How investments drive injustice and what investors can do about it
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ABOUT TRANSFORM FINANCE

Transform Finance is a non-profit organization building a world where capital is deployed in alignment with social justice values and where communities can influence, access, and govern capital.

We provide investors with insights on how their activities affect different stakeholders, advocate for more transformative practices, develop values-aligned fund and investment models, and convene a community of practice with the Transform Finance Investor Network.

We support social justice practitioners and community leaders through trainings that break down the financial landscape and inspire actions to reclaim it, hands-on learning journeys to develop strategies and organize around capital, and tailored support for investment projects that center the voices and priorities of community residents and grassroots organizations.

Together with both investors and social justice practitioners, we advance financial innovations and movement building strategies that explicitly redress the issues with capital for communities of color, working class people, and other oppressed communities.

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The Need for a Racial Justice Approach Across All Capital Flows ........................................ 4

An Overview of Investor Actions to Advance Racial Justice .................................................. 6

Box: DEI and Financial Performance: The “Investor Case” for DEI .................................... 9

Looking Deeper: A Focus on Racial Outcomes ....................................................................... 10

Box: A Parallel to the Evolution of Climate Change Portfolio Audits ................................. 12

Sample Linkages Between Outcomes and Capital, by Issue Area .................................... 13

Investor Analysis: Applying this framework to an investment portfolio .............................. 18

Considering Investor Exposure by Asset Class ..................................................................... 21

Box: Racial Justice Practitioner Considerations Around Investor Action .......................... 25

Next Steps .................................................................................................................................. 26
The Need for a RACIAL JUSTICE APPROACH ACROSS ALL CAPITAL FLOWS

Capital and communities of color in the United States, particularly Black communities, have a long and tragic intertwined history. The accumulation of wealth – and its allocation in the form of investments – is predicated on the extraction of value created by labor and provided by natural resources.

Cedric Robinson, a Black economic thinker, analyzed the tie between capitalism and race from the system’s very emergence in terms of “racial capitalism,” that is, the system’s dependence on its basis of slavery, violence, imperialism, and genocide.

In a country with slavery at its origin, fundamental in shaping the U.S. political economy, it is easy to see how racialized economic effects last to this day and Black people continue to be oppressed by the economy. Long after the formal end of slavery in the United States, capital continues to affect racial justice outcomes on account of its role as fuel throughout the economy and its complicity in all aspects of daily life that perpetuate inequities. The underlying extraction of wealth from communities of color, the systemic limitations on access to resources, and the carving of social and geographic divides show up in many indicators: job access and quality, wealth and the availability of funds for an emergency, health outcomes, access to good and affordable education, treatment in the criminal justice system, and a secure home, among others. In following these patterns, capital has reinforced and served as a driving force in structural racism and white supremacy.

It is for this reason that while real advancement in racial justice will come from political and cultural actions, the role of capital cannot be ignored. Investors concerned with racial justice need to reckon with all the ways, direct and indirect, in which their capital allocations end up contributing to racial injustice.

The role of capital in perpetuating racially unjust outcomes across the board is not lost on racial justice practitioners and the organizers and activists who are fighting to create better institutions and systems for people of color. The racial justice community is increasingly targeting capital as an area to drive change. The Movement for Black Lives (M4BL) Economic Justice Platform

and Invest-Divest Platform explicitly pinpoint the need for interventions in the domain of finance.\(^3\) Color of Change has also identified economic justice as central to a movement for racial justice.\(^4\) Grassroots organizers from Oakland\(^5\) to the Boston area\(^6\) are taking ownership over capital flows by developing democratic funds to invest in businesses that meet the needs of communities of color and working class families. Yet others are developing strategies that take traditional organizing to the halls of finance, forming multi-stakeholder partnerships with aligned investment partners and driving sophisticated campaigns to change the behavior of banks, private equity funds, and other financial actors.

While racial justice has long been a concern for many socially responsible investors, the current uprising has led to a fervor of new actions around race and acknowledgment of past harms. These actions have put capital on the radar when talking about racial justice, but there is also a need to improve, strengthen, and amplify the actions taken to date. Fundamentally, we argue, if investors are to play a meaningful role in addressing racial justice, they need to follow the lead and incorporate the knowledge of activists, organizers, and people of color and incorporate their knowledge and experience.\(^7\)

In this discussion briefing, we hope to make the case to investors for looking more critically at how their investments are complicit in racial injustice, and to sow the seeds for a set of new approaches that are informed by the work of researchers, activists, and other advocates for racial justice. We do this by:

1. **Evaluating gaps in existing investor strategies for racial justice** as a starting point for the need to develop new approaches

2. **Presenting a model based on disparate racial outcomes**, highlighting the ways in which capital is perpetuating harm and injustice by tying the work that researchers, activists, and journalists have done in detailing the oppression of communities of color as it relates to investment activity;

3. **Suggesting potential strategies for investors** to identify those linkages, understand how they are material to their investments, and act on them through both a sector-based approach and asset class-based approach.

In future releases in this series, we will dig deeper into the linkages between capital and the oppression of communities of color, diving into concrete examples and providing a more in-depth roadmap around our suggested strategies.

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\(^4\) About Color Of Change. [https://colorofchange.org/about/](https://colorofchange.org/about/).

\(^5\) Community Vision, The REAL People’s Fund. [https://communityvisionca.org/realpeoplesfund/](https://communityvisionca.org/realpeoplesfund/).

\(^6\) The Boston Ujima Project, [https://www.ujimaboston.com/](https://www.ujimaboston.com/).

\(^7\) For more perspectives on the proper role of investors, see “Considerations and Concerns Around Investor Action” on page 25.
AN OVERVIEW OF CURRENT INVESTOR ACTIONS TO ADVANCE RACIAL JUSTICE

Investor actions spanning the last few decades and the current wave largely fall on the following lines:

1. Enhancing diversity, equity, and inclusion (DEI) in the management and board of corporations
The core of many investor approaches to DEI hinges on investors’ ability to influence and drive DEI through the underlying entities, such as corporations. A special focus of such activity has been on the racial composition of boards, executives, and workforce in public equities via negative or positive screens, shareholder engagement, and shareholder resolutions. Innovative examples include shareholder engagement via litigation strategies, such as recent lawsuits against Oracle Corporation, Facebook Inc., and Qualcomm Inc. by shareholders.

2. Enhancing DEI among investment managers and paying attention to the racial composition of financial institutions
Institutional asset owners have longstanding efforts around the diversity of investment managers, building on decades-long work around diverse and emerging asset managers in public equities and fixed income. More recently, these have been expanded to the private equity

DEFINITIONS RELEVANT TO DIVERSITY, EQUITY, AND INCLUSION

Diversity: variety or representation of racial identities or characteristics (e.g. African Americans, Native Americans, Latinx). Diversity is a quantitative measure of representation.

Inclusion: inclusion is the measure of the quality of representation, such as full access, authentic representation, empowered participation, true belonging and power-sharing. Inclusion is a qualitative measure of representation and participation.

Diversity v. Inclusion: You can have diversity without inclusion (e.g. tokenism, assimilation). You can’t have inclusion without diversity. Focusing on inclusion gets you further than just focusing on diversity.

Equity: Equity ensures that outcomes in the conditions of well-being are improved for marginalized groups, lifting up outcomes for all. Equity is a measure of justice.

Equality: sameness; everyone gets the same thing. Equality focuses on everyone getting the same opportunity, but often ignores the realities of historical exclusion and power differentials among whites and other radicalized groups.

Equality v. Equity: Equality uses the same strategies for everyone, but because people are situated differently, are not likely to get to the same outcomes. Equity uses differentiated and targeted strategies to address different needs and to get to fair outcomes. Equality-focused strategies don’t work for, or benefit, everyone – e.g. teaching everyone the same way does not work for different kinds of learners–each must be taught the appropriate way for them. Using targeted or differentiated strategies to achieve universal goals is referred to as “targeted universalism.”

Equity v. Diversity: you can have diversity (variety), but not equity (fairness). For example, you may have a diverse classroom or school, but if mostly white students are in the advanced classes, while kids of color are mostly placed into remedial classes and face disproportionate suspensions, you don’t have equity. Focusing on diversity, without addressing equity, can be superficial and problematic. Centering equity can benefit everyone.

Source: Government Alliance on Racial Equity’s Tools and Resources (2020): https://www.racialequityalliance.org/tools-resources/

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and venture capital level. Mission Investors Exchange, an impact investing network for foundations dedicated to deploying capital for social and environmental change has organized a set of best practices, an up-to-date hub of materials, and a community of practice for manager diversity for progressive asset owners.10

More recently, investors (especially impact-minded ones) have also turned the lens on the makeup of their own institutions.11

3. Shareholder engagement on DEI issues

Shareholders have likewise pressured companies around DEI beyond issues of racial composition. For example, Nia Impact Capital is pushing Tesla, Inc. for transparency and comprehensive reporting on the use and demographic statistics of employee arbitration around sexual harassment and racial discrimination claims, since arbitration can be used and can function as a form of claim suppression.12 Similar shareholder engagement efforts have targeted political spending and lobbying, as well as follow-on action after civil rights audits.13

4. Screening, divesting from, and defunding toxic industries, primarily private prisons

From banks to foundations to investment firms, asset owners have taken stances to shift their resources away from harmful industries and to align themselves with racial justice goals. Private prisons have been the main target: in 2019, the two major US private prison corporations, CoreCivic and GEO Group, lost 72% of their private financing when six major banks decided to withdraw $1.9 billion.14 There have been other criteria for divestment on the basis of racial injustice: in 2016, the Brooklyn Community Foundation announced a plan to divest from private prisons, gun manufacturers, and predatory lenders.15 Even more expansively, the investment management firm Robasciotti & Philipson have developed a growing “Racial Justice Exclusion List” that investors should avoid, from Caterpillar and Boeing to Raytheon, Amazon, and Aramark.16 The NAACP similarly developed 10 principles to be used as screens in the creation of an ETF that launched via Impact Shares.17

5. Investing in entrepreneurs of color through CDFIs, POC-centered venture capital funds, and bespoke funding initiatives

Asset owners are supporting Community Development Financial Institutions (CDFIs) that provide capital for entrepreneurs in low-income neighborhoods and specifically entrepreneurs of color. The Surdna Foundation for example, has been offering flexible capital for CDFIs and venture capital funds who focus specifically on entrepreneurs of color, such as Impact America

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ADDRESSING CAPITAL’S EFFECTS ON RACIAL JUSTICE

How investments drive injustice and what investors can do about it
Fund. CDFIs have received a significant push recently from corporates seeking to align their short-term fixed income with racial justice, especially following the announcement by Netflix in June 2020 that it would shift 2% of its holdings, about $100 million, into financial institutions that focus specifically on Black communities, which was followed by Apple creating a $100 million Racial Equity and Justice Initiative. In other cases, impact-first investors have targeted the racial wealth gap by supporting entrepreneurs of color with intentionality around how they serve the needs of communities of color, as in the case of the Boston Impact Initiative. These latter efforts often take place through bespoke funds that explicitly adopt a racial justice lens and center the thesis of closing the racial wealth gap.

6. Investor Statements and IPS revisions

Investors have been coming out with statements pledging their solidarity with efforts to address systemic racism. The Investor Statement of Solidarity to Address Systemic Racism and Call to Action was issued by a group of over 200 investors and financial service providers as a part of the RJI Coalition. The signatories commit to a variety of actions, including divestment from industries tied to state violence, reinvesting in Black communities, and influencing policy. Statements signal a rhetoric shift in the field and benchmarks for where investors can make an impact on racial justice. In some cases, investors have gone further than issuing pronouncements, revisiting their investment policy statements to directly address racial justice as a goal. For example, the Unitarian Universalist Association’s UU Common Endowment Fund, upon a mandate from its membership is building on its socially responsible investment guidelines that already explicitly commit to advancing racial justice toward an investment policy statement revision that integrates racial justice into investment decision-making and engagement strategies. Among family foundations, the Radical Imagination Family Foundation adopted a values-driven investing framework and investment policy statement that likewise centers the notion of racial justice.

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21 About the Boston Impact Initiative. https://bostonimpact.org/about/
DEI AND FINANCIAL PERFORMANCE: THE “INVESTOR CASE” FOR DEI

Besides the clear impact case, investors advancing a DEI agenda have also pointed to DEI being a driver of superior financial performance, both at the investor and at the company level. In our view, this should never be the primary reason to address racial injustice in investments. Righting some of the wrongs of white supremacy need not be — and alas, may not be, if the task is to be taken seriously — profitable.

That said, racial bias, like all other biases, can constrain successful investment portfolios. Within venture capital investment groups, more homogenous investment partners have been shown to have an average IPO and acquisition success rate 26.4% - 32.3% lower than diverse teams. This has been attributed to the need for more creative thinking in highly uncertain conditions, which more diverse teams were better able to provide. Within public equities, a series of experiments indicated that a diverse team was 58% more likely to correctly price stocks, relative to a homogenous team. At the corporate level, the consultancy McKinsey found that, among more than 1,000 companies in 12 countries, companies with high ethnic and cultural diversity were 33% more likely to outperform in profitability, while companies lacking in diversity were 29% more likely to underperform. McKinsey hypothesized that this correlation came from a variety of factors: diverse companies attract top talent, better respond to diverse customers, have higher employee engagement, and are more likely to be viewed favorably by diverse communities. These findings align with the views of corporate directors: Seventy-nine percent of board directors believe that diversity enhances board performance, and more than half believe it enhances company performance.

Furthermore, not focusing on DEI leads to overtly racist practices. Besides the obvious (one should hope) fact that it is not a good thing for a company to have racist practices, investors are seeing this as a risk, seeking to account for the risks and losses that come from: consumer backlash, sudden leadership changes upon the ousting of racist managers (as in the case of Papa John's CEO John Schnatter's ignoble exit), a more limited employee pipeline, employee disenfranchisement and turnover, and a restriction of potential contributions by skilled employees.

For further reading on the financial case for racial equity see the articulation by PolicyLink of the economic imperative of equity through its “Equity as the superior growth model” initiative and a series of W.K. Kellogg Foundation publications on the “Business Case for Racial Equity.” However, as stated previously, the focus of this report is on issues of finance and race that are not explicitly tied to DEI or investor performance.

Looking Deeper: A FOCUS ON RACIAL OUTCOMES

The DEI approach has laid the groundwork for broader and deeper investor action towards racial justice. But fundamental issues of capital and race remain. Even if a DEI approach were universally embraced, CDFIs were fully funded to meet demand, and industries like private prisons were defunded, we would still be a far way off from addressing all the socioeconomic consequences, including unintended and non-obvious ones, that capital flows have on communities of color.

An investment approach that aims to address racial injustice holistically must be based on outcomes, tying the investment capital to actual socioeconomic outcomes for people of color.

In other words, the effects of capital on issues of racial justice are so pervasive that investors seeking to align with racial justice need to aim their sight to how, very concretely, capital flows under their control are directly or indirectly contributing to perpetuating racial injustice.

This means that we must do more than just exclude the worst offender industries. We must do more than support diverse asset managers. We must do more than look at one positive aspect of a company where negative ones may be lurking (by way of example, companies can have a diverse workforce yet still prey on low-income communities and communities of color). And we must do more than simply drive capital into communities of color because - as amply discussed in the context of Opportunity Zones - more inflowing capital does not per se mean that wealth will be created and remain locally, nor that the local community would necessarily benefit via quality jobs, asset building, or the availability of useful products and services.

An investment approach that aims to address racial injustice holistically must be based on outcomes, tying the investment capital to actual socioeconomic outcomes for people of color. Such an approach, that is, does not aim to presume which investor intervention will make the most difference. Instead, it must be built off of socioeconomic research, the goals and priorities set forth by racial justice practitioners, and the lived experiences of people of color.

What does such an analysis focus on in practice? The following are examples of the type of socioeconomic outcomes that plague communities of color and are connected to an area of the economy that involves investment activity:

- **The level of displacement and gentrification in communities of color** that stems from real estate speculation
- **Poor air quality in Black neighborhoods** that results from placement of hazardous waste plants
- **Poor credit scores** due to indebtedness to predatory financial services like local payday lenders
- **High levels of stress and limited quality parenting time** due to “just-in-time” scheduling algorithms used by employers
• **Lower rates of high school graduation** due (in part) to underfunded and gutted public school systems and increases in for-profit charter schools

Socioeconomic outcomes of this sort are exacerbated, and in some cases caused directly, by even seemingly neutral investments. Critically, all investments lead to some kind of socioeconomic outcome — and some outcomes are more racialized than others. Using the frameworks and perspectives of racial justice researchers and thought leaders helps us see where capital is complicit and which investor actions are most critical to addressing the key issues facing communities of color today.
A PARALLEL TO THE EVOLUTION OF CLIMATE CHANGE PORTFOLIO AUDITS

An approach that incorporates this lens can be compared to the evolution of climate change considerations in investment portfolios. A first wave looked directly at ownership of fossil fuel companies; a subsequent wave recognized that climate change impacts flowed throughout portfolios beyond companies directly involved in fossil fuels, and that every company may have a carbon footprint, regardless of industry. What began as an initial call for large scale divestment from fossil fuels, has since morphed into a movement that has incorporated quantitative tools such as carbon footprints across portfolio analysis. Using carbon footprints within portfolio analysis builds upon the founding efforts of fossil fuel divestment by “improving the understanding of carbon emissions in the portfolio for equities and fixed income, and can be used as a tool for engaging with fund managers and companies on climate change risks, opportunities and reporting. It can also be used as a tool to inform further action, including emissions reduction.”

One helpful analogy is the organization of relevant outcomes into “Scopes”, as is done by the Greenhouse Gas Protocol, a generally accepted international accounting tool. Scope 1 accounts for emissions directly from sources that are owned or controlled by a company. Scope 2 accounts for indirect emissions, such as from the energy generation used by the relevant company. Scope 3, finally, takes into account all other indirect emissions that occur in the value chain of the relevant company.

The evolution of the way investors account for climate impact - not just direct emissions, but indirect emissions from all inputs and outputs of a company - provides a parallel to the need we articulate to look at race more holistically. Investors have built the groundwork on the most direct connections between capital and race through DEI investing and the other strategies listed previously. We are calling attention to the less direct connections between investments and the lives of people of color: products and services of companies, corporate practices like job quality and real estate placement, the impacts on tax bases in majority Black cities, expanding what is defined as a “toxic industry,” and much more.

Let’s be clear - it is impossible to quantify the pain and suffering on communities of color in the way it is the amount of carbon emitted through a supply chain. But we must consider how Black and brown livelihoods are deeply affected by all capital flows, much like the Earth is.

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2 See https://ghgprotocol.org/standards/scope-3-standard.
Demonstrating the Link Between CAPITAL AND SOCIOECONOMIC OUTCOMES

The link between capital and socioeconomic outcomes is not always immediately apparent. Some aspects – such as investments in private prisons and the clear threat to communities of color that they represent – are well analyzed and addressed. Others can best be uncovered by stepping back from the direct connection to capital, looking instead at the many ways that oppression of communities of color in the economy leads to a disparity in socioeconomic outcomes. An investor can use that as the basis for implicating capital in those outcomes.

By “outcomes”, we mean the critical aspects of lives that determine safety, health, happiness, and wellbeing, with a lens to how opportunities and access are disproportionately distributed across racial lines. We group these outcomes by “issue area”, as many researchers and activists do: criminal justice, work, place-based outcomes, health, wealth, and education.

These issue areas were identified from conversations with racial justice practitioners and tend to conform with the analytical frameworks we see in the field. They are intended to be indicative, not exhaustive, and may display significant overlap. Notably, the issue area of wealth, which most closely correlates to race, permeates and cuts across all the others and as such was not treated separately but rather as part of each issue area’s analysis.

Below are samples of outcomes that affect the lives of people of color and constitute a part of the experience of racism, organized around issue areas:

<table>
<thead>
<tr>
<th>Issue</th>
<th>Sample relevant outcomes to consider in an analysis of capital’s role</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Criminal Justice</strong></td>
<td>Incarceration rates • Number of times stopped by police • Cost of court and legal services • Quality of life for incarcerated people • Recidivism rates • Privacy • Freedom from state violence</td>
</tr>
</tbody>
</table>

Continued on next page
### Jobs
Access to employment and advancement opportunities. Discrimination in the workplace. Precarious work and unstable schedules.

<table>
<thead>
<tr>
<th>Employment rates</th>
<th>Pay rates</th>
<th>Unionization rates</th>
<th>Accessibility for formerly incarcerated workers</th>
<th>Workplace diversity</th>
<th>Degree of ownership and workplace democracy</th>
<th>Degree of career growth</th>
<th>Job training</th>
<th>Amount of legal protections</th>
</tr>
</thead>
</table>

### Place
In the United States, one’s zip code plays a major role in outcomes. Looking at how capital interacts with place-based areas of the economy sheds light on disparities in outcomes by race.

<table>
<thead>
<tr>
<th>Access to fair financial services</th>
<th>Displacement and gentrification</th>
<th>Housing security</th>
<th>Air and water quality</th>
<th>Cost of utilities</th>
<th>Access to fairly priced transportation options</th>
</tr>
</thead>
</table>

### Health
While most aspects of the economy ultimately affect population health, it is an important issue for racial justice due to the clear disparity in health outcomes for people of color compared to white people.

<table>
<thead>
<tr>
<th>Access to quality healthcare</th>
<th>Fairly priced medicine</th>
<th>Rates of disease and other health conditions</th>
<th>Smoking rates</th>
<th>Access to healthy food</th>
</tr>
</thead>
</table>

### Education
Education is a critical issue area as many life outcomes correlate with degree and quality of education. Unfortunately, given racism in public and private education systems, outcomes are not equal across race.

<table>
<thead>
<tr>
<th>School spending per student</th>
<th>Educational attainment (e.g. high school graduation rates)</th>
<th>Degree of segregation</th>
<th>School stability</th>
<th>Cost of education</th>
</tr>
</thead>
</table>

These issue areas were identified from conversations with racial justice practitioners and tend to conform with the analytical frameworks we see in the field. They are intended to be indicative, not exhaustive, and may display significant overlap. Notably, the issue area of wealth, which most closely correlates to race, permeates and cuts across all the others and as such was not treated separately but rather as part of each issue area's analysis.
To identify where and how capital shapes outcomes across each issue area, we asked a series of questions about the economic activity that pertained to each outcome, such as:

- What actors are relevant to shaping those outcomes?
- What industries or sectors of the economy most correlate to the outcomes?
- Is there a link to a financing stream, or to a feature of capital ownership, that influences that economic activity?
- Does the economic activity fall within the purview of investor influence or intervention?
- Who are the owners and investors behind the activity and what type of capital is at play?

We do not purport to have uncovered all of the ways finance drives racial injustice. But in highlighting exemplary points of concern for investors, we seek to make explicit to the investor the hidden link between an investment decision and a racial outcome.

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Below is a short overview of some of those linkages between outcomes and capital that we uncovered from focusing first on the issue area. Upcoming releases in this series of briefings go into depth on the scope and magnitude of capital’s interplay with racially disparate outcomes, the forces of racism, and white supremacy.

As investors pause to examine these trends, they can start exploring from their own stance how investment practices could be changed to improve these outcomes for communities of color. New thinking in finance has served investors well; for those who care about racial justice, we hope they can develop new approaches and apply their knowledge to solving critical issues around racial justice, too.

SAMPLE LINKAGES BETWEEN OUTCOMES AND CAPITAL, BY ISSUE AREA

Criminal Justice

While one would hope that in a well-functioning society the criminal justice system was determined as a matter of democratically accountable policy-making and not of economic interest, capital permeates the space. The most apparent examples relate to the private operation of carceral facilities, which incentivize high rates of incarceration, particularly of people of color. The role of capital is not just in the ownership or operation of the facilities but extends to bonds issued to finance their construction and bank lending to the private prison industry. The provision of private services within the system, ranging from health to telecommunications, prioritizes profit over the well-being of the prison population and even the historical goals – however disputable – of criminal justice, such as deterrence, incapacitation, rehabilitation, and retribution. In pre-trial bail bond services, privately-held companies profit from staggering fees on loans for posting bail. Racist policing

Note: this research was compiled from interviews and desk research. Much of this section is the subject of future releases in this series and will be detailed further there. If you would like to learn more about our research and sources, please reach out at info@transformfinance.org.
practices are abetted by the municipal bond market through the funding of police misconduct settlements and the fact that cities and states back their bond offerings with fines and fees from policing. Finance is directly implicated also in the reliance on exploitative prison labor by both private and publicly traded companies. Technologies that police use to monitor parolees, surveil migrants, and assist racist policing practices is a well-funded industry that increases the risk of future incarceration for Black and brown people. Even alternatives to incarceration, which ought to be an improvement, such as the use of ankle bracelet monitoring, have been shown to indenture their users and increase the risk of re-entering the criminal justice system. With all eyes on criminal justice reform in 2020, this is a critical issue for investors to understand where they are financing oppression.

**Work**
Investors play a key role in implementing – or preventing – quality job measures like living wages, benefits, ownership and profit-sharing stakes, and opportunities for advancement. Our research detailed some of the areas where the linkage between capital and the outcome is salient, a few of which are offered below. Frontline retail workers – a job taken on more by workers of color than white workers – are at risk of losing their jobs in the wave of consolidation at the hand of private equity. Efforts to maximize investor returns result in cutting hours and adopting “just in time” unstable scheduling for remaining workers which destabilizes personal lives. Investor return mandates, especially in private equity, also drive de-unionization strategies, which strip protections and bargaining power for workers of color who are disproportionately represented in organized labor. The continuing wave of privatization efforts, which outsource historically public functions to private corporations, also affects workers of color more, given their over-representation in higher quality public sector jobs. Such jobs, in particular, have been a hallmark of an option for people of color to enter the middle class, buy a home, and send kids to college. Job losses from consolidation result in a loss of tax revenue for the cities and towns those workers live in – and shift to the public the provision of a however minimal safety net (not to mention the charge to the public from reliance on minimum wage labor that is forced to rely on public support). The IPOs of major gig economy companies like Uber and Lyft can’t mask the precarious positions that gig workers find themselves in – pushed by venture capital backing that views the workers as an externality and use gig work to shift risk onto the “workers” – and which disproportionally affect workers of color. In every portfolio, addressing critical concerns of labor and job quality – especially those where people of color are highly represented – is paramount to driving racial justice.

**Place**
Capital is intertwined in a variety of public and private place-based services that lead to disparity in outcomes for communities of color. Racist banking practices have reduced the ability of people of color to build wealth through homeownership. These practices include predatory home loans, implicit bias in the provision of loan terms, and restrictions on the access to capital of borrowers. Beyond banks, extraction and displacement can be tied back to investments across several common asset classes: private equity is buying up rental units and treating residents of color at subpar standards; in fixed income, the focus on muni bond-financed Transit-Oriented Development often benefits wealthier, whiter gentrifiers. Privatization efforts, where private companies...
gain contracts from tax-starved municipalities for services like water access, lead to worse services and further indebtedness for cash-strapped cities, which disproportionately affect communities of color. Finally, environmental racism rears its head when considering the air quality and related illnesses like asthma, as private waste facilities and other polluting companies - private and publicly traded – are placed near Black and brown neighborhoods.

Health
Especially in the United States’ largely privatized healthcare system, it is not surprising but no less problematic that capital seeks to extract profit from basic services and products that people need to be healthy – or pushes those that have negative health consequences. Big Pharmaceutical companies participate in price gouging for critical drugs that treat common diseases, which affects all patients but in particular vulnerable patients of color. Industries built on products that harm health, such as tobacco, are often marketed towards people of color more than whites, and have disparate effects that compound pre-existing health risks for Black and brown people. In the food sector, grocery consolidation has closed many grocery stores in communities of color, leaving gaps for predatory budget chains with limited produce and high-quality food while chains flee to suburbs. Factoring into these “food deserts” are an insurance industry that won’t back grocery chains in Black and brown communities and real estate practices from banks, private equity, and other funds that drive segregation. Consolidation rears its head in the hospital and health services industry as well, with a trend of buyups from private equity that close down hospitals in some “low-revenue” areas and increase price hikes in more vulnerable communities. All of these issues – which cover a variety of sectors and asset classes – are keeping communities of color from having as healthy lives as they could.

Education
Education is another key issue area where key sectors are substantially privatized and public sources of school funding are often precarious, allowing capital to profit regardless of the outcomes. State and municipal debt financing for public school budgets are critically linked to the tax base, and due to tax shortfalls, desperate school systems often offer products that are good deals for muni bond investors but indebt the system and lead to austerity measures in public schools. Beyond fully public schools, charter schools have been shown to be more segregated and lead to mixed outcomes at best for students of color. There are several components to the charter school industry where financed is concerned: construction may be funded by tax-exempt municipal bonds or lease-back agreements with private equity funds, and indebtedness to the property owners directly affects funding for the education itself. In higher education, predatory entities make their business on soaring debt levels and for-profit colleges that overpromise and overcharge their students, largely students of color. Across the board, these issues of diminished public funding and privatization has transformed the education landscape, adding to precarity for Black and brown students.

The above linkages are further explored in our issue area releases. It is important to note that these linkages are meant to be indicative and to offer a starting point for analysis that requires additional research that brings together the information on racial justice outcomes (from academics, researchers, and racial justice organizations) with the investor perspective on capital’s role around each outcome.
Applying the framework to AN INVESTMENT PORTFOLIO

This is a starting point for a broader inquiry by investors to reckon with the myriad implications. Building on extant research by academics and analysis by think tanks, investors will identify the often unexpected ways in which they, too, drives those outcomes.

Starting from the outcomes is fundamental to informing investors what to act on: a public equities asset manager may be interested in pursuing shareholder engagement around racial justice issues – but what to push for within that strategy should be informed by a clear understanding of the ultimate outcomes. This may counsel in favor of engaging companies around quality jobs (considering that low-quality jobs often land on workers of color more than white ones), as opposed to – or in addition to – having a diverse corporate board.

Investors, by and large, are not racial justice experts. The investor understanding of the tie between outcomes and investor action will require collaboration with researchers and racial justice advocates. Once the ties are clear to the investor, it is a lot more feasible for the investor to pinpoint which elements of the portfolio have a material impact on racial outcomes – and what can be done about them.

With this frame, the investor – or investor community at large – can undertake the following steps:

First, investors must begin to learn about critical issues of racial justice and how they manifest in the economy. This can be learned through research and data – especially from general overlooked sources that come from researchers and scholars of color – as well as the stories that are told by activists and artists. Our research around the issue areas we have described provides just a starting point here; to fully understand these complex interactions between capital, economy, and race, real field-wide conversations and reconciliations need to happen that engage racial justice advocates and organizations. When learning about the economy through the news and conversations with peers, like reading a Wall Street Journal article on the increased levels of buyouts of distressed real estate during the COVID crisis, an investor can go out of their way to uncover how that trend affects communities of color. They can read statements or talk to local tenant rights organizations about which outcomes are of the highest priorities for their communities, and who is most at risk from those buyouts.

With a greater understanding of a particular issue and how it is intimately tied to race, investors can then apply their own knowledge to figuring out how their investments are tied to that issue. Investors are already familiar with the approach of determining the financial materiality of particular risks in their portfolio; this is an extension of that approach. If that Journal article implicates Private Equity and REITs are the perpetrators, and local activists call attention to the effects on displacement of long-time residents of color, the investor is in a position to investigate whether those investments – and therefore the displacement of those residents – are showing up in their portfolio. Do any of the Private Equity funds in their portfolio invest in real estate? Do they own shares in REITs that are bundling properties and displacing residents of color?
A HYPOTHETICAL APPLICATION: RACIAL JUSTICE OUTCOMES IN THE AUTOMOTIVE SECTOR

The example below is merely illustrative of how an investor would look through to racialized outcomes via the issue areas based on their exposure to a sector (in this hypothetical, the automotive industry).

Once the link of the industry is made explicit through that analysis by issue area, the investor can easily identify the locus of action. In this case, an investor may choose to focus on quality of jobs and access to jobs, particularly for returning citizens, and on environmental issues around the toxic byproducts of the industry. The choice may be based on the materiality of the issue, or on the investor’s expertise or ability to drive change. The latter can be informed by the asset class that the exposure falls into; in the case of public equities, the investor may decide to screen out laggards or to engage with companies to improve their performance. In the private equity context, the investor may diligence potential fund managers based on their approach to quality jobs, or take an active impact management approach to improving environmental practices (either directly or via a mandate to a fund manager committed to such an approach).
Not surprisingly, certain issue areas feature more prominently in some sectors or industries than others. The table below gives a rough overview of which issue areas showed up most prominently in our research, across a selection of sectors. It is meant to be indicative. We’ll explore the sector approach in greater details in future briefings.

### Sample of sectors and industries of greatest exposure across issue areas

<table>
<thead>
<tr>
<th>Health Place Criminal Justice</th>
<th>Work</th>
<th>Education</th>
</tr>
</thead>
<tbody>
<tr>
<td>COMMUNICATION SERVICES</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>CONSUMER DISCRETIONARY</td>
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<tr>
<td>CONSUMER STAPLES</td>
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<tr>
<td>ENERGY</td>
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<tr>
<td>FINANCIALS</td>
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</tr>
<tr>
<td>HEALTH CARE</td>
<td>✓</td>
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<tr>
<td>INDUSTRIALS</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>INFORMATION TECHNOLOGY</td>
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<td>✓</td>
</tr>
<tr>
<td>MATERIALS</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>REAL ESTATE</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>UTILITIES</td>
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</tbody>
</table>

With knowledge and a deep investigation of their own portfolio, an investor can then consider the actions at their disposal. What are they in a position to do in the immediate term, using their leverage as an investor to directly influence current practices or to signal the problematic nature of an approach by choosing not to invest?
CONSIDERING INVESTOR EXPOSURE BY ASSET CLASS

There are features particular and endemic to each asset class that make a significant impact on socioeconomic outcomes.

A consideration of exposure to racial injustice by asset class, additionally, helps surface the potential strategies for action that investors can take, from shareholder proposals in public equities to manager diligence questionnaires in private equity.

Such an approach must look at all asset classes, despite the prevalence of attention on public equities and direct investments. For example, municipal bonds in particular are broadly featured in portfolios and can play a large role in an investor’s overall impact, and private equity has outsized impact on outcomes related to racial justice (both on the negative side and on the potential for positive outcomes through impact management).

Below are a few highlights and considerations organized as a sampling by asset class. The last release in this briefing series will focus specifically on the asset class approach and provide recommendations from and for practitioners.

Public Equities

- Because Black Americans own shares in the stock market at a vastly lower rate than their white counterparts, stock market gains perpetuate the racial wealth gap across the board—regardless of sector.

- In a similar vein, excessive share buybacks, by returning capital to investors rather than redeploying it for growth, employment, R&D, and the like, extract wealth to the advantage of shareholders who tend to be white.

- Stock ownership means the ability to vote on corporate practices, which play a more and more influential role on society at large. Votes that affect all are not evenly distributed because stock ownership is not evenly distributed. In the analysis of links between racial justice and corporate governance offered recently by Miguel Padró, he states “Black and Hispanic households depend overwhelmingly on wages and paychecks to build their wealth, but investors and Wall Street analysts—overwhelmingly white constituents—consistently punish companies who dare announce pay increases for workers”

- Publicly traded companies play a disproportionate influence in shaping politics and policies, with remarkably little transparency and oversight. Renaye Manley and Eli Kasargod-Staub recently made a compelling case for how racial justice-minded investors must look at the track record of public companies in political spending and lobbying via groups such as ALEC.

- Tax avoidance by public companies (not exclusive to public companies, but meaningful as a percentage of all tax revenue), used as a driver of investment returns to the detriment of all other stakeholders who benefit from fair taxation.


is another seemingly race-neutral factor that has clear racial justice implications.31

**Private Equity (and hedge funds)**32

- Roll-ups and consolidations often function as extractors of value, in particular to the detriment of workers of color. According to a recent study, private equity takeovers result in significant job losses at the companies they acquire.33 This is particularly true in industries such as retail, which employ large numbers of workers of color and have seen hundreds of thousands of jobs lost at private equity-owned companies in recent years.34

- “Special situations” investments disproportionately affect communities of color, as is the case in the current pandemic and economic crisis, with efforts at buying up staggering amounts of real estate exploiting smaller landlords’ liquidity challenges.35 Private equity firms’ buy up of single-family homes to convert to rentals since the global financial crisis has also put home ownership, a tool for wealth building, further out of reach for people of color.36

- The purchase of entities providing goods and services to communities of color, such as hospitals and newspapers, deprives the communities of those needed services when the acquisition intends to shutter them and sell the real estate.

- Private equity firms have substantial ownership in a number of industries that disproportionately extract wealth from communities of color, such as prison services and payday and subprime lending.37

- Because the staff of private equity firms, in particular executives that receive the majority of compensation, are overwhelmingly white, extractive practices by private equity firms dramatically magnify the impact of inequality, drawing wealth from communities of color and transferring it to a small number of predominantly white men.38

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32 See for more details the work of The PE Stakeholder Project, https://pe-stakeholder.org/.


38 See the analysis of The Predistribution Initiative, https://predistributioninitiative.org/.
Fixed Income: Municipal and State Bonds

- The history of how public bonds intertwine with racial justice goes back to Louisiana’s backing of a series of bank bonds whose proceeds were used to purchase slaves.40
- Tax subsidies at the municipal level to attract corporations lead to budget shortfalls that affect the provision of services and are often made up for through general obligation municipal bond issuances.
- States that borrow against revenue from fines, fees, and surcharges end up overpolicing or using policing as a revenue collection mechanism and limit their own ability to scale back the reliance on fines and fees.
- The use of bonds for financing jail facilities perpetuates the over-incarceration of Black and brown people. It also constitutes a bondholder risk as well as a municipal liquidity risk, as even jail revenue is not assured and impacts the ability to repay jail bonds.
- Municipalities with low revenue levels end up devoting more money to the payment of interest than to the provision of services, which in turn often leads to the privatization of poorer quality basic services for communities of color, such as water.
- Settlements for police brutality have been financed through inclusion in municipal bond issuances.
- Injustice and inequity at the municipal level tends to correlate to bad fiscal outcomes, with corresponding risks for the bondholders.

- Predatory lending and extractive behavior in the context of defaults and bankruptcies has further destabilized the ability to provide basic services to citizens, as in the case of Puerto Rico.

39 For a full framework, see the work of Activest, on which this analysis relies: www.activest.org.

ADDRESSING CAPITAL’S EFFECTS ON RACIAL JUSTICE
How investments drive injustice and what investors can do about it
Combining the asset class approach with an issue area analysis, the following chart visually represents one of the key linkages between investments and health outcomes that emerge from the trend of consolidation in private equity.
CONSIDERATIONS AND CONCERNS AROUND INVESTOR ACTION

As investors look at how they can deepen and strengthen their actions toward racial justice, it is important for investors to acknowledge and address a series of key concerns that arise among racial justice activists about the proper role of investors in the movement. Some justified skepticism remains around the authenticity and transformative potential of investor actions:

- There are limits to the degree of change made possible by specific investor activities without perhaps giving consideration to the more fundamental systems of capital flows; addressing immediate concerns through improved portfolio strategies does not get at the underlying issues inherent in capital and wealth ownership.

- Investor pronouncements and activities that do not account for the fundamental tendency for capital to extract are palliative at best. They do a disservice, as window dressing, by distracting from more transformative strategies, both within finance but also other spheres such as politics.

- Financial institutions are, for the most part, undemocratic and unaccountable – and for historical reasons that endure they are not representative of communities of color. This brings into question the legitimacy of investor action, coming from a position of power and privilege, where the underlying capital accumulation was predicated on racial injustice and where investors have historically been at odds with social justice movements more broadly. Investor-led actions, regardless of their good intentions, are often undertaken without coordination, consent, or partnership with activist work. To truly constitute a step forward and avoid reinforcing bad practices, investor actions on racial justice must follow the lead of racial justice movements, with a mandate that remedies their lack of intrinsic legitimacy as social change agents. Additionally, resources (philanthropic, policy, and organizing) need to be put into developing financial institutions and practices finance that are structured and controlled by communities of color, working class communities, and others who are excluded from traditional finance.

- Investor action on any social issue, and especially such a fundamental one as racial justice, retains the potential negative effect of further growing the role and power of investors – who are not representative of society overall – to shape social outcomes, retaining the locus of power to change within a necessarily privileged class and crowding out the role of the public sector, of a democratic society, and of social movement activity. Progressive investors should seek to demonstrate what a more racially just investment strategy looks like, but the overall power of investors must simultaneously be checked by activists and government to avoid these issues.

We share these concerns and seek to devise a path that balances immediate action and fundamental transformation. Fundamentally, we believe that given the state of racial oppression in this country, we need urgent and thoughtful action now. Some of this change must come from within finance, some from outside. Our approach identifies a niche role for investors in the overall movement for racial justice that provides room for more radical strategies at the same time – even those that seek to more radically transform systems of finance and the economy.
NEXT STEPS

NEXT STEPS FOR THIS PROJECT
The scope of this briefing is merely to present a novel approach to addressing racial injustice in investments. The remaining discussion briefings in this series examine these approaches in greater depth and present actionable steps for investors. Specifically, we will be looking in greater depth at:

1. The issue area approach, with a spotlight on Criminal Justice
2. Acting on a portfolio by sector or industry
3. Acting on a portfolio by asset class
4. An investor roadmap to action

Inevitably, such an undertaking exceeds the scope of a single project, particularly to reach the point where an investor could look up any industry or any asset class and obtain a checklist of relevant considerations. Feedback from investors on the discussion briefings is always welcome, as is collaboration with the investor community and beyond.

NEXT STEPS FOR THE FIELD
This all can seem like a lot – especially when investors have for the most part benefited from structures that perpetuate racial injustice without having to do much work on them. It’s ok to expect a lot of work when dismantling these structures – and with a deep commitment and a willingness to incorporate knowledge beyond the usual purview of an investor, it is manageable. Investors should not be discouraged and can adopt a staged approach to addressing racial justice within their portfolio. As the next set of briefings will lay out, there is a pathway to action:

1. organizational review and consensus building process
2. formulation of a commitment to racial justice
3. a structuring of racial justice goals into their overall investment process and outcome expectations
4. development or acquisition of knowledge around the issues likely to have exposure in a portfolio
5. framing the questions for investment staff and outside managers, especially in terms of diligencing managers
6. seeking the data that tracks racial justice outcomes with the same fervor in which data is sought for financial outcomes
7. taking steps to apply the knowledge to specific actions that can be taken across each investment class
8. spurring adoption among peers and sharing learnings and practices
9. calling for racial justice-oriented products and services within the financial services marketplace
10. supporting the needed infrastructure to allow for greater future effectiveness, including by encouraging transparency and reporting, the building of convenings for these conversations, and the creation of model portfolios

We welcome future engagement on this project from both investors and activists. To remain engaged, visit http://transformfinance.org/racial-justice