and larger share of the population will struggle to make ends meet.[21] Such widespread inequities are untenable for a strong and resilient economy, which relies on a healthy labor force, an economically secure consumer base, stable democratic systems, and a well-functioning society. By the same token, these inequities will undermine the value of investment portfolios by dampening long-term value creation.

In sum, the breadth and depth of racial and economic inequality in the US present profound systemic risks to our markets and economic stability. Addressing inequality head-on, therefore, is a critical endeavor for all investors to pursue together with their other sustainability efforts—not just because it is the right thing to do, but also to protect long-term value and foster healthy markets and a stable economy.

Growing inequality is a threat to long-term value creation. It is also unsustainable for a healthy economy and a well-functioning society.

The antidote to inequality is advancing racial and economic *equity*



Our economic health and stability require a proactive and comprehensive approach to addressing inequality and the discriminatory outcomes of our economy. Advancing racial and economic *equity* is the most practical pathway forward. Investors can do their part by actively working to embed principles of equity into their investment activities to help combat inequality and advance shared prosperity.

There are misconceptions about what this means and how investors can go about it, so we will define what equity is and is not, how inequity shows up most prominently in the investing ecosystem, and how investors have a powerful opportunity to tap into overlooked value in our economy through the power of advancing equity.

Equity means just and fair inclusion into a society in which all can participate, prosper, and reach their full potential.[22] It is both a process and an outcome that aims to bring us together and ensures we do not leave anyone behind. As a process, racial and economic equity involve targeting resources and investments to historically excluded groups, including people of color, working-class people, and historically underinvested communities. As an outcome, racial equity is when race and ethnicity no longer influence how one fares in society. Economic equity, as an outcome, refers to fairness in the generation and distribution of economic wealth, tax liability, resources, and assets in our society. See more detailed definitions in the Appendix.

RACIAL AND ECONOMIC EQUITY ARE INEXTRICABLY CONNECTED

Racial and economic inequality are deeply intertwined. More than half of people living in financial insecurity in the US are people of color,[23] but they are not alone. Nearly 25% of all white people in the US are also trapped by the structural barriers that have held people of color back for centuries.[24] Accordingly, effectively addressing inequality requires advancing *both* racial and economic equity. Aiming to tackle economic inequality, for example, without a deep racial lens risks overlooking historically excluded groups and leaving the status quo firmly in place.

As the US population grows more racially and ethnically diverse, tailoring smart, sustainable strategies (including investments) to the needs of the most underinvested and historically excluded groups is critical to addressing economic instability.[25] Doing so has the distinct power to cascade benefits upward and outward for the well-being of society.[26] For example, racial and economic inclusion fosters a healthy labor force and an economically secure consumer base, which in turn supports stable markets, healthy democratic systems, and a well-functioning society.[27] We call this the curb-cut effect and our focus on racial and economic equity as the dual pathway to unlocking greater opportunities and benefits across society is grounded in this concept.[28] The curb-cut effect also posits that the reverse is true: when we fail to attend to the needs of those faring the worst in society, we inhibit economic health, threaten political stability, and harm national well-being.[29] Our current economic reality exemplifies this. Hence, healthy markets and our economic stability demand advancing racial and economic equity *together*.

It is important for investors to understand capital's distinct impacts on intersecting identities—the intersection of racial and economic inequality with protected classes beyond race (in the US, that is sex, sexual orientation, gender identity, disability, national origin, religion, and age). Gender inequality, for example, is deeply connected to racial and economic inequality. Women of color are hit the hardest by the racial wealth gap and experience multiple forms of discrimination in the labor force as well as formidable barriers as business owners—from occupational segregation to disproportionate caregiving costs, overrepresentation in low-paying jobs, higher levels of poverty, and disproportionately lower wealth.[30] The framework for action in Part 2 incorporates a gender equity lens as a starting point on intersectional considerations.

THE BACKLASH AGAINST EQUITY MISSES ITS MEANING; HOLDING STEADY IS A LONG-TERM ADVANTAGE

With the political headwinds against ESG and DEI efforts, investors and corporate leaders may feel constrained to act or compelled to take a step back, but it is more important than ever to proactively address persistent racial exclusion and widespread economic inequality.[31] Racial gaps in income and wealth cost the US economy about $3 trillion in 2019 alone.[32] Regardless of where you fall on the political spectrum, these numbers are only going to increase if we continue holding equitable outcomes hostage to ideological arguments that mean nothing to people struggling to make ends meet.

False and divisive narratives about racial equity, in particular, will continue. But investors can hold firm in the fact that the fate of investment portfolios is tied to a healthy labor force, an economically secure consumer base, stable democratic systems, and a well-functioning society.[33] Advancing racial and economic equity is the most pragmatic approach to securing those precursors to stable, long-term profits. Adopting equity as a process also offers a superior model for *sustainable* economic growth that centers fairness and controls against bad outcomes.[34] These principles are true regardless of short-term political headwinds or backlash.

The power of advancing equity also aligns elegantly with the best attributes of investing: it is proactive, efficient, risk-mitigating, and exponentially impactful. If you are currently experiencing political backlash for investing equitably—or worried that you might—reflect on the market fundamentals as you would in any other investment scenario. Regardless of politics, objective analysis overwhelmingly shows that over the next 30 years ignoring the impact of inequality is perilous to our markets and economic outcomes.

The power of advancing equity aligns elegantly with the best attributes of investing: it is proactive, efficient, risk-mitigating, and exponentially impactful.

In sum, treating equity as a partisan issue misses the point entirely. Equity is not about benefiting one group at the expense of another.[35] It is not zero-sum or about doing anyone special favors.[36] Instead, it is meant to ensure no one is left behind. It tackles discrimination and exclusion by advancing fairness and inclusion. That is not a left or right issue but is instead the democratic ideals of our nation's founding coming more fully to life.

Sustainability and equity go hand in hand. In the social context, determining what is sustainable (and responsible) in business and investing means defining behaviors and practices that contribute to preserving, cultivating, and supporting the social foundations of a healthy society—that includes our precious human capital (e.g., workforce well-being), social and relationship capital (e.g., community well-being), economic capital (e.g., opportunities to prosper), political capital (e.g., fair democratic processes) and the natural and constructed capital on which we all rely to live (e.g., clean water and housing). Implicit in such efforts is the need to have equitable outcomes. If sustainability efforts are to mean anything, we cannot harm anyone and we cannot leave anyone behind. Meaningful sustainability strategies will, therefore, adopt principles of equity and prioritize addressing racial and economic inequality.

Advancing Racial and Economic Equity Is

Proactive
Pragmatic
Inclusive
Nonpartisan
Risk-mitigating
Anti-discriminatory
Impactful
Sustainable
Urgent
Game-changing

INEQUITY IN INVESTING IS HOLDING BACK POWERFUL VALUE CREATION OPPORTUNITIES, AND THE RISKS OF INACTION ARE GROWING

While investors have done well during the pandemic, continuing to operate as they have in the past will expose the industry to long-term risk. In an increasingly diversifying nation, investment remains one of the most homogenous industries. Less than 20% of management roles within investment firms are held by people of color.[37] In a 2021 sample of US assets under management (AUM) representing $82.24 trillion, just 1.4% was managed by diverse-owned firms.[38] Put another way, more than 98% of the investment decisions for tens of trillions of dollars in AUM are made by one demographic group: white men.

While investors have done well during the pandemic, continuing to operate as they have in the past will expose the industry to long-term risk.

This imbalance is not about optics. It is about who gets funding, which businesses get what they need to grow and thrive, and how communities benefit from (or miss out on) investment dollars. Research shows that investment professionals tend to choose to invest in those with similar characteristics as themselves, so the overrepresentation of white men in finance and investment has meant that majority groups (mainly white) benefit more from the tools of capitalism as compared to historically underinvested groups (women and people of color).[39] Today's reality demonstrates this:

- Only 1% of venture capital (VC)-backed founders are Black, and less than 2% are Latino/a.[40]
- Of all VC funding in 2022, only 1% went to Black founders.[41]
- Just 40% of businesses owned by people of color receive full funding for a requested loan, compared with 68% of white-owned businesses.[42]
- While people of color make up about 39% of the US population, only about 18% of businesses are owned by people of color.[43]
- People of color who do own businesses have a harder time starting and growing them compared with white entrepreneurs. Businesses owned by people of color are denied credit at two to three times the rate of white firms with comparable gross revenues.[44]
- It costs entrepreneurs of color more to start a business than their white peers. By one estimate, it can cost entrepreneurs of color up to $250,000 more to start a business,[45] and people of color pay higher rates of interest on average (7.8%) as compared to white people (6.4%).[46]
- One study showed that Black business loan applicants were nearly 50% more likely than white applicants to be asked to provide additional paperwork for their business.[47]
- Black entrepreneurs say a lack of access to capital negatively affects their businesses' profitability three times more often than white entrepreneurs, and they are nearly twice as likely to cite the cost of capital as a major challenge.[48]
- About 15% of white Americans hold some business equity through entrepreneurship, compared with only 5% of Black Americans, whose business equity is worth about a third of the average white American's business equity.[49]

These barriers to business growth and success for people of color are preventing the economic prosperity that starting, owning, and growing a business offers. It also means that a large and growing part of our economy is shut out from benefiting from the wealth that investing creates. This does not only hurt people of color. Failing to tap into the potential of such a broad swath of our society also limits the dynamism and potential of our economy.

Become an equitable investor. Many investors have already been doing this work for years, if not decades, for which we are grateful. The strategies we share in Part 2 aim to build off their experiences and learnings to support all investors in embedding equity into everyday decision-making. Intentionally considering all stakeholders and supporting a more equitable economy for all people is the highest level of professional practice for investors. Doing so is also one of the greatest moral, economic, and democratic imperatives of our time.

If Black-owned businesses could reach employment parity with their peers—by accessing more capital to hire just 1 to 2 more employees—our economy would grow by $55 billion.[50] In the past 10 years, diverse founders received only $29 billion in VC funding.[51] If the VC industry operated equitably by reflecting the demographics of the country, this VC funding amount would have been $286 billion.[52] According to a Morgan Stanley analysis of 2012 Census data, "had the number of women and minority-owned businesses and the portion of revenues matched their percentage in the labor force–56%–then 2012 gross receipts would have increased to $6.8 trillion, suggesting a missed opportunity of up to $4.4 trillion."[53] That is a 10-year-old missed opportunity. Now imagine the billions of dollars in missed opportunities year after year since then, not only in VC funding but also replicated in other investment categories.

For investors to reverse these trends and support equitable and inclusive growth, they need to do much more than they are doing now. The reckoning and commitments that came in the wake of George Floyd's murder were a necessary start, but the deployment of truly transformational capital and investments has yet to occur. To be sure, some investors began the hard work of redirecting capital flows to equitable strategies, joining others who have been at it for years if not decades already. This work continues and is important to learn from, but the investment firms and dollars are too few.

With socioeconomic disparities now posing a grave threat to all of society, it is time for all investors to follow suit. Embracing the mindset that all investing ought to be equitable investing is the first step. That may seem like a bold call to action, but investors are on the front lines of forces that drive impact and inequity every day. Investors take imperfect information and balance risks and opportunities. They synthesize current events into proactive strategies. And while they navigate the short-term, they consistently hold the goal of long-term value creation. These skill sets are precisely what is needed to build equitable investments, catalyze equitable businesses, and ultimately support the realization of an equitable economy and future that can sustain all of us for generations to come.

Tapping into the Power of Advancing Equity

Summarized here are a few examples of inequitable investor practices and what it means to shift toward equitable practices. See Part 2 for more ways investors can tap into the power of advancing equity.

Examples of inequitable practices	How to shift to new equitable practices
Little to no racial/ethnic and gender diversity on investment committee and/or among asset managers	Diversify investment committee and asset managers across race, gender, and other lived experiences
The majority of portfolio companies lack racial/ethnic and gender diversity amongst leadership	Ensure leadership of portfolio companies is diverse across race, gender, and other lived experiences
Corporate engagement on DEI only focuses on diversity	Corporate engagement should prioritize the full scope of systemic risks related to inequality and racial equity
Organizational practices and policies are not assessed for racial equity or civil rights impacts	Periodically conduct racial equity or civil rights assessments or audits of organizational practices and policies
Continued investment in markets without employing a racial and economic equity lens	Assess the firm's overall impact on markets and take steps to contribute to stakeholder value
Focus on short-term returns without regard to externalities (harm to people and communities, including the resources they rely on to live and thrive)	Focus on long-term returns and value creation, respecting the social foundations necessary for well-being, healthy markets, and a stable economy

Tapping into the Power of Advancing Equity

Advancing racial and economic equity is fundamental to fostering and sustaining healthy markets and a stable economy. It is also a powerful pathway to tap into vast overlooked value in our economy. As summarized here, the risk of inaction is great and the opportunities from equitable practices are compelling.

1

Key Risk of Inequitable Practices

Limited deal pipeline

People tend to invest in those who are like them, so less diverse teams will not have as expansive a view of value-generating opportunities. Continuing to rely on homogenous leadership teams and investment committees is a risky practice, undermining long-term goals, and implicating fiduciary duties to the ultimate beneficiaries served.

Value Proposition of Equitable Practices

Expanding the deal pipeline

Diverse leadership and investment committees, combined with integrating broad racial equity approaches into the investment processes, can bring in new and different investment deals. These deals can lead to a competitive advantage in the market and greater returns on investment.

Tapping into the Power of Advancing Equity

2

Key Risk of Inequitable Practices

Limited talent base

Society is incredibly diverse. Lacking such diversity within your organization, at all levels, is risky and represents a narrow scope of talent. More people today (especially the next generation of workers) are concerned about social equity, especially racial equity, and want to work for firms that live into their stated values. Failing to prioritize racial and economic equity—not only in recruiting and hiring, but also in retention, advancement, and firm culture—leaves firms at a competitive disadvantage for attracting and retaining the best talent. It also presents a barrier for current staff of color from thriving and advancing within the firm.

Value Proposition of Equitable Practices

Recruiting and retaining the best talent

Embedding equity-centered principles across a firm or company can provide a powerful signal to potential talent, giving an edge to recruitment, especially the next generation of leaders and workers who are prioritizing these issues. Equity-centered approaches can also provide greater support for employees of color to thrive and advance, removing the traditional barriers to success within firms and companies.

Tapping into the Power of Advancing Equity

3

Key Risk of Inequitable Practices

Limited market reach

Investment firms must also respond to the trends of a changing economy. Failing to hold portfolio companies to comprehensive racial and economic equity standards limits their potential for growth and their ability to tap into new markets, create new markets, and expand their current market reach.

Value Proposition of Equitable Practices

Expanding your market reach

Equity-centered approaches can help identify disruptive companies working in spaces with great potential for growth and success. Investing in companies owned by people of color and historically underinvested communities leverages the power of these high-potential groups, creating new markets or expanding current market reach.

Tapping into the Power of Advancing Equity

4

Key Risk of Inequitable Practices

Threat to economic stability

The future of our democratic capitalism is at risk without greater investment in the institutions that support the functioning of our economy. Limiting or ignoring a broad equity approach to all firm operations, including political spending and engagement, risks further destabilizing the systems on which we rely and limiting overall economic returns.

Value Proposition of Equitable Practices

Promoting economic stability and improving returns across industries

Supporting communities and institutions essential to the functioning of our economy will lead to better overall market returns. The long-term health and stability of the economy benefits everyone.

Focus on equitable outcomes, setting goals, and measuring performance

Building a society that is fair and equitable for all people means fostering an economy that strives for and embodies shared prosperity. Whether you are moved by the moral imperative or the threat of economic instability or the unrealized economic potential of our nation's diversity, advancing racial and economic equity is our collective responsibility. The path forward will not be easy, but we believe it is clear: focus on equitable outcomes, set bold goals toward those outcomes, and measure performance along the way.

All investors—not just values-driven and impact investors—are uniquely positioned to perform on advancing equity. Unlike any other actors in our economy, investors exhibit unparalleled skills in balancing pragmatism with audacity, building deep expertise to compete, diversifying to mitigate risk, rebalancing toward higher performance, understanding complex landscapes to forecast the future, proactively seeking out new markets and opportunities, and maintaining unwavering focus on achieving goals. Now is the time to activate those skills more broadly and deeply to advance equity.

In Part 2, we offer a comprehensive approach for investors to do just that. The approach is anchored on achieving equitable outcomes within investors' spheres of influence, including setting bold goals and measuring performance to get there. With the scale of the challenges before us, it is more important than ever to identify the outcomes that matter most and hold ourselves accountable to getting there. These are the table stakes for a sustainable future. One-time investments are not enough. Neither is focusing on diverse representation or disclosure alone, or thinking inequality will be solved by someone else.

The status quo is not enough

One-time investments

Focus on diverse representation alone

Enhanced disclosures without clear goals

More commitments without accountability

Impact investors and values-driven investors carrying the torch alone

Action without a shift in mindsets and incentives

PART 2

Advancing Equitable Outcomes: A Roadmap for Investors

Overview

The service of investing money on behalf of others, particularly as a fiduciary, is a challenging endeavor and provides a social benefit. The *Blueprint* is meant to be adopted within the parameters of maintaining a high level of investment proficiency, recognizing that serving clients and the social good are deeply interconnected.

Achieving racial and economic equity is a defining opportunity of our time. As we laid out in Part 1, investors have both a unique role and a fundamental responsibility to champion equity within their organizations and portfolios. Not only is it the table stakes for long-term competitiveness and sustainable value creation, but the health and stability of our economy also depend on it. Getting there will require setting new norms in investing—from adopting greater transparency to addressing harmful biases and prioritizing equitable outcomes across portfolios.

In Part 2, we aim to support the adoption of new norms by presenting a comprehensive framework for investors to more deeply understand and ultimately advance racial and economic equity. The framework focuses on firm-wide action, leveraging multiple pathways to advance the equity outcomes that are most critical.

First, we present an overview of the structure of the framework and then we detail each component: (1) the outcomes investors should focus on, (2) the broad levers investors can pull consistent with their duties to beneficiaries, and (3) the detailed actions investors can take within the levers, with key performance indicators and goals to guide the way. Like any strategic initiative, setting meaningful goals to advance racial and economic equity will help ensure capital resources are allocated to what matters, organizational focus is aligned, and leaders have clear measures of accountability.

This framework can be used by asset owners and asset managers across a variety of asset classes, as well as intermediaries and service providers supporting them. Ultimately, we aim to catalyze more investors toward systemic change and to do so by shining a light on all spheres of investor influence—internal and external to the firm—that have an impact on racial and economic equity (or inequity). Given that our markets are not static and the investment community is not monolithic, we look forward to building on this framework and sharing more best practices in ongoing collaboration with investors and key stakeholders.

Racial and economic equity is abundantly achievable, but we will not get there if we tinker around the edges, make small bets, or fail to hold ourselves accountable to results. Institutional investors, private equity, venture capital, pension funds, endowments, impact investors, high-net-worth individuals, family offices, intermediaries, advisors, service providers, and other ecosystem actors: use the *Blueprint* in your day-to-day work and build expertise in advancing equity. Everyone has a role to play. This is the work of a generation—not a few quarters or a few years—and we will get there by staying the course and working together.

The Framework

The pathway for investors to advance racial and economic equity is based on 10 critical societal outcomes, 3 powerful levers for investors to pull to bring about positive change, and 14 practical actions branching from those levers.

10 Outcomes

The core racial and economic equity outcomes all institutions in our society, including investors, have a duty to contribute toward achieving

- Aligned with the United Nations (UN) Sustainable Development Goals (SDGs), the *Universal Declaration of Human Rights* (UDHR), the *UN Guiding Principles on Business and Human Rights* (UNGPs), and the *Principles for Responsible Investment*[54]
- Fundamental to establishing a just, equitable, and healthy society where all people can participate, prosper, and reach their full potential
- Critical to fostering and sustaining vibrant markets and a stable economy

3 Levers

The key levers for investors to pull to contribute toward the realization of the 10 outcomes

- They are: (1) strengthening firm governance and culture, (2) reevaluating perspectives on risk, and (3) building equitable portfolios
- Together, the levers support embedding equity considerations holistically within organizations, including within investment analyses, decision-making processes, ownership policies and practices, disclosure and reporting approaches, corporate engagement, public policy advocacy, external communications, talent development and management, and measures of organizational effectiveness

14 Actions

The recommended actions for investors to take within the three levers to achieve results

- This is the pathway for investors to demonstrate their contribution to the 10 outcomes and exemplify responsible investing
- The actions help create the conditions for positive impact within each lever
- Included in each action are guidance, resources, and key performance indicators (KPIs) for all investors—those just starting out and those further along on the journey

10 Racial and Economic Equity Outcomes

How do you translate good intention and meaningful investments into equitable outcomes? And what are the right outcomes investors should focus on? Before getting to the levers investors can pull to advance equity, it is critical to set a strong foundation on the outcomes that signify achieving results. Undertaking any investment activity absent an anchor on specific outcomes, whatever they may be, risks wasting precious time and resources, misalignment with or underperforming against investment goals, failing to meet the interests of beneficiaries, and alienating key stakeholders.

Based on our research, consultation with experts (including people living in economic insecurity), and the deep body of research and insights developed by numerous other racial and economic equity advocates and organizations, these are the 10 equity outcomes that investors, together with all institutions in our society, have a duty to contribute toward achieving.

1. Equitable Governance and Leadership
2. Accountability Through Transparency
3. Reckoning and Repair
4. Balanced Power
5. Wealth Generation and Economic and Social Mobility
6. Thriving Multiracial Democracy
7. Health and Well-Being
8. Thriving, Diverse Communities
9. Climate, Environmental, and Spatial Justice
10. Inclusive Representation and Narrative Change

The 10 equity outcomes are fundamental to fostering and sustaining healthy markets and a stable economy. As discussed in Part 1, racial and economic inequality are growing and present dire systemic risks to the health and stability of our economy. Like climate action, there is no back seat for responsible investors to take on these issues. Addressing inequality head-on, therefore, is a critical endeavor for all investors to pursue together with their other sustainability strategies. The 10 equity outcomes not only embody the results we should all be aiming for to achieve equality in our society, but also what it means to cultivate, support, and preserve the social foundations that are necessary for healthy markets and a stable economy for generations to come. Think of the 10 equity outcomes as the successful mitigation of the negative externalities of all institutions in our society.

10 Outcomes

1. Equitable Governance and Leadership

Racial and economic inequality are recognized as systemic risks, and the antidotes of racial and economic equity are recognized as material to a thriving economy and democracy and, therefore, prioritized and embedded in the governance, design, and operation of all institutions.[55]

SDGs 10 AND 16 | UNGPs PRINCIPLES 16 AND 19

2. Accountability Through Transparency

Across sectors, institutions increase transparency across multiple dimensions, including by collecting and responsibly sharing disaggregated and intersectional demographic data to foster shared understanding, progress toward, and accountability for achieving racial and economic equity.[56]

SDGs 10 AND 16 | UNGPs PRINCIPLE 21

3. Reckoning and Repair

Institutions proactively assess and acknowledge accountability for their contribution(s) to racial injustice; actively repair harm caused, including from institutionalized violence; and invest in the healing and safety of all those affected, including workers, customers, and communities.[57]

SDG 16 | UNGPs PRINCIPLE 22

4. Balanced Power

People of color, people living in economic insecurity, and historically underinvested communities are proportionately represented in positions of power and leadership, and those most impacted by injustice and inequality are decision makers in the design and implementation of equitable solutions.[58]

SDGs 5, 8, 10, 16 | UDHR 23

5. Wealth Generation and Economic and Social Mobility

People of color and people living in economic insecurity have equitable opportunities for generational wealth-building including quality education, career advancement in good jobs with family-sustaining wages, and access to affordable assets; poverty is eliminated and the racial wealth gap is closed; and neither one's racial identity nor zip code predicts socioeconomic outcomes.[59]

SDGs 1, 4, 5, 8, 9, 10 | UDHR 23, 24, 25, 26

10 Outcomes

6. Thriving Multiracial Democracy

Our democracy is vibrant, diverse, and strong, and the nation benefits from the full participation of people of color, people living in economic insecurity, and young people in just and fair democratic processes.[60]

SDG 16 | UDHR 1, 2, 21, 22

7. Health and Well-Being

People of color and people living in economic insecurity have access to high-quality, affordable physical and mental health care, affordable childcare, and the ability to take time away from work to rest and care for themselves and their families.[61]

SDGs 3, 5, 10 | UDHR 25

8. Thriving, Diverse Communities

Neighborhoods are racially and socioeconomically diverse, and all communities are invested in, benefit equitably from the full suite of public services (including constructed public resources and tax dollars), and enjoy self-determination, resulting in equitable economic opportunity and community health and well-being.[62]

SDGs 8, 9, 10, 11 | UDHR 2, 22, 23, 24, 25

9. Climate, Environmental, and Spatial Justice

People of color are leaders in our just transition to a stable climate and healthy planet; all people, including those in low-income communities and communities of color, enjoy equitable access to the natural and constructed resources needed to live and thrive, from clean water to safe and affordable housing.[63]

SDGs 6, 7, 10, 13 | UDHR 25, 27

10. Inclusive Representation and Narrative Change

The brilliance, beauty, and humanity of people of color and people living in economic insecurity are visible and celebrated in our nation's storytelling through culture, print and digital media, and marketing; the stories and teaching of our past are honest and forthright.[64]

SDGs 3, 4, 5, 10 | UDHR 1 AND 27

The 10 equity outcomes are aspirational and relate to the facets of our economy, democracy, and society that remain unequal and inequitable. Embracing these outcomes is about respecting the full humanity of people of color and people living in economic insecurity, no less than anyone else, and recognizing that they have rights to be respected, protected, and fulfilled by all institutions in our society. Such rights include rights to fair wages as workers; to safe products as consumers; to clean and safe neighborhoods as community members; and to a healthy environment, fair democratic processes, and equal opportunity to prosper as members of society.[65] Together, the 10 equity outcomes are anchored in such rights. Not surprisingly then, the outcomes are well aligned with the UN Sustainable Development Goals, as well as the *Universal Declaration of Human Rights, UN Guiding Principles on Business and Human Rights, and the Principles for Responsible Investment*.[66]

Accordingly, by embracing the outcomes, investors can demonstrate how they meet globally recognized norms and standards for responsible investing. Some investors may yet doubt their role in contributing to the realization of the 10 outcomes, but the universal, long-term interest of beneficiaries to live and thrive in a stable society means investors have a responsibility to address growing inequality and economic instability, especially where it may be caused by their own investment activity.[67] Along with the growing chorus of academics, civil society leaders, investors, and investment advisors who have asserted the same, we find that investor fiduciary duties support, rather than conflict with, prioritizing the consideration of systemic risks such as inequality, especially racial and economic inequality.[68]

The 10 equity outcomes are also the bedrock of the Corporate Racial Equity Alliance's (CRE Alliance's) development of corporate performance standards on racial and economic equity. Since the initial release of the 10 outcomes in the exposure draft *Corporate Performance Standards on Racial and Economic Equity: Developmental Approach and Methodology*, we have made updates to incorporate the rich feedback the CRE Alliance received from its spring 2022 public comment period, where 300 stakeholders from all walks of life weighed in on our work. As we continue our corporate standards development effort, the outcomes should be seen as a living document. With the launch of the corporate standards—anticipated in late 2023—we will release further updates to the outcomes.

Investors cannot solve all of society's challenges, but they have a key role to play based on their influence and impact—past, present, and assuredly in the future. By embracing the 10 equity outcomes, which we show how to do through the levers, investors have a pathway to ensure their influence in society is positive—firmly becoming part of the solution and avoiding contributing to inequality and economic instability.

While it may take time for our markets to support and incentivize all investors to champion equity, such barriers do not obviate investor duties to do so. Wherever investors feel constrained to act, they can join in advocating for new rules that support and incentivize equitable investing. Inaction until such change comes about, however, is not a productive approach. Like the fallacy of imagining capital is neutral, inaction helps maintain racial and economic inequities. It also contributes to growing systemic risks across our markets.

So how can investors engage and wield capital in a manner that advances equity in line with the 10 outcomes? In the next section, we lay out the pathway for investor action through three powerful levers: strengthening governance and culture; reevaluating perspectives on risk; and building equitable portfolios.

Learn more in Part 1 about how to hold the tension between the undeniably positive power of capital and investment in our society **and** proactively recognizing that where capital has landed or failed to land (and how it has been deployed) perpetuates inequities in our society. The key takeaway is this: capital is not neutral, so greater attention and intention toward equitable outcomes is crucial.

Three Powerful Levers:

How Investors Contribute to the Equity Outcomes

Investors may play a smaller role in bringing about some of the equity outcomes and a larger role in others. Accordingly, the pathway for investors to productively contribute to the realization of the 10 equity outcomes is based on activating three powerful levers, each attuned to the dimensions of investor impact on racial and economic equity and the ways that investors can fulfill their duties and obligations to people of color, low-income communities, and society at large.

LEVER 1

Strengthening Governance and Culture

LEVER 2

Reevaluating Risk

LEVER 3

Building Equitable Portfolios

Investors should not expect to activate all the levers, embed all the actions, or achieve all the KPIs overnight, nor within a quarter or even a few years. Instead, investors should be ready to assess where they are today and start setting interim goals to continuously make progress over time.

While each lever is critical and ultimately should be employed as part of a firm's roadmap to champion racial and economic equity, investors may find that some come more easily than others. For example, many of the actions within Lever 1 (strengthening governance and culture) may come more easily for investors getting started, as they largely involve internal operations. Lever 2 (reevaluating risk) may require deeper understanding, engagement with multiple stakeholders, and the investment of additional resources. Lever 3 (building equitable portfolios) requires the deepest level of capacity for execution and represents the highest level of professional practice. Thus, Lever 3 may come into play for some investors only after establishing a foundation of action within Levers 1 and 2. Wherever investors start, the key to success is steadily making progress over time, knowing that all the actions are the table stakes to advancing racial and economic equity.

The three investor levers build on the Racial Equity Theme within the Global Impact Investing Network's IRIS+ platform, which was developed in partnership with PolicyLink and CapEQ as part of the CRE Alliance's overall mission.

We are grateful to the Global Impact Investing Network for its catalytic invitation to partner on bringing this work to life on IRIS+ and for championing its long-term importance across the investment community.

LEVER 1

Strengthening Governance & Culture

PRI Connection:
Principles 1 & 6

Good governance is the foundation of the firm. Culture sets the tone and shapes outcomes. Lever 1 focuses on these principles by embedding equity in the firm's strategic objectives and investment decision-making, as well as prioritizing equitable leadership and firm culture as key precursors to equitable outcomes in investing. The end result of activating Lever 1 is a strong foundation in the enabling conditions for the firm to achieve its racial and economic equity priorities. Investors can meaningfully activate this lever in five ways:

1.1 Conduct assessment & planning

1.2 Embed equity in governance

1.3 Increase diversity and build representative leadership

1.4 Champion accountability and transparency

1.5 Increase capacity and transform culture

1.1 Conduct Assessment & Planning

Regularly assess the firm's impact on racial and economic equity (or inequity), develop a plan to address identified opportunities and issues, appoint internal leaders, allocate appropriate resources, and set meaningful goals for the future.

ASSOCIATED OUTCOMES[69]

Why this is important

Knowing where you are and putting a meaningful plan in place to make progress are critical first steps to ensure time and resource investments toward advancing racial and economic equity are allocated to what matters most and organizational focus is aligned. Skipping this step or failing to adequately assess and understand the impact of firm-wide practices, not only risks unintentionally contributing to racial and economic inequities but also may result in missed investment opportunities, enhanced portfolio risk, and missed opportunities to attract and retain talent reflecting the diversity of society.

Guidance

A comprehensive firm-wide assessment will take into consideration both internal and external policies and practices, including hiring and pay practices, racial and gender diversity (especially among leadership and fund managers, but also including suppliers), investment processes, stewardship activities, proxy voting guidelines and decisions (for investors in public equities), tax practices, lobbying and political spending, stakeholder engagement, and other policies and practices that affect decision-making and fund management. Assessment should take place on a periodic basis, such as every few years. One way to start is to review all the actions and KPIs in this *Blueprint* and assess where the firm stands, then plan to make progress over time.

1.1 Conduct Assessment & Planning

PERFORMANCE INDICATORS

Getting-Started

- Leadership buy-in and commitment to ongoing assessment is obtained, including by sharing industry trends, the value proposition, and the risks of inaction
- Internal senior leaders designated to oversee and manage process, and appropriate resources allocated for initial and periodic assessment
- Investment made in a seasoned, racially diverse firm to support or conduct initial assessment (other dimensions of firm diversity are important as well)

Leading-Edge

- Firm-wide racial equity or civil rights assessment (or audit) completed every few years (e.g., every three to five years), covering internal and external policies and practices, including whether capital allocations support or hinder the 10 equity outcomes
- Findings from assessment/audit are incorporated into how the firm regularly sets goals and measures progress, including but not limited to ESG and DEI strategy-setting
- Findings from assessment/audit are incorporated into public reporting, and internal and external communications about ESG and DEI efforts
- Strategy to address any identified issues includes acknowledging and repairing any past and present harmful practices

RESOURCES

The Rationale for and Key Elements of a Business Civil Rights Audit, Laura W. Murphy

The REAL: Racial Equity Assessment Framework, Racial Equity Asset Lab

Addressing Capital's Effects on Racial Justice, Transform Finance

Capital at a Crossroads, Croatan Institute

A Report to Citi on the Progress of Citi's Efforts to Address the Racial Wealth Gap Through Its Action for Racial Equity, Covington & Burling LLP

JEDI Investing Principles and JEDI Investor Toolkit, GenderSmart Investing

How Proactive Racial Equity Audits Can Increase Company Profits, Johnjerica Hodge and Ally Jordan, Bloomberg Law

1.2 Embed Equity in Governance

Codify how racial and economic equity are core tenets of firm governance and decision-making within governing policies and practices and the duties and responsibilities of all leaders, from the board to the C-suite and investment committees.

ASSOCIATED OUTCOMES

Why this is important

Whether you are an asset owner or an asset manager, advancing racial and economic equity is a long-term effort involving multiple interventions. Accordingly, this strategy requires a strong footing in governance and decision-making practices as well as alignment as a priority among leadership and other investment decision makers. Otherwise, there is a risk of ineffectiveness, including achieving only short-lived results and conflicting investment strategies. The firm's efforts should not hinge on a single individual, department, or investment vehicle, but instead should be part of the DNA of the organization.

Guidance

Begin by reviewing the governing policies under which the firm, board, and leadership operate and identify opportunities to incorporate racial and economic equity as key considerations within them. For asset owners, this may include incorporating advancing equity in investment policy statements (IPSs). For boards, this may include updating charters, including the investment committee charter, in the same vein (e.g., the clauses on purpose, authority, and responsibilities). The key is to codify how racial and economic equity will remain central to the firm's long-term strategy and become part of the duties and responsibilities of all firm leaders and investment decision makers. Advancing equity is, and always must be, a team effort. Therefore, accountability should be shared across the firm. While accountability may be encouraged through incentive programs, that is not sufficient on its own or an adequate replacement for embedding equity in governance.

1.2 Embed Equity in Governance

PERFORMANCE INDICATORS

Getting-Started

- Leadership buy-in obtained for building racial and economic equity considerations into firm governance and decision-making
- Governing policies and practices of the firm reviewed and opportunities to incorporate racial and economic equity considerations identified
- New policies and procedures put into place to evaluate leadership performance against the achievement of the firm's racial and economic equity goals

Leading-Edge

- Firm governing documents (e.g., IPS and board and committee charters) updated with racial and economic equity as core components of the firm's commitment to fair decision-making and responsible investing for the long term
- Cross-functional leadership accountability established for the firm's equity goals
- Incentives and performance evaluation metrics are aligned across the firm to support collaboration and collective success (and prevent conflicting strategies)

RESOURCES

The Path to Inclusive Capitalism: An Asset Owner Guide for Investment Portfolios, Milken Institute

New Marguerite Casey Foundation Investment Policy Statement Prioritizes Race and Gender Diversity and Inclusion, Marguerite Casey Foundation

Want to Invest in Asset Managers Owned and Led by Women and Minorities? Here's How, Bhakti Mirchandani, Forbes

Asset Owners Need to Take Responsibility for System-Level Risks, Robert G. Eccles, Forbes

The Cambridge Principles: System Stewardship for Universal Owners, The Shareholder Commons

Asset and Wealth Management Revolution 2022: Exponential Expectations for ESG, PwC

1.3 Increase Diversity and Build Representative Leadership

ASSOCIATED OUTCOMES

Hire, develop, and promote a diverse workforce across race and gender at all levels of the firm, especially among leadership and other investment decision makers; increase diversity of the board.

Why this is important

People of color and women are dramatically underrepresented in investment firms and the financial services industry, especially in senior leadership positions and on boards. To meaningfully advance racial and economic equity, this must change. Because investment decision makers tend to invest in those with similar identities as themselves, the underrepresentation of people of color, especially in positions of power, has contributed to the under investment in businesses and firms owned and led by people of color. Increasing diversity and building representative leadership not only has the power to shift capital flows in a more equitable manner, it can also enhance the firm's ability to make more informed decisions and tap into overlooked value creation opportunities.

Guidance

Building greater diversity across the firm requires care and thoughtfulness. Leaders should ensure diversity is not treated as a numbers game or seen as zero sum; rather, this action is about establishing fair playing fields. Take the time to connect the firm's long-term strategy to the importance of having a wider range of expertise and perspectives across the investment lifecycle, especially in decision-making. The outcome of the firm's assessment in Action 1.1 will inform which policies and practices to reform or newly adopt (e.g., new recruitment, hiring, retention, and advancement practices). Increasing diversity also goes hand-in-hand with Action 1.5: failing to transform culture will hamper retention and advancement, and ultimately put diversity efforts at risk of failure. Protect your investments by making progress on building an inclusive culture where everyone can feel like they belong.

1.3 Increase Diversity and Build Representative Leadership

PERFORMANCE INDICATORS

Getting-Started

- Recruitment, hiring, pay, and promotion practices evaluated for fairness and inclusion, including identifying any biased practices and implementing bias-mitigating policies and practices (such as annual pay equity reviews)
- Assessment completed of demographics of the firm and opportunities identified for greater diversity
- The firm joins and actively contributes to industry efforts to promote careers in investment to underrepresented groups, such as Croatan Institute's BLAISE initiative and AltFinance's Fellowships for HBCU-students

Leading-Edge

- Comprehensive skills and diversity matrix developed and used in recruitment and promotion, including racial and gender diversity as key priorities
- Successful recruitment, hiring, development, and promotion of diverse leaders across race and gender, with steady progress toward representative leadership: 40% or more leaders are people of color and 50% or more are women

RESOURCES

Race Influences Professional Investors' Financial Judgments, Sarah Lyons-Padilla et al, PNAS

Diverse Hiring in Financial Services: Don't Blame Your Pipeline; Blame Your Bias, Corporate Compliance Insights

Asset Owners and Investing in Diversity: Intention Versus Action, Morgan Stanley

Retention Returns: Insights for More Effective Diversity Initiatives, Robert Toigo Foundation

State of Black Venture, BLCK VC and Silicon Valley Bank

The State of Diversity in Global Private Markets: 2022, McKinsey & Company

Diversity in the Asset Management Industry, Paula Robinson and Madhurima Sen, WTW

1.4 Champion Accountability and Transparency

ASSOCIATED OUTCOMES

Undertake regular and disaggregated data collection, analysis, and internal reporting; ensure external disclosures reflect the firm's commitment to measure progress and continually improve equity practices and outcomes.

Why this is important

Creating a culture of regular data collection, analysis, and reporting will help align organizational focus, promote continuous improvement, and support leaders in being accountable to results. It will also demonstrate the firm's credibility. After decades of lackluster results on DEI, accountability and transparency matter now more than ever before. The tide is now also shifting toward greater rigor around data and transparency as a matter of course.

Guidance

The firm's data collection and reporting plan should be informed by its assessment in Action 1.1. Completing Action 1.2 will also smooth the path here. Key data to gather and track will include, at a minimum, the demographic makeup of the firm's staff, board, asset managers, suppliers, and portfolio company management for all asset classes, disaggregated by race/ethnicity and gender. Establishing appropriate protocols to implement the full breadth of data collection efforts may take time, as well as determining internal reporting and external disclosure. However, being more transparent about progress with internal and external stakeholders does not require perfection or change overnight. Instead, focus on achieving meaningful improvement steadily over time. Build internal capacity with the support and guidance of external partners and consider working in coalition to share best practices and learnings along the way.

1.4 Champion Accountability and Transparency

PERFORMANCE INDICATORS

Getting-Started

- Policies and practices established to collect and track the data points listed in the guidance above as well as hiring, retention, attrition, and promotion data at all levels of the firm, disaggregated by race/ethnicity and gender
- Firm participates in and supports industry research, including sharing data for DEI and ESG surveys and investing in research (such as Stanford SPARQ and Illumen Capital's research partnership)

Leading-Edge

- EEO-1 data (or equivalent) annually collected and disclosed, and portfolio companies called on to do the same (boards, management teams, and workforce)
- For new investments or fundraises, demographic data by race/ethnicity and gender regularly requested (limited partners) or provided (general partners)
- Active member of one or more industry coalitions championing greater transparency and accountability

RESOURCES

Diversity, Equity, and Inclusion Code (USA and Canada), CFA Institute

Due Diligence Questionnaire and Diversity Metrics Template, Institutional Limited Partners Association (ILPA)

Corporate Call to Action Commitments to Transparency, Corporate Call to Action: Coalition for Equity & Opportunity

Five Practices for Developing and Staying Accountable to Racial Equity Goals, Robert K. Ross and Amy Chung, Stanford Social Innovation Review

Why Impact Management: Collection, Mission Investors Exchange and Salesforce.org

The Push for Pay Transparency, Theresa Agovino, Society for Human Resource Management

What Is DEI? Market Signals of Diversity, Equity, and Inclusion, Rights CoLab

1.5 Increase Capacity and Transform Culture

Invest in firm-wide capacity building to strengthen leadership and staff competency on advancing equity and reorient culture toward shared prosperity; proactively address racial and gender biases in internal policies and practices.

ASSOCIATED OUTCOMES

Why this is important

Meaningfully advancing equity as a firm-wide priority will require significant organizational change. Investing the time and resources to ensure leadership and staff are prepared and supported is therefore critical. This includes developing white leaders to be authentic champions of racial and economic equity. Investing in this shift is one of the most important steps toward lasting change and one of the hardest because it necessitates building new skills at all levels and implementing new practices. The process of transformation is not linear and will require constant iteration and perseverance. Taking the time to build capacity and reorient culture will pay dividends over time, including the ability to attract and retain top talent and differentiate the firm.

Guidance

The firm's approach should be informed by Action 1.1. Like all other change management, leadership sets the tone. Take the time to connect the firm's vision and goals to every department, showing the importance of the role everyone plays and how building new skills will help the firm succeed. Educational programming should be an ongoing practice tied to building a shared understanding of the root causes, systemic risks, and manifestations of inequity within organizations and across society. Make clear that creating a culture where all can thrive is a team effort that requires patience and persistence. External partners can help guide the process and support improvement. The work of translating learnings into action begins with leadership, so it is imperative that all leaders possess strong equity leadership skills. Success is a firm culture that supports the growth and development of a diverse workforce equipped with the skills and confidence to contribute to the firm's equity goals.

1.5 Increase Capacity and Transform Culture

PERFORMANCE INDICATORS

Getting-Started

- Programming and development opportunities established for leadership, especially those inexperienced on the root causes of racial and economic inequities, the prevalence of racial bias in investing, and risks of inaction
- Leadership, people managers, and the board (at a minimum), gain increased awareness of and begin building skills that foster equitable and inclusive workplace norms, culture, and hiring and promotion practices
- Leaders and staff who have shown initiative and/or ongoing commitment to advancing DEI are celebrated and awarded
- Leadership buy-in obtained and resources allocated for ongoing firm-wide capacity building
- Investment made in a seasoned, racially diverse firm to support capacity building (other dimensions of firm diversity are important as well)

Leading-Edge

- Anti-bias and anti-racism policy adopted setting out the firm's goals and values, leadership accountability, and how issues will be remedied and resolved; practices regularly evaluated against the policy and conflicts are addressed
- Firm leadership, board, and people managers are regularly evaluated and consistently demonstrate increasing competency on DEI issues, including fostering an equitable and inclusive firm culture

RESOURCES

Research: People Can Learn to Recognize Their Racial Privilege, Anyi Ma et al, Harvard Business Review

How the Best Bosses Interrupt Bias on Their Teams, Joan C. Williams and Sky Mihaylo, Harvard Business Review

Fighting Backlash to Racial Equity Efforts, MITSloan Management Review

Diversity Wins: How Inclusion Matters, McKinsey & Company

Diversity, Equity & Inclusion: Key Action Areas For Investors, PRI Association

LEVER 2

Reevaluating Risk

PRI Connection:
Principles 4 & 5

The actions described in Lever 1 turn the mirror inward to set a strong foundation for the firm's racial and economic equity priorities and ensure they have staying power. In Lever 2, we focus on the critical role of risk assessment and management in investment strategies and processes. Achieving racial and economic equity depends on the investing ecosystem reevaluating notions of risk on multiple levels—from recognizing racial and economic inequality as profound systemic risks to our markets, to combating harmful racial and gender stereotypes around what constitutes a "risky" investment. The end result of activating Lever 2 is the transformation of the investment lifecycle to center equitable processes and outcomes. Investors can meaningfully activate this lever in five ways:

- 2.1 Invest in consensus building on inequality as a systemic risk
- 2.2 Embed racial and economic equity throughout the investment lifecycle
- 2.3 Invest in fund managers of color
- 2.4 Engage capital allocators, asset managers, and investment consultants
- 2.5 Implement capacity-building programs for current and potential investees

2.1 Invest in Consensus Building on Inequality as a Systemic Risk

ASSOCIATED OUTCOMES

Commit time and resources to building consensus across the investing ecosystem on the saliency and materiality of racial and economic inequality as systemic risks necessitating urgent cross-sector action.

Why this is important

As outlined in Part 1, there is no dearth of research illuminating racial and economic inequality as systemic risks, threatening economic productivity and potential, and putting society at heightened risk of social and political instability. Meeting the scale of these challenges requires collaboration across sectors, yet broad consensus on the saliency and risks of racial and economic inequality have yet to emerge. Lest we risk even more devastating inequality, and the stifled economic growth and instability that would come along with it, investors have a vested interest in shining a light on racial and economic inequality as systemic risks and bringing others along.

Guidance

Start by building alignment and consensus within the firm, including on the importance of advancing racial and economic equity as critical risk management approaches. Leverage the firm's communication platform(s) and convening power to bring others along, including by amplifying existing research and organizations working to drive greater consensus. Often the deep knowledge and expertise of civil society organizations on the front lines of advancing equity are overlooked—make a concerted effort to access this knowledge, incorporate it into the investment lifecycle, and amplify their leadership. Supporting new research efforts and the development of tools and strategies to rally industry and cross-sector action is also important. Lastly, stay up-to-date on emerging research and share widely across professional networks.

2.1 Invest in Consensus Building on Inequality as a Systemic Risk

PERFORMANCE INDICATORS

Getting-Started

- Leadership and risk managers are informed and aligned on the risks of ongoing racial and economic inequities
- The firm invests in and supports research to measure and create tools and strategies to address racial and economic inequality
- The firm engages external advisors or hires specialists with expertise in the dynamics of racial and economic exclusion, including lived experience

Leading-Edge

- The firm publicly supports or joins industry and cross-sector coalitions focused on addressing and increasing awareness of inequality as a systemic risk
- External communication platform(s) are regularly used to amplify the importance of addressing inequality and advancing equity
- The firm actively supports advocacy for new policy and regulatory frameworks that address inequality and the role of investors and corporations
- The firm supports research and emerging approaches on financial accounting of externalities (the true costs of harm to human, social, and natural capital)

RESOURCES

Narrowing the Gap, Ariel Investments

Inequality as a Systemic Risk, Green Alpha Advisors

Approaching the Tipping Point, The Investment Integration Project

ESG 2.0, The Predistribution Initiative

Best Interests in the Long Term, Susan N. Gary, University of Colorado Law Review

Understanding the Role of ESG and Stakeholder Governance Within the Framework of Fiduciary Duties, Wachtell, Lipton, Rosen & Katz

2.2 Embed Racial and Economic Equity Throughout the Investment Lifecycle

ASSOCIATED OUTCOMES

Integrate equity goals in the investment lifecycle by improving risk assessment techniques to reduce gaps between actual and perceived risk levels; actively seek to invest in people of color-led businesses and adopt equitable underwriting processes.

Why this is important

Harmful racial and gender stereotypes around what constitutes a "risky" investment are prevalent in investor mindsets and deeply embedded in the tools and processes used to determine where capital is directed and how investments are made. Even today, people of color, and the neighborhoods, cities, and regions in which they live are often considered "riskier" investments, including when compared to white people with similar qualifications and expertise. This perpetuates racial gaps in income and wealth, creating a vicious cycle of underinvestment. Intentionally focusing on racial and economic equity within each step of the investment lifecycle has the power to shift implicitly racist notions of risk, creating a more equitable investment process that opens increased investment to communities of color and people of color-led businesses and better supports entrepreneurs of color.

Guidance

Transforming the investment lifecycle and reevaluating risk assessment and management approaches to drive more equitable underwriting is a multi-step process that will take time and varies across asset classes. The firm's approach should be informed by the outcome of its assessment in Action 1.1. Completing Action 1.2 will also smooth the path here. Relatedly, establishing awareness especially with capital allocators, risk management teams, the investment committee, and other key players is an important step. Work together on how best to incorporate intentional equity goals at each step of the investment process. Start by analyzing who primarily benefits at each step and who may be excluded. For investing in fund managers of color, see Action 2.3. For private equity and venture capital, review deal sourcing, due diligence, and standard deal terms. Throughout the process, set clear milestones to evaluate approaches and expect to update practices as you learn along the way.

2.2 Embed Racial and Economic Equity Throughout the Investment Lifecycle

PERFORMANCE INDICATORS

Getting-Started

- Firm leadership educated on the importance of integrating equity considerations into investment management to improve resilience of investment portfolios
- As part of Action 1.1, assessment completed of investment practices for implicit biases, including valuation methodologies, deal sourcing, due diligence, and deal terms (e.g., “in-group” funding approaches, over-reliance on track records, for asset managers, and credit scores, for investees)
- Commitment memorialized within investment beliefs and IPS with goals, strategies to be used, and targets (e.g., % of racial and gender diversity on boards/leadership, % of AUM invested in areas that tend to produce equitable outcomes)
- Equitable underwriting strategies implemented from Milken Institute’s The Path to Inclusive Capitalism

Leading-Edge

- Senior-level accountability established for implementing racial and economic equity-focused investment strategies
- Investment committee policy adopted prioritizing racial and economic equity in strategy, risk management, and oversight
- Investment selection and deal sourcing methods prioritize inclusion, including engaging with broader networks and mitigating in-group funding
- Increased investment in businesses led by people of color steadily making progress toward the diversity of society: 40% or more of capital deployed to businesses owned by people of color and historically underinvested communities
- Increased investment in businesses that produce products and services that advance racial and economic equity (e.g., products/services equitably serving people of color and historically underinvested communities)

RESOURCES

Want to Select For and Promote Diversity and Inclusion in Your Investment Portfolio? Here’s How, Bhakti Mirchandani, Forbes

Underwriting for Racial Justice, Beneficial State Foundation

Due Diligence 2.0 Commitment, Due Diligence 2.0

Due Diligence Questionnaire and Diversity Metrics Template, Institutional Limited Partners Association (ILPA)

Impact Investors Need to Share Power, Not Just Capital, Alyssa Ely and Denise Hearn, Stanford Social Innovation Review

Approaches to Address Racial Bias in Financial Services: Lessons for the Insurance Industry, Casualty Actuarial Society

2.3 Invest in Fund Managers of Color

ASSOCIATED OUTCOMES

Increase the assets under management invested with fund managers of color within the firm (for direct investors) and fund managers hired by the firm (for indirect investors).

Why this is important

Less than 2% of the trillions of dollars in US AUM are managed by people of color and women. Their underrepresentation is not driven by performance differentials, but rather by racial and gender bias as well as structural barriers—from industry consolidation to firms lacking sufficiently diverse professional networks, AUM utilized as a risk metric, and adherence to minimum track records, to name a few. The result is that high-performing managers do not get fair allocations. Also, because capital decision makers tend to invest in those with similar racial and ethnic identities as themselves, such stark underrepresentation of people of color as fund managers presents a barrier to advancing racial and economic equity. Investing in fund managers of color is an important shift (though not sufficient in itself) toward stopping the cycle of underinvestment in communities of color generally, and businesses and firms owned and led by people of color.

Guidance

This action is an important component of Actions 1.3 and 2.2. We highlight it as a stand-alone action here due to its significance. Translating good intention into action will require addressing implicit racial biases and stereotypes head-on: the underrepresentation of fund managers of color is not driven by performance differentials, but rather by persistent structural barriers and intransigence. There is no better time than right now to make a big shift. Public pension funds, philanthropy, and values-driven investors are leading the way in prioritizing investing in fund managers of color, including through emerging manager programs, broadening their networks, and setting bold goals to steadily make progress and hold themselves accountable to achieving results.

2.3 Invest in Fund Managers of Color

PERFORMANCE INDICATORS

Getting-Started

- Leadership aligned on the importance of investing in fund managers of color
- Long-term plan developed and launched to steadily make shifts in capital or other asset allocations to fund managers of color
- The firm joins and actively contributes to cross-sector efforts to promote careers in investment to underrepresented groups

Leading-Edge

- Investment goal(s) established to shift a meaningful percentage of AUM to fund managers of color, with interim goals developed to support making steady progress over time
- Among the firm's fund managers, 40% or more (within, or hired by, the firm) are people of color and 50% or more are women, reflecting the diversity of society

RESOURCES

Calpers Makes $1 Billion Bet on Small Funds as New CIO Reshapes Pension, Dawn Lim, Bloomberg

Fiduciary Guide to Investing with Diverse Asset Managers and Firms, Diverse Asset Managers Initiative

Knight Diversity of Asset Managers Research Series: Industry, Knight Foundation

Institutional Allocators for Diversity Equity & Inclusion

Inclusive Capitalism: Diversity, Equity, and Inclusion in Asset Management, Milken Institute

Knight Diversity of Asset Managers Research Series: Philanthropy 2022, Knight Foundation

2.4 Engage Capital Allocators, Asset Managers, and Investment Consultants

ASSOCIATED OUTCOMES

Actively work with and support capital allocators, asset managers, and investment consultants in advancing equity by establishing aligned investment priorities, sharing best practices, and engaging in ongoing communication to ensure accountability.

Why this is important

Capital allocators, asset managers, and investment consultants all play key roles in where capital lands and how it is deployed, whether as decision makers, gatekeepers, or trusted stewards of capital. Investment firms can bring about more inclusive and equitable investing by engaging and supporting each of them on their equity journeys. Though it will take time to reshape notions of risk and expand the field of investment opportunities, success hinges on greater engagement, support, and accountability of these groups.

Guidance

Overall, asset owners should be deeply supporting the capacity and assessing the success of their capital allocators. In turn, capital allocators should be in regular dialogue with their asset managers to set clear priorities in investment strategies, support their increased capacity on advancing equity, and measure their effectiveness. Of course, not all asset managers will come along right away. Think long-term and work in coalition with other investors to increase your influence. To the extent the firm engages investment consultants, ensure such consultants understand and adhere to the firm's racial and economic equity investment priorities. Across all three groups, selecting for and ensuring meaningful racial/ethnic and gender representation is critical. Limited or superficial engagement, especially with asset managers, leaves opportunities on the table for greater success. The approach for this Action will be connected to Actions 1.1, 1.5, 2.2, 2.3, and Lever 3.

2.4 Engage Capital Allocators, Asset Managers, and Investment Consultants

PERFORMANCE INDICATORS

Getting-Started

- Resources regularly shared and discussed on the imperative of advancing racial and economic equity, including the risks of inaction
- Racial/ethnic and gender diversity are codified as key considerations in asset manager selection processes
- Updated IPS (in line with Action 2.2) shared and discussed regularly with asset managers and investment consultants

Leading-Edge

- Engagement agreements, side letters, and LPAs include success metrics and measurement terms (e.g., disclosing DEI data, how asset managers/investment consultants determine and measure their own impact on equity)
- Short- and long-term performance incentives established for all three groups and regular reviews undertaken in line with updated investment priorities
- The firm's asset managers and investment consultants consistently demonstrate the measurable ways they align with and promote investment priorities

RESOURCES

Assessing System-Level Investment, The Investment Integration Project

Asset Owner Diversity Charter, Diversity Project

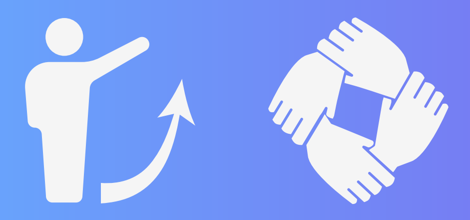
Model Investment Language Templates for Public Equity Markets and Private Equity Markets, The Pension Fund Coalition for Inclusive Capitalism

Investors Worried About Wealth Inequality Should Focus on Fund Manager Compensation, Delilah Rothenberg, Stanford Social Innovation Review

Annual Investment Consultant Survey 2021, Diverse Asset Managers Initiative

2.5 Implement Capacity-Building Programs for Current and Potential Investees

ASSOCIATED OUTCOMES



Support the growth and development of businesses owned and led by people of color and women through long-term capacity-building programs and meaningful resources to grow; collaborate across industry.

Why this is important

Businesses owned and led by people of color and women continue to lack equitable access to capital and other critical capacity-building resources to start, grow, and scale their businesses. Though there has been increased attention to the inequities and root causes over the past few years—from implicit racial and gender bias to overreliance on "in-group" funding approaches—investors are still underinvesting in businesses owned and led by people of color and women. To meaningfully advance racial and economic equity, nothing short of a dramatic increase in investments is warranted.

Guidance

Reversing historic underinvestment will require intentional and sustained effort over the long-term—think decades, not just a few years. Deeply consider how the firm can ensure that support and investments are long-lasting rather than one-time or short-term actions. In addition, it will be important to address implicit racial and gender biases head-on: people of color and women do not need saving. Rather, the investment community needs to establish fair playing fields and address historic harms. That is what this work is about. Accordingly, make sure all leaders and staff embrace this work with the humility it requires. Along with increased support and resources for current investees, ensure the firm also supports potential investees with strategies to grow the pool of businesses owned and led by people of color and women.

2.5 Implement Capacity-Building Programs for Current and Potential Investees

PERFORMANCE INDICATORS

Getting-Started

- Leadership buy-in obtained and resources allocated for ongoing investments in capacity-building for businesses owned and led by people of color and women
- The incubators and accelerators supported by the firm prioritize people of color and women entrepreneurs in representative numbers and adopt strong DEI-focused policies and practices
- Opportunities identified to decrease the cost of capital and increase the availability of financial and knowledge resources for businesses owned and led by people of color and women, including early-stage and expansion capital

Leading-Edge

- Financial and in-kind support provided to organizations that provide mentorship, sponsorship, knowledge-building skills, commercial networks, and other resources to businesses owned and led by people of color and women
- The firm increases financial and knowledge resources for businesses owned and led by people of color and women, including early-stage and expansion capital
- The firm provides unrestricted grants and/or flexible financing to community development financial institutions in a manner that supports their scaling and access to broader markets

RESOURCES

An Economy for All, Arabella Advisors

Bridging the Divide, Aspen Institute

Building Supportive Ecosystems for Black-Owned US Businesses, McKinsey & Company

Ariel Alternatives Closes Inaugural $1.45 Billion “Project Black” Fund with Partners and Co-Investors, Ariel Investments

BlackRock Impact Opportunities Fund Targets $1 Billion to Invest in Communities of Color across the U.S., BlackRock

Access to Capital Directory for Entrepreneurs, Bank of America and Seneca Women

LEVER 3

Building Equitable Portfolios

PRI Connection:
Principles 2 & 3

The actions described in Lever 2 aim to transform investment approaches to center equitable processes and outcomes. Now in Lever 3, we focus on the importance of building equitable portfolios—from activating the entire portfolio toward equitable outcomes, to championing racial and economic equity standards for businesses, and more. Leveraging investor power outward in this manner is no less important than turning the mirror inward. Investors can think of Lever 3 as the embodiment of good corporate citizenship, something we need now more than ever from all the key players in our economy. Investors can meaningfully activate this lever in four ways:

3.1 Activate your entire portfolio over time

3.2 Be an active owner

3.3 Advocate and engage equitably

3.4 Engage stakeholders in designing and deploying new investments for inclusion

3.1 Activate Your Entire Portfolio Over Time

Assess the ways in which the firm's capital is leveraged toward racial and economic equity (or not) and adopt a long-term plan to activate the entire investment portfolio toward equitable outcomes.

ASSOCIATED OUTCOMES

Why this is important

Capital is not neutral—all investments have social impacts. Accordingly, investors have a responsibility to understand the social impacts of their investments. To meaningfully advance racial and economic equity, it is imperative to systematically assess portfolios to understand whether investments are driving racial and economic equity or inequity. The assessment process and establishing a plan to activate the entire investment portfolio will take time, but the long-term goal should be for all investments to be directed toward equitable outcomes.

Guidance

The portfolio assessment should be undertaken with, or informed by, the firm's broader assessment in Action 1.1. Croatan Institute's report *Capital at a Crossroads* (linked in the resources) provides excellent guidance on activating the entire portfolio by undertaking a systematic portfolio assessment. Some investors may feel constrained to take on a comprehensive evaluation. The key is to start, think long-term, and keep making progress. Total portfolio activation can and ought to be done carefully over time. Finally, keep in mind that there are no credits or offsets in advancing racial and economic equity. An investment is either driving equity or it is driving inequity—it cannot do both.

3.1 Activate Your Entire Portfolio Over Time

PERFORMANCE INDICATORS

Getting-Started

- Leadership buy-in and commitment to total portfolio activation is obtained, including by sharing the value proposition and the risks of inaction
- Internal senior leaders designated to oversee and manage process, and appropriate resources allocated for initial and periodic assessment
- Initial assessment of portfolio impact on racial and economic equity completed
- Long-term plan to activate entire portfolio toward racial and economic equity is under development

Leading-Edge

- 10-step implementation process is completed and embedded in investment review processes
- Increased investment in businesses led by people of color, steadily making progress toward the diversity of society: 40% or more of capital deployed to businesses owned by people of color and historically underinvested communities
- Increased investment in businesses that produce products and services that advance racial and economic equity (e.g., products/ services equitably serving people of color and historically underinvested communities)

RESOURCES

Racial Equity Investing – Full Primer, Glenmede

Capital at a Crossroads, Croatan Institute

Total Portfolio Activation, Tellus Institute, Tides, and Trillium Asset Management

Guidance and Case Studies for ESG Integration, CFA Institute and PRI Association

The Essential Link Between ESG Targets & Financial Performance, Mark R. Kramer and Marc W. Pfitzer, Harvard Business Review

3.2 Be an Active Owner

Use corporate engagement, proxy voting power, and other modes of stewardship and influence to increase adoption by companies of policies and practices that advance racial and economic equity; actively support portfolio companies in advancing equity.

ASSOCIATED OUTCOMES

All 10!

Why this is important

Achieving the 10 equity outcomes will require meaningful contributions from companies, along with investors. Using investor voice and influence to steward companies to advance racial and economic equity is a highly effective way to accelerate meaningful change. It is also a critical component of risk management. Notwithstanding the noisy (and meritless) anti-ESG and DEI backlash, the consensus is resoundingly clear that advancing fair and equitable corporate practices is consistent with investor fiduciary duties to protect the value of investments and serve beneficiary interests. Whether you are a large institutional investor or a small investment firm, use all your avenues of influence to drive higher performance from companies on racial and economic equity.

Guidance

See the CEO Blueprint for Racial Equity for the kinds of actions companies should be taking to advance equity. The CRE Alliance's forthcoming corporate performance standards on racial and economic equity will build on the *CEO Blueprint* by enumerating performance targets for companies aligned with 18 Corporate Levers of Change (pages 6-7). The 18 corporate levers reflect the practical ways companies can fulfill their duty to advance the 10 equity outcomes. Investors should familiarize themselves with the corporate levers and ensure their active ownership approaches encompass them. Driving higher performance by companies means holding them accountable to setting and achieving performance goals, along with providing greater disclosures. Work in coalition with others to support companies that are making continual progress. Engage with companies that have yet to do so, to influence them to come along. Embedding equity into the DNA of business is an imperative for long-term value creation and the health of our society.

3.2 Be an Active Owner

PERFORMANCE INDICATORS

Getting-Started

- 2021 CEO Blueprint and 18 Corporate Levers of Change (pages 6-7) shared amongst and reviewed by relevant teams; gaps and opportunities identified for greater corporate engagement
- Leadership buy-in obtained to increase investor voice and influence efforts toward higher performance by companies
- External communications platforms used to amplify the business imperative to advance racial and economic equity
- Companies that are making progress toward established equity goals are amplified and celebrated

Leading-Edge

- The firm influences companies to advance racial and economic equity in line with the 18 Corporate Levers of Change, including quality jobs and living wages for all workers; increased supplier diversity; political activity transparency; and full EEO-1 form disclosures
- Asset managers directed to use voting power, corporate engagement, and other stewardship mechanisms in line with the 18 Corporate Levers of Change
- The firm promotes diverse boards and leadership across portfolio companies with steady progress toward the diversity of society: people of color comprising 40% or more of portfolio company leadership and women comprising 50% or more
- The firm and its leaders play an influential role in coalitions and professional networks to amplify and increase adoption of equitable and fair corporate practices

RESOURCES

Narrowing the Gap, Ariel Investments

Racial Justice: What's Investing Got to Do with It?, Boston Common Asset Management

Advancing Racial Equity Through Your Investments, Morgan Stanley

Proxy Voting for Racial Equity, Majority Action and SEIU

Equity in the Boardroom, Majority Action and SEIU

An Investors' Guide to Investing for Racial Equity, Kristin Hull, ImpactPHL

A Refreshing Look at Fiduciary Duties, The Shareholder Commons

3.3 Advocate and Engage Equitably

Regularly assess public policy positions for inequitable outcomes and with an overall commitment to fairness, be fully transparent about political activity, and ensure local, state, and national-level political activity do not reinforce inequality.

ASSOCIATED OUTCOMES

Why this is important

Investors have a duty to be good corporate citizens. That means playing a productive role in strengthening fair democratic systems and ensuring that any political activity that is undertaken promotes, rather than hinders, the achievement of racial and economic equity. Corporate political influence has long contributed to inequality—from influence over political candidates and their policy platforms, to securities regulations, labor laws, tax policy, and much more. Any political spending, lobbying, advocacy, and other political influence (including through industry affiliations) should drive greater fairness and equality. The long-term health and stability of our markets and economy depends on greater corporate political responsibility.

Guidance

First, understand the breadth and depth of the firm's political activity, if any, including indirect political influence through fund managers and industry affiliations. Assess whether the firm's political activity or affiliations may conflict with its equity commitments, including the realization of the 10 equity outcomes. This will involve asking fund managers to disclose political activity and ensuring they stay aligned with the firm's equity goals. This may also involve working to shift the policy positions of industry groups with which the firm is affiliated, or otherwise stepping away from such groups. Being transparent about the firm's political activity is also integral. For a comprehensive approach, see the Erb Principles for Corporate Political Responsibility. To the extent the firm directly supports public policies that aim to advance equity (e.g., tax policies for greater shared prosperity), be informed by the work of experts on racial inclusion (e.g., research institutes and academia) and follow the lead of civil society organizations and community leaders.

3.3 Advocate and Engage Equitably

PERFORMANCE INDICATORS

Getting-Started

- Assessment completed of the breadth and depth of the firm's political activity, including indirect political influence via fund managers and industry affiliations
- Leadership buy-in obtained to adopt the Erb Principles
- Plan for complete transparency of all political activity is under development

Leading-Edge

- The firm's commitment to corporate political responsibility is memorialized in a board-approved policy, in line with racial and economic equity
- $0 spent directly or indirectly on supporting public policies that exacerbate racial and economic inequality
- 100% of the firm's political activity is aligned with its board-approved policy
- Informed by engagement with civil society and communities, the firm actively supports public policies that combat racial and economic inequality

RESOURCES

Corporate Political Spending is Bad Business, Dorothy S. Lund and Leo E. Strine, Jr., Harvard Business Review

Investor Statement of Solidarity to Address Systemic Racism and Call to Action, Racial Justice Investing

Lobbyists, Governments, and Public Trust, Organisation for Economic Co-operation and Development

Racial Equity Governing Agenda, PolicyLink

Investing in Influence: Investors, Portfolio Firms, and Political Giving, National Bureau of Economic Research

3.4 Engage Stakeholders in Designing and Deploying New Investments for Inclusion

ASSOCIATED OUTCOMES

Work closely with historically underinvested communities and business leaders of color in the design, deployment, and impact measurement of new, inclusive investments.

Why this is important

Equity is both a process and an outcome. Designing and deploying new investments intended to be inclusive requires building equity into the process of making the investment as well as focusing on equitable outcomes of that investment. Engaging and valuing the expertise of those intended to benefit from a given investment is a key part of an equitable process and will support the success of the investment when done right. Far too often the perspectives of historically underinvested leaders and communities lie outside of conventional investment decision-making processes, either overlooked entirely or undervalued. Doing so is a missed opportunity to leverage invaluable knowledge capital toward the investment's success. Meaningful engagement also has the potential to uncover "new" investment approaches and structures that become alpha multipliers as well as strengthen leaders and communities.

Guidance

First and foremost, ensure that the firm's efforts do not become a check-the-box exercise. Make the time and create the space, including during the early research phases as well as investment structuring phases. This is not meant to be a feel-good effort either. Rather, it is an essential piece of building deeper knowledge capital needed to smartly invest financial capital. Action 2.2 is closely related to this action. Ensure colleagues are informed about how lived experience of racial and economic inequity is critical to value alongside other sources of data, research, and expertise—and sometimes more so. Invest time in learning about the best practices, including what not to do, and be humble throughout the process. One way this is done right is by shifting power in the process to those who are most proximate to the impact of investments and naturally know more about what would make a difference in their lives, businesses, and communities.

3.4 Engage Stakeholders in Designing and Deploying New Investments for Inclusion

PERFORMANCE INDICATORS

Getting-Started

- Leadership buy-in and commitment obtained for ongoing stakeholder mapping and engagement
- Internal senior leaders designated to oversee and manage process with appropriate resources allocated
- Initial stakeholder mapping conducted in line with current investments and anticipated investment plans
- Gaps and opportunities identified for more meaningful stakeholder engagement

Leading-Edge

- Equitable mechanisms to engage with stakeholders are implemented and incorporated into the investment lifecycle
- The firm designs and deploys stakeholder-informed investments that open greater opportunities for growth for smaller funds or smaller businesses
- Non-financial criteria (e.g., community impact and longevity of investment) are included in measuring total returns and assessing the success of investments, especially those designed for inclusion
- The firm steadily increases its capability to invest in this manner over time

RESOURCES

Power Shifting as a Form of Impact, Urban Institute

Grassroots Community Engaged Investment, Transform Finance

Bottlenecks, Blind Spots, and Blended Finance, Gillian M. Marcelle, Green Economy Coalition News

Transformative Philanthropy for Racial Justice, Crystal Hayling, Stanford Social Innovation Review

Process Metrics that Analyze Power Dynamics in Investing, Criterion Institute

Matriarch Funds, Native Women Lead

Collective Abundance Fund, NDN Collective

CONCLUSION

Five Bold Goals Toward an Equitable Future

Conclusion: Five Bold Goals Toward an Equitable Future

The *Investor Blueprint* lays out a comprehensive pathway for investors to play fairly and equitably in all their spheres of influence. If it feels overwhelming, we hope you embrace that as an opportunity to be even more intentional about the process of change. This work takes time, but investors are uniquely positioned to achieve audacious goals. Why? The investment industry is in the daily practice of balancing audacity and pragmatism. Investors understand that to achieve market rate returns over time, a portion of the portfolio should be pegged to proactive, future-focused, and audacious opportunities. Most investors would not tolerate a portfolio where investments are over-indexed in low-growth assets that preserve the status quo. Despite the growing body of evidence that investing in equitable growth is the opportunity of our lifetime, investors must ask themselves: why tolerate underperformance as it relates to racial equity in your investments?

Whether you are just getting started or already on the journey, the *Blueprint* is meant to help you assess where you are today, make a long-term plan, and set your interim goals to steadily make progress toward (and maybe even outperform) the leading-edge performance indicators in the actions. Numerous investors have been doing the work for years if not decades. And the community is ripe for exponential growth. Investors who join in this work will solidify their long-term competitiveness. Investors who do not will miss out on value-creating opportunities and expose themselves to greater risk.

So how will we know if we are making progress toward achieving the 10 equity outcomes? Five high-leverage performance indicators collectively exemplify equitable and inclusive growth, and would signify real progress in dismantling centuries of discrimination and exclusion if achieved:

- 40% or more of capital decision makers within the firm and among asset managers are people of color, and 50% or more are women.
- 40% or more of portfolio company leadership are people of color and 50% or more are women.
- 40% or more of capital is deployed to businesses owned by people of color and historically underinvested communities.
- Investors are designing and deploying new, inclusive investment structures that open up greater opportunities for growth for smaller funds and smaller businesses.
- More than half of AUM aligns with the standards in the *Blueprint*, steadily increasing to 100% of AUM over time.

These indicators represent the unrealized economic potential of our nation's diversity. Another way to think about these indicators are as the thresholds of sustainable investor practices necessary for racial and economic equity, or as the guardrails necessary for a healthy society and stable economy. However you might think about it, investors should not expect to achieve them overnight, nor within a quarter or even a year. Instead, assess where you are today and set interim goals to continuously make progress over time. And remember, achieving great things requires setting your sights high. It could very well be 10 or 20 years before these goals are achieved. That makes it more important than ever to get started now and to stay the course. If you do nothing else, focus on these five goals and constantly look across your portfolio to ensure you are not contributing to hampering the realization of the 10 equity outcomes.

The stability and fairness of our economy demands greater leadership from investors toward shared prosperity. If we do this right, our society and economy can be free from racial and economic inequality. It is all of our business to make this future a reality—a future where everyone belongs and all people can enjoy a dignified standard of living for themselves and their families, build generational wealth, live in healthy communities of opportunity, and access what they need to thrive as human beings. Investors, how will you lead?

APPENDIX

Glossary of Key Terms

Glossary of Key Terms

Equity: Just and fair inclusion into a society in which all can participate, prosper, and reach their full potential.[70]

- **Economic equity:** As a process, economic equity aims to ensure no one is left behind in our economy by targeting resources and investments to historically excluded groups, including people of color and working-class people, so all people have good jobs, dignified and rising standards of living, and increased voice, power, and ownership in our economy. As an outcome, economic equity means the presence of values and systems that ensure fairness in the generation and distribution of economic wealth, tax liability, resources, and assets in a society.

- **Racial equity:** As a process, racial equity aims to ensure no one is left behind by targeting resources and investments to dismantle the barriers affecting historically excluded racial and ethnic groups. As an outcome, racial equity is when race and ethnicity no longer influence how one fares in society. It means the absence of discrimination based on race or ethnicity, the absence of racial disparities in all dimensions of society, and the presence of values and systems that ensure fairness and justice for all people.

Inequality: The state of not being equal, especially in status, rights, and opportunities.[71]

Inequity: The quality of being unfair or unjust; something that is not fair or equal.[72]

Low-income communities refers to communities where many residents are economically insecure, including white people and people of color. In the US, economic insecurity means living on incomes below 200% of the federal poverty level which is equivalent to $29,160 annually per person in 2023.[73]

People of color and communities of color: the term people of color includes all people who are of a race/ethnicity other than non-Hispanic white. This includes people who are Black, Indigenous (or Native American), Asian American and Pacific Islander, Latinx, Arab-Middle Eastern American, multiracial, and immigrants of color. The term communities of color refers to groups of people of color within neighborhoods, cities, or regions.

Stakeholders: Individuals and groups who have an interest in the policies and practices of companies not only because they are affected by them, but also because they have rights to be respected, protected, and fulfilled by companies, e.g., workers' rights to fair wages, consumers' rights to safe products, suppliers' rights to transparency, investors' rights to be informed of material facts, communities' rights to clean and safe neighborhoods, and society's rights to a healthy environment, among others.

Systemic racism: includes institutional and structural racism.[74]

- **Institutional racism** occurs within institutions and involves unjust policies, practices, procedures, and outcomes that work better for white people than people of color, whether intentional or not.

- **Structural racism** is racial inequities across institutions, policies, social structures, history, and culture. Structural racism highlights how racism operates as a system of power with multiple interconnected, reinforcing, and self-perpetuating components which result in racial inequities across all indicators for success. Structural racism is the racial inequity that is deeply rooted and embedded in our history and culture and our economic, political, and legal systems.

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