

Investing to Advance Racial Equity

Practical ways to tackle economic inequality

- Wealth inequality among racial and ethnic groups in the United States results from structural racism dating to the beginning of the republic. Investors can contribute to the narrowing of economic disparities through a dedicated emphasis on investing in underserved minority communities.
- Household wealth underpins financial security. By transferring wealth from parents and grandparents to children, families fund the foundations of prosperous lives and communities: quality education, business formation, and home ownership. Inequality persists across generations in part because people of color earn (on average) less income and possess a fraction of the household wealth of white communities, hampering their ability to provide these advantages to the next generation.
- Investors interested in using their capital to promote racial and ethnic equality should consider how they may help create durable household wealth for people of color. We suggest investment approaches that can contribute to solutions to three of the main current components of wealth inequity: 1) income inequality; 2) access to affordable housing; and 3) access to capital.

Investment opportunities for addressing the racial wealth and income gap

	Income Inequality	Access to Housing	Access to Capital
Public Equity	<ul style="list-style-type: none"> ■ Companies with policies and practices that support living wages and pay equity ■ Strong diversity policies, hiring and supply chain practices 	<ul style="list-style-type: none"> ■ Affordable housing real estate investment trusts (REITS) 	<ul style="list-style-type: none"> ■ Exclusion of financial institutions with predatory lending practices
Alternative Investments	<ul style="list-style-type: none"> ■ Direct or fund investments in companies with living-wage and pay-equity policies and practices 	<ul style="list-style-type: none"> ■ Affordable housing private equity funds ■ Community land trusts ■ Affordable mortgage lending products ■ Co-op funds 	<ul style="list-style-type: none"> ■ Private equity funds investing in small businesses owned by people in underserved communities, women and/or people of color ■ Venture capital funds addressing high-growth solutions to correct large-scale market failures (e.g., gentrification)
Fixed Income	<ul style="list-style-type: none"> ■ Funds that increase economic opportunity in underserved communities (e.g., impact-oriented municipal funds and securities) 	<ul style="list-style-type: none"> ■ Affordable mortgage-backed Securities 	<ul style="list-style-type: none"> ■ CDFIs supporting small business in low-income communities ■ Community investment notes supporting small businesses in low-income communities ■ Private debt
Cash			<ul style="list-style-type: none"> ■ Community banks, especially those in communities of color

Note: Access to these investments will vary based on investor type and size. Not all investment opportunities will be available to every investor. Investment returns associated with specific managers or strategies are available upon discussion with our business development team.

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Authors’ Note: Because racism is deeply embedded in US history, institutions, culture and attitudes, gaining a full understanding of the causes of racial inequality, much less the solutions, can seem overwhelming. A comprehensive solution to racial injustice in the United States must encompass wide-ranging reforms in every area of American life and address such issues as criminal justice, immigration and economic policy. Describing the full scope of the problem, much less identifying an overall solution, lies beyond any single effort.

As experts in impact investing, we have written this report as an attempt to provide a few tangible and practical options for those who wish to use their capital to help mitigate the ongoing effects of racial injustice in the United States. There are surely many others, and we hope to engage in an ongoing dialogue about how financial capital, which sometimes in the past has been a source of racial oppression, can be used to bring about greater equity.



Summary: Investing to advance racial equity

In this report, we look at some ways that investors are attempting to alter the economic paradigm through their investing practices

The US legacy of inequality based on race and ethnicity is rooted in centuries-old policies and practices that were designed to provide greater opportunity and wealth to some people (white people) and less opportunity and wealth to others (people of color). These practices were sometimes promoted at the outset as “race-neutral,” while in actuality they were nothing of the sort. For instance, policies such as the G.I. Bill granted opportunities to build wealth but were implemented to benefit white Americans while suppressing others’ access to those opportunities. Over time, investors have done little to break the economic divide; indeed, in many cases investment practices have only served to reinforce the accumulation of wealth among a small percentage of people.

Investors cannot alter centuries of structural racism that have led to economic inequality on their own, but they can support ways to help build an economy that provides opportunity for everyone. In this report, we look at some ways that investors are attempting to alter the economic paradigm through their investing practices.

People of color in the US earn far less and possess a fraction of the household wealth of white communities. The disparity reflects, in large part, 20th century policies such as the New Deal that set the stage for the emergence of a robust middle class but also embedded discriminatory practices that severely limited the participation of communities of color in that upward mobility. Many decades on, the overhang from these policies persists, and for many households of color were exacerbated by the impact of the 2007-09 recession.

Household wealth underpins financial security, helps families weather difficulties such as health issues or natural disasters, and enables people to maintain their standard of living during periods of unemployment. Family transfers of wealth are key to funding higher education, the formation of businesses, and home ownership for the next generation.

The implications of this wealth disparity go beyond the disadvantages it creates for the people directly affected. People of color will become the majority of the US population as early as 2045, according to a new US census projection. If the current income and wealth gaps between whites and people of color remain static, the overall pool of investment capital for entrepreneurship and home equity will be concentrated in fewer hands and sectors of the economy. This could fuel social instability and create major headwinds for future US economic growth.

The implications of racial and ethnic wealth disparities have implications beyond the impact to those affected

Whether motivated by a desire to address racial inequities or concern about the future health of the US economy overall, investors are interested in understanding concrete ways to invest toward a more equitable economic playing field — one that fosters the creation of durable wealth. Investors are increasingly seeking companies, funds, and other assets that address long-term risks resulting from racial inequality and that are positioned for success if society moves to confront the status quo. We have assessed how investors may be able to contribute to solutions to three of the main current components of wealth inequality:



We look for ways to foster wealth creation by tackling these three challenges

- **Income inequality:** Lower incomes result in less savings and, over time, less wealth. This leaves fewer resources available for the next generation.
- **Home ownership and affordable housing:** Less access to affordable home ownership deprives families of an important source of household wealth. Given the lack of family financial transfers that can help with a down payment for a home, lower family income, or other financial impediments, families of color may not have access to low-cost financing to purchase a decent home — or any home at all.
- **Access to capital:** Less access to affordable loans can diminish household savings. High-cost debt payments for educational loans, car or consumer loans, or mortgages may hinder a family's ability to build wealth. Less access to reasonably priced commercial loans to start or grow a business may also impair a parent's ability to pass wealth on to children.

In crafting impact investment strategies, Cornerstone Capital Group evaluates how investments can improve access to resources needed to improve individual, community, and societal outcomes. In considering what investors can do to help break the cycle of racial and ethnic wealth inequality, we look for ways to foster wealth creation by tackling those three challenges.

- Investing in deposits at Community Development Financial Institutions (CDFIs) will help those institutions invest in underserved communities through affordable commercial, consumer and mortgage loans. Access to affordable mortgages helps families build wealth through home ownership. Access to reasonable consumer and educational loans helps families save on finance costs so they can put extra money into savings accounts. The ability to start or build a business with access to reasonable commercial loans is an excellent path to building household and community jobs and wealth.
- Fixed income or alternative funds focused on impact in underserved communities can provide reasonably priced loans to businesses and for commercial properties and owned housing in neighborhoods of color. Again, these funds can help people of color build wealth through home ownership, entrepreneurship or ownership of a property, and can enable a local business to remain in its neighborhood and not be driven off by escalating rents.
- Through crowdfunding, investors can help repair household balance sheets of overleveraged individuals by swapping high-cost consumer, educational or mortgage loans for restructured, affordable, lower-cost loans. These lower-cost loans might substitute for family financial transfers and allow adult children to build wealth.

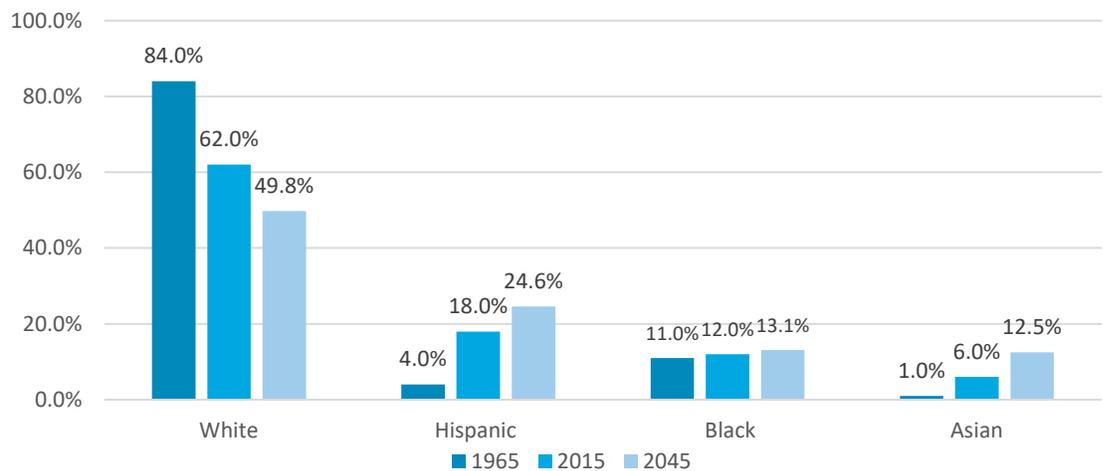
Fortunately, the scope and number of investment vehicles designed to improve access to housing and capital is broadening along with growing interest in targeting investments for impact.

Demographic trends: more diverse, but lower income

People of color to become majority of US population by 2045

According to a new US census projection, people of color will become the majority of the country's population by 2045.¹ The non-Hispanic white population is projected to shrink over the coming decades, from 199 million in 2020 to 179 million in 2060, a result of falling birth rates and an aging population. For Hispanic people and multi-racial groups, a more youthful population characterized by higher birth rates is driving population growth, while international migration trends have boosted the Asian population.

Figure 1: Change in racial and ethnic profile of the US population between 1965 and 2045



Note: Whites, blacks and Asians include single-race non-Hispanics, Asians include Pacific Islanders.
Source: Pew Research and Brookings Institute

Whites as a percentage of the total US population declined from 84% in 1965 to 62% in 2015 (Figure 1). During that period the Hispanic population expanded from a mere 4% of the total to 18%, while the Asian population grew from only 1% to 6% of the total. Most of the growth of the Hispanic and Asian cohorts came from immigration between 1965 and 2015, according to census data gathered by Pew Research. The black population remained relatively stable, increasing from 11% to 12% of the total population.²

Note on usage: We use the term 'people of color' to refer to black, Hispanic and 'other' demographics as defined by the US Census Bureau and other government sources. We rely on US Census Bureau definitions of racial and ethnic categories. The "white" and "black" categories may or may not include those of Hispanic origin, depending on the data source. Clarification is provided where relevant. Data sourced from the Federal Reserve defines "other" as a multiple race group consisting of families identifying as Asian, American Indian, Native Hawaiian, Pacific Islander, other race and all respondents reporting more than one racial identification (two or more races). These populations are too small to be statistically significant on their own. In 2016, families reporting more than one racial identification were the largest subgroup of the other category (50%) followed by Asian families (about 30%).

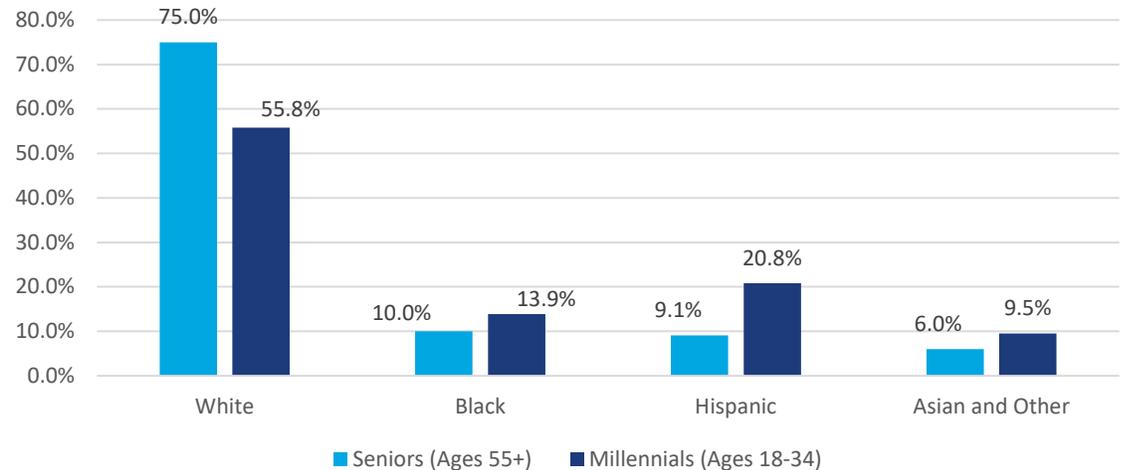
¹ <https://www.census.gov/newsroom/press-releases/2018/cb18-41-population-projections.html>

² http://www.pewhispanic.org/2015/09/28/modern-immigration-wave-brings-59-million-to-u-s-driving-population-growth-and-change-through-2065/ph_2015-09-28_immigration-through-2065-a2-05/



According to the National Center for Children in Poverty, blacks and Hispanics comprised 60% of children under 18 years of age from low-income families in 2016, while representing just 38% of the total US under-18 population.³ The younger millennial generation already resembles the future demographic composition projected by the Brookings Institute (Figure 2). The large wave of immigrants into the US in the 1980s and 1990s, primarily from Latin America and Asia, coupled with the aging of the white population, gave rise to this more diverse generation.

Figure 2: Millennials and seniors by race/ethnicity, 2015

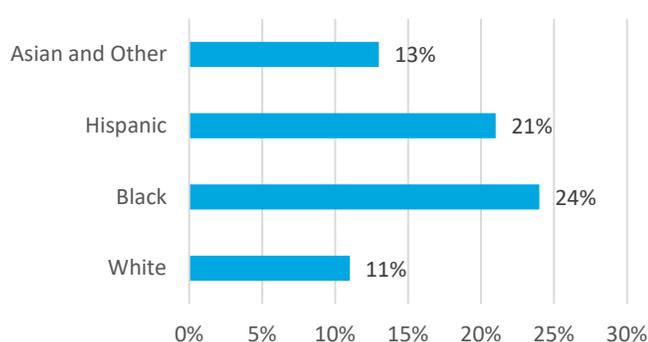


Source: Federal Reserve⁴

Wealth accumulation trends show major racial gaps

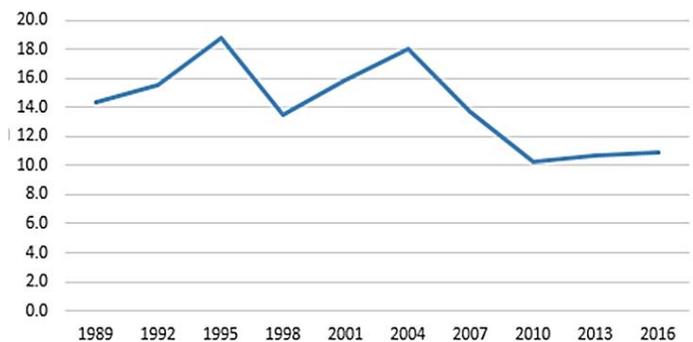
This larger, younger generation is poorer than its predecessors (Figures 3 and 4).⁵

Figure 3: Poverty rates by race of millennials aged 25-34, 2015



Source: Brookings Institute

Figure 4: Median family net worth where head of household <35 years old (\$000s)



Source: Federal Reserve⁶

³ http://www.nccp.org/publications/pub_1194.html

⁴ <https://www.federalreserve.gov/econres/files/BulletinCharts.pdf>

⁵ <https://www.brookings.edu/research/millennials/>

⁶ <https://www.federalreserve.gov/econres/files/BulletinCharts.pdf>



Data from the Federal Reserve Board, Survey of Consumer Finances shows that households of color possess only a fraction of the median net worth of whites (Figures 5 and 6).

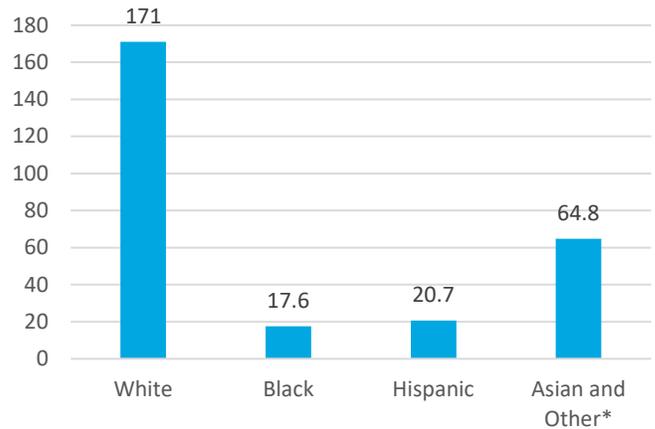
Figure 5: Household financial profile by race/ethnicity (\$000 in 2016 dollars, or percent)

	White	Black	Hispanic	Other
Income:				
Median*	61.2	35.4	38.5	50.6
Mean	123.4	54.0	57.3	86.9
Net Worth:				
Median	171	17.6	20.7	64.8
Mean	933.7	138.2	191.2	457.8
% HH w/ negative net worth	9	19	13	14

*Mean is average taking all numbers in a dataset, adding them together and dividing by total number of entries. Median is better for income level research. It is the 50% point in the data, regardless of the rest of the data. A few millionaires can inflate the mean, overstating the socioeconomic status of a sample.

Source: Federal Reserve Board, Survey of Consumer Finances

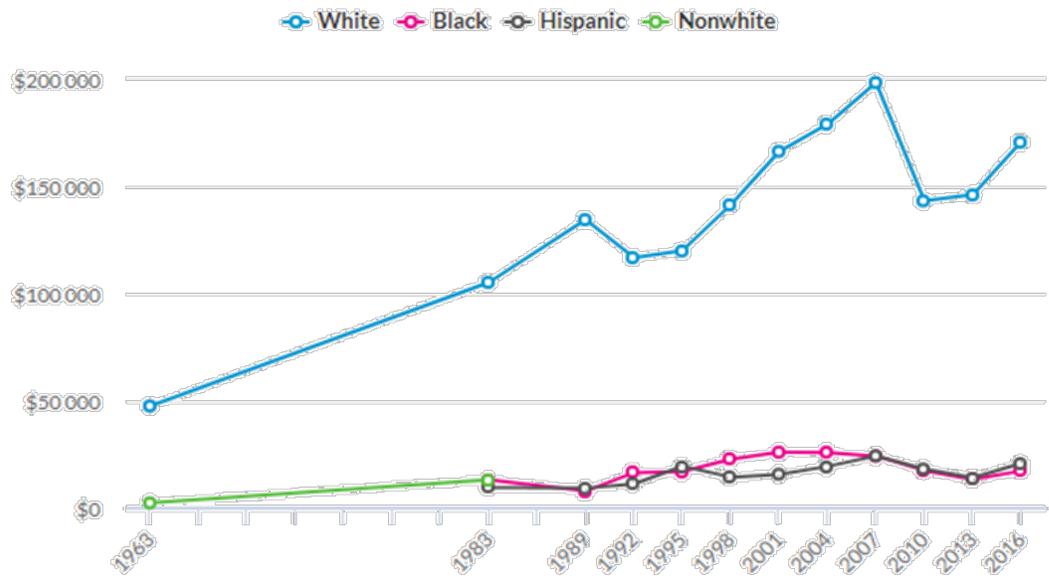
Figure 6: Median net worth by race (\$000s in 2016 dollars)



Source: Federal Reserve Board, Survey of Consumer Finances

This disparity in wealth has grown over the past 30 years as growth in average wealth of white families has outstripped growth in wealth of the Hispanic and black populations (Figure 7).⁷

Figure 7: Median family wealth by race/ethnicity, 1963-2016



Source: Urban Institute calculations from Survey of Financial Characteristics of Consumers 1962 (December 31), Survey of Changes in Family Finances 1963, and Survey of Consumer Finances 1983–2016

⁷ <https://apps.urban.org/features/wealth-inequality-charts/>



A legacy of structural racism

Structural racism is woven into the fabric of the United States

Structural racism is a system in which public policies, institutional practices, cultural representations, and other norms work in various ways to perpetuate racial group inequity.⁸ To help identify meaningful ways in which investors can deploy capital to systemically advance the goal of economic equality for people of color, we must understand the root causes of that inequality — the structural racism woven into the fabric of the United States since its founding and perpetuated following the formal dismantling of slavery. In one telling illustration, the federal government never followed through on General Sherman's Civil War plan in the South to divide up plantations and give each freed slave "40 acres and a mule" as reparations. Only once was monetary compensation from the federal government made for slavery, in Washington, D.C. Government officials paid up to \$300 per slave upon emancipation — not to the slaves, but to local slaveholders as compensation for loss of property.⁹

Two pivotal 20th century programs helped create the middle class but largely bypassed communities of color

Turning to the 20th century, we examine two pivotal government programs that helped create the US middle class¹⁰ but were effectively directed only towards the white population. While other policies, such as the exclusion of certain categories of jobs from coverage under the Social Security Act, were instrumental in fueling income inequality, these two policies had an outsized impact on lasting intergenerational wealth creation.

The Federal Housing Administration (FHA) was created in 1934 to increase home ownership in the US. However, along with the FHA came the concept of “redlining.” In the 1930s, government surveyors graded neighborhoods in 239 cities, color coding them from blue (best) to red (hazardous). The “redlined” areas were considered high credit risks due to their racial and ethnic profile — primarily black people or immigrants from Asia and Southern Europe.¹¹ Redlining typically led to lenders refusing to extend credit to borrowers in certain areas of town. Effectively, loans in these neighborhoods were unavailable or usurious. This made it nearly impossible for low-income minorities to buy homes. Through redlining, the FHA and other private and public sector participants excluded people of color from the opportunity to purchase housing.

Through redlining, the FHA and other institutions excluded people of color from the opportunity to purchase housing

Between 1934 and 1968, before redlining was banned, non-white households received only 2% of FHA loans, missing out on the wealth creation that housing appreciation fueled during that time. Given the trend of huge home price appreciation (Figure 8), not owning a home in those critical decades set back wealth creation massively for those who couldn't get a loan due to redlining and other residential housing policies that discriminated against people of color.

⁸ <https://assets.aspeninstitute.org/content/uploads/files/content/docs/rcc/RCC-Structural-Racism-Glossary.pdf>

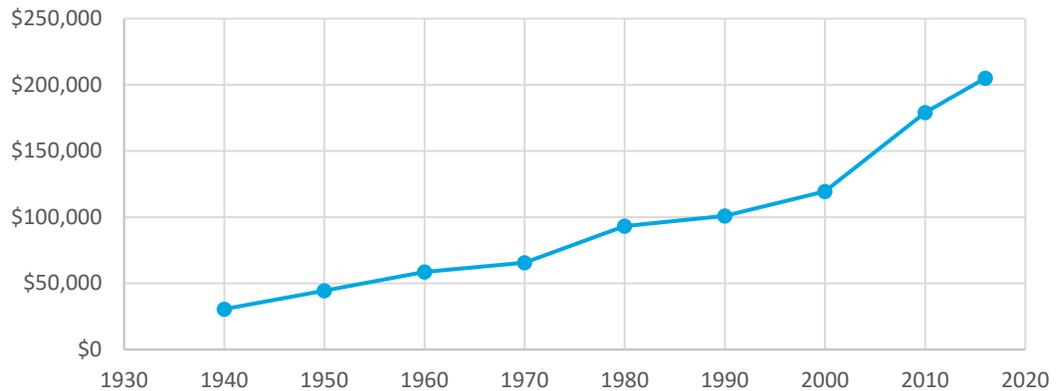
⁹ <http://www.africaspeaks.com/reasoning/index.php?topic=1683.0;wap2>

¹⁰ <http://www.ips-dc.org/report-ever-growing-gap/>

¹¹ <https://www.washingtonpost.com/news/wonk/wp/2018/03/28/redlining-was-banned-50-years-ago-its-still-hurting-minorities-today>



Figure 8: Appreciation in median home values following formation of the FHA



Note: 1940-2000 data is adjusted to 2000 dollars.

Source: US Census^{12 13}

Thousands of black and other minority veterans were denied housing and business loans, as well as admission to whites-only colleges and universities

The G.I. Bill, enacted in 1944, provided war veterans with low-interest mortgages and granted stipends covering tuition and expenses for veterans attending college or trade school. However, officials within the Department of Veterans Affairs apparently implemented discriminatory practices along with it.¹⁴ Administration of the program was handled at the state and local level, thus enabling Congressional leaders, primarily but not only in the South, to appoint local white officials within their states, such as bankers and college administrators, who leaned towards segregationist practices. As a result, thousands of black and other minority veterans were denied housing and business loans, as well as admission to whites-only colleges and universities. They were also excluded from job-training programs for careers in promising new fields like mechanics and electrical work.¹⁵

These two policies transformed the financial profile of millions of white low-income veterans, helping create a vast home-owning middle class with educational and vocational skills. The middle class, who mostly lived in the white suburbs that sprung up nationwide, tended to have good public school districts funded with real estate taxes paid by the emergent white home-owning veterans and their white neighbors. Their children were able to obtain the solid educational foundation needed to pave the way for the next generation of an upwardly mobile middle class. The wealth built from home ownership and the college education or job training obtained through the G.I. Bill enabled white veterans to pass on wealth to their children through financial transfers.¹⁶

Several generations of people of color were largely excluded from this post-war blossoming of a comfortable, upwardly mobile middle class. The effects continue to reverberate today. Fifty years after the Fair Housing Act was passed, banning racial discrimination in housing, segregation still occurs in the US. Researchers have found that neighborhoods which had been redlined back in

¹² <https://www.census.gov/hhes/www/housing/census/historic/values.html>

¹³ <https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?src=bkmk>

¹⁴ <http://www.ips-dc.org/report-ever-growing-gap/>

¹⁵ <https://www.nytimes.com/2005/08/28/books/review/when-affirmative-action-was-white-uncivil-rights.html>

¹⁶ US Commission on Civil Rights, *Racial Isolation in the Public Schools*, vol.1 (Washington, DC: US Government Printing Office, 1967); Thomas R. Sugrue, *The Origins of the Urban Crisis: Race and Inequality in Postwar Detroit* (Princeton: Princeton University Press, 1996).



the 1930s are still mostly black and Hispanic.¹⁷ In 1977, the US Congress enacted the Community Reinvestment Act to encourage banks to meet the credit needs of all segments of the community, including low- and moderate-income individuals. It was designed to encourage banks to help rebuild and revitalize communities through sound lending that benefits both the banks and the communities they serve.¹⁸ Nonetheless, disparities in home lending persist. Studies show that individuals of color, especially black applicants, are more likely to be denied a home loan when compared to white applicants.¹⁹ They also tend to pay higher interest rates and are more likely to be offered a subprime loan as opposed to a lower-rate prime loan.²⁰

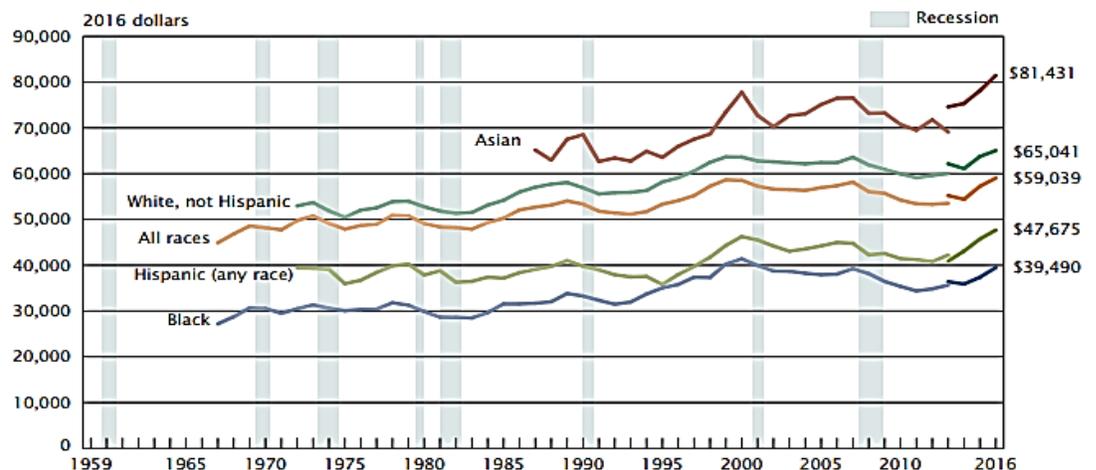
Three key components of current wealth inequality

1. Income inequality — Household income and balance sheet

The gap in income between white, black and Hispanic households has barely changed in 50 years. Black and Hispanic household income has been consistently lower than that of white and Asian households since the US census bureau began tracking this metric in 1967. White households still earn twice as much as black households and approximately a third more than Hispanic households. Asian households earned consistently more than all races since tracking as a distinct population began in the 1980s (Figure 9).

The gap in income between white, black and Hispanic households has barely changed in 50 years

Figure 9: Real median household income by race and Hispanic origin, 1967-2016



Note: Data for 2013 and beyond reflect the implementation of redesigned income questions. Data points are placed at the midpoints of respective years. Median household income data not available prior to 1967.

Source: US Census Bureau, Current Population Survey, 1968 to 2017 Annual Social and Economic Supplements.

¹⁷ <https://www.washingtonpost.com/news/wonk/wp/2018/03/28/redlining-was-banned-50-years-ago-its-still-hurting-minorities-today/>

¹⁸ <https://www.occ.treas.gov/topics/community-affairs/publications/fact-sheets/fact-sheet-cra-reinvestment-act.pdf>

¹⁹ <https://www.revealnews.org/article/for-people-of-color-banks-are-shutting-the-door-to-homeownership/>

²⁰ <https://www.revealnews.org/article/for-people-of-color-banks-are-shutting-the-door-to-homeownership/>



People with lower earnings have a harder time saving money. The difference in earnings adds up over a lifetime and widens the racial and ethnic wealth gap. In 1983, the net worth of white households was 8 times higher than that of black households; in 2016 it was 13 times higher.²¹ The widening gap partly reflects the continued impact of the historical disadvantages outlined previously on later generations.²²

Because of consistently lower earnings, the financial profile or balance sheet of black and Hispanic households tends to be weaker (Figure 10).

Figure 10: Household financial profile by race/ethnicity, 2016 survey (\$000, or percent)

	White	Black	Hispanic	Other
Net Worth:				
Median	171.0	17.6	20.7	64.8
% w/Zero Net worth	9	19	13	14
Assets (% of families with)				
Primary Residence	73	45	46	54
Vehicle	90	73	80	80
Retirement accounts	60	34	30	48
Business equity	15	7	6	13
Direct & indirect equity	61	31	28	47
Debts (% of families with)				
Debt secured by home	46	32	31	38
Car loan	34	33	32	34
Credit card balance	42	48	50	44
Education loans	20	31	19	26
Credit Experience (% families with)				
Payment-to-income ratio greater than 40%	6	9	8	9
Late on payments 60 days or more	5	10	4	9
Denied credit or feared denial	15	35	32	25

Source: Federal Reserve Board, Survey of Consumer Finance

Wealth tends to increase with income as higher-earning households can save more and benefit from the returns generated by accumulated financial and real assets such as a home. Nearly three-quarters of white households own a home, while less than half of black and Hispanic families own one. As shown in the data above, lower-income households tend to carry more unsecured debt on credit cards and for education, and experience the highest incidence of credit problems.²³

Liquid resources for financial emergencies

Households lacking sufficient savings may have problems coping with financial emergencies. According to a Pew Charitable Trusts survey, the typical white household has over a month's income in liquid savings to support the family if income is discontinued, versus 12 days for Hispanic households and only 5 days for black households.^{24 25}

²¹ <http://www.pewsocialtrends.org/2016/06/27/1-demographic-trends-and-economic-well-being/>

²² <https://www.census.gov/content/dam/Census/library/publications/2017/demo/P60-259.pdf>

²³ <https://www.federalreserve.gov/econres/notes/feds-notes/recent-trends-in-wealth-holding-by-race-and-ethnicity-evidence-from-the-survey-of-consumer-finances-20170927.htm>

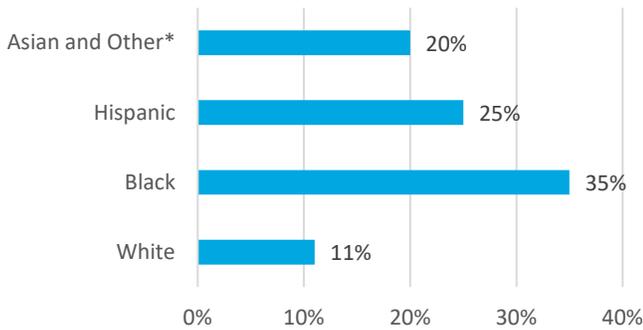
²⁴ <http://www.pewtrusts.org/~media/assets/2015/11/emergencysavingsreportnov2015.pdf>

²⁵ According to Pew, liquid savings equals the sum of checking and savings accounts plus cash saved at home. Liquid savings to days of household income to support a family if income is discontinued were determined by dividing reported liquid savings by monthly household income and then multiplying this figure by 30 to obtain the value in days.

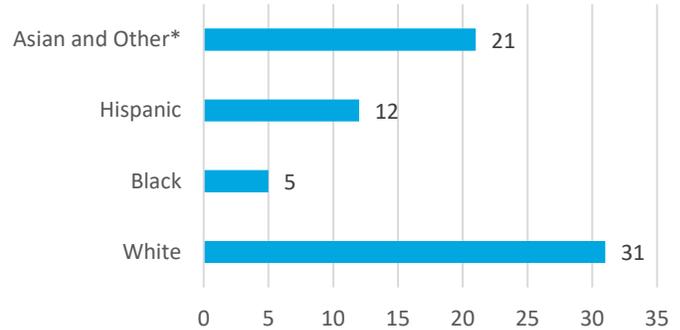


One in three US families has no savings at all. Families lacking liquid savings are less likely to transfer money to children and may rely on adult children to contribute to the household when an emergency arises (Figures 11 and 12).

Figure 11: Households with less than one day in liquid savings **Figure 12: Typical days of liquid savings by race**



Source: Pew's Survey of American Family Finances



Source: Pew's Survey of American Family Finances

2. Home ownership and affordable housing

Home ownership is generally the largest source of long-term wealth creation for most families. Perhaps not surprisingly, given the legacy of bias in housing policies outlined in the previous section, people of color have less access to this resource.

As shown in Figure 13, nearly three quarters of white households own homes, while less than half of black and Hispanic families are homeowners. Also, white homeowners have more equity in their homes than other groups as shown by net housing wealth (the value of the home net of any mortgage debt); and this home equity accounts for a lower proportion of total assets for white households than for black and Hispanic homeowners.²⁶

Figure 13: Household financial profile by race/ethnicity—home ownership
2016 survey (\$000, or percent)

	White	Black	Hispanic	Other
Net Worth				
Median	171	17.6	20.7	64.8
Mean	933.7	138.2	191.2	457.8
Home (% of families own)	73	45	46	54
Home Mortgage (% of families with)	46	32	31	38
Wealth from housing (owned):				
% of assets in housing	32	37	39	35
Mean net housing wealth*	215.8	94.4	129.8	220.7

* Numbers do not always add up due to different methods of calculation by the Federal Reserve Board, Survey of Consumer Finance.

Source: Federal Reserve Board, Survey of Consumer Finance

²⁶<https://www.federalreserve.gov/econres/notes/feds-notes/recent-trends-in-wealth-holding-by-race-and-ethnicity-evidence-from-the-survey-of-consumer-finance-20170927.htm>

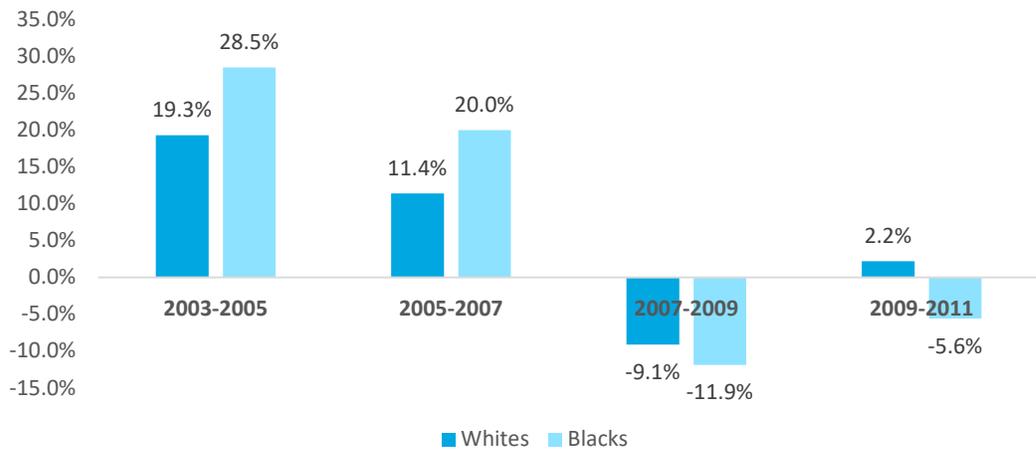


Black and Hispanic households were disproportionately impacted by the housing bust of 2008-11

Impact of the Great Recession on home ownership and the wealth gap

In addition to job loss and other hardships, all racial groups experienced housing-bust-related declines in home ownership during the 2008-11 timeframe. However, black and Hispanic households were more likely to hold costly subprime loans amid a deficit of resources.²⁷ Jacob Faber, an assistant professor at New York University’s Department of Sociology, analyzed mortgage loan application data from 2006, the year the housing market peaked in the last housing cycle, and found blacks were 2.8 times more likely to be turned down for a mortgage loan, while Latinos were twice as likely to be turned down, relative to white applicants, controlling for geographic factors. When they were approved, black and Latino borrowers were 2.4 times more likely to be offered a subprime loan than white applicants. He also found that the higher up the income ladder he compared white applicants with, people of color, the wider the subprime disparity grew.²⁸ Additionally, more modest homes in underserved communities tended to lose more value during that time (Figure 14).

Figure 14: Percentage change in home equity during and after the housing boom



Note: Because of the very small number of Hispanics who owned a home that were surveyed in the PSID during this period, this research focuses on black and white households only. Also, the geographic distribution of Hispanics varies far more by state than white and black populations; in 2012 more than one in three (36%) Hispanics lived in California alone.

Source: PSID and ACLU.org

Black and Hispanic families in less wealthy neighborhoods were more likely to abandon underwater homes when the loan amount exceeded the value of the depreciating home, or to be evicted when the banks foreclosed on their homes because they couldn’t continue to pay the monthly service amount on the high-interest mortgages. This led to steeper declines in the value of homes in these neighborhoods, where many homes sat empty or sometimes had squatters living in them.²⁹ The consequences of the disparity in subprime lending and foreclosures cost families much of their wealth and ability to pay for college or emergencies.³⁰

²⁷ <http://www.pewsocialtrends.org/2016/12/15/in-a-recovering-market-homeownership-rates-are-down-sharply-for-blacks-young-adults/>

²⁸ <https://www.citylab.com/equity/2013/08/blacks-really-were-targeted-bogus-loans-during-housing-boom/6559/>

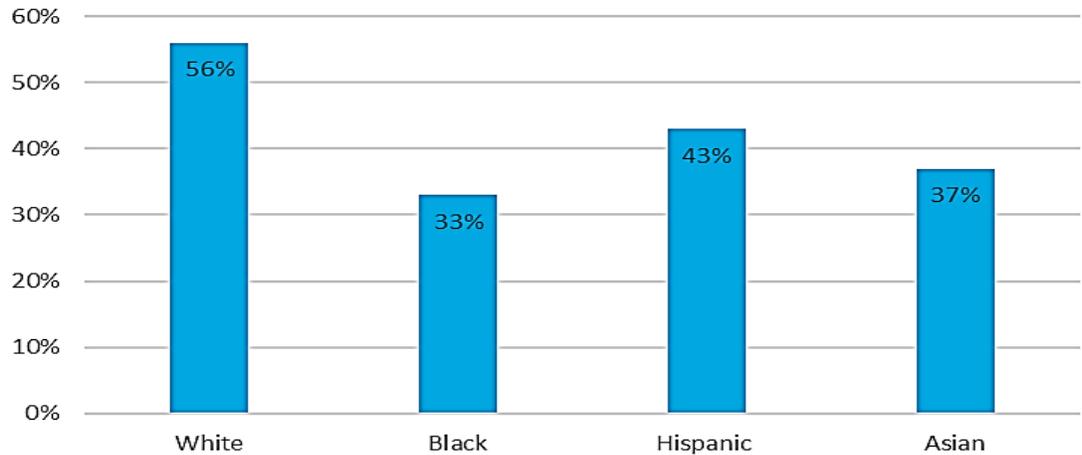
²⁹ <http://cltnetwork.org/wp-content/uploads/2013/12/2013-The-Housing-Crisis-and-Working-Poor.pdf>

³⁰ <https://www.citylab.com/equity/2013/08/blacks-really-were-targeted-bogus-loans-during-housing-boom/6559/>



Black and Hispanic households have generally exhibited lower home ownership rates than whites and Asians over time, but the divide for blacks has widened further in recent years. As shown in Figure 15, for older millennials (ages 25-34 years) in 2015, there were sharp disparities in home ownership across racial and ethnic groups. At that time over half of older white millennials owned a home compared to less than half of millennials of color.³¹

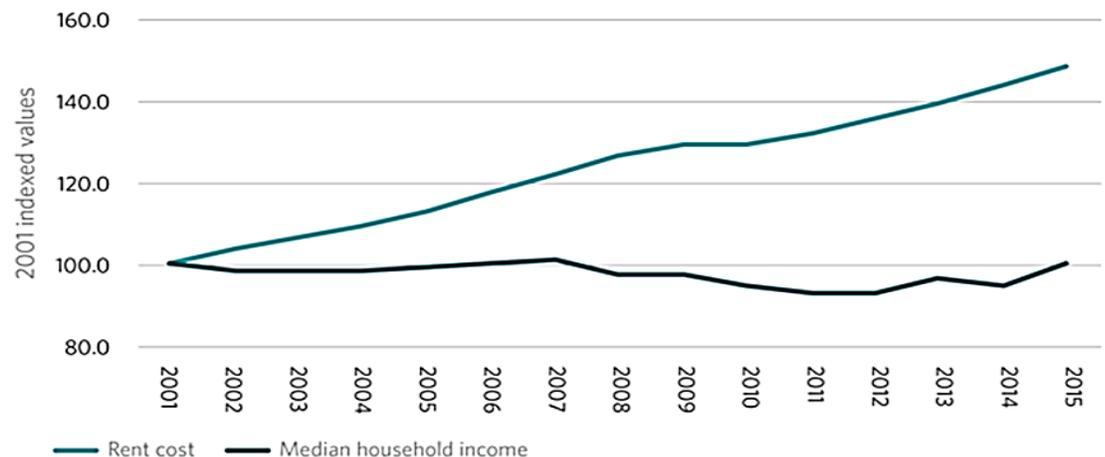
Figure 15: Home ownership by older millennials (%), 2015



Source: Metropolitan Policy Program at Brookings

The rebound in housing prices and rents since 2009 makes it even more challenging for renters to transition to home ownership, further constraining minority millennials' access to a key means of accumulating wealth.³²

Figure 16: Rent increases vs income growth, 2001-15



Note: Rent and income are inflation-adjusted to 2015 dollars using the consumer price index for all urban consumers. Rent costs and income values are indexed to 2001.

Source: Pew Charitable Trusts, Federal Reserve Bank of St. Louis

³¹ <https://www.brookings.edu/research/millennials/>

³² https://www.brookings.edu/wp-content/uploads/2018/01/2018-jan_brookings-metro_millennials-a-demographic-bridge-to-americas-diverse-future.pdf#page=14



3. Access to capital — family financial transfers to build wealth

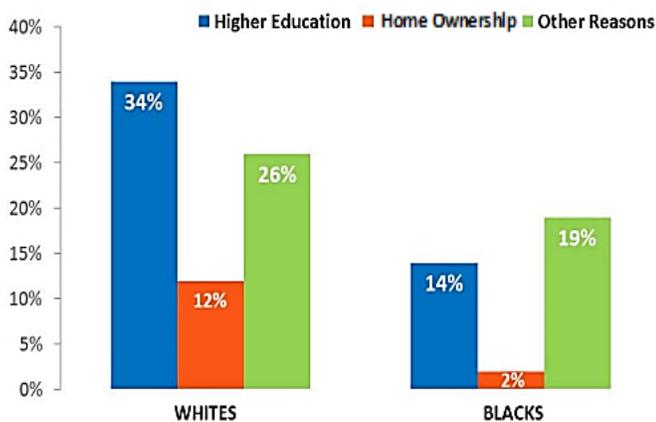
For most people, the first source of finance capital is family and/or friends³³. Family financial transfers are an important ongoing source of wealth accumulation capacity, beginning with college tuition. They may smooth the transition into young adulthood through rent support or help with a down payment on a home, or provide later transfers through bequests or even help with grandchildren. Family financial assistance can provide the capital to start a business, funds that may not be available from financial institutions to young entrepreneurs of any color.

Transfers from parents to adult children are an important addition to the picture of how wealth, education and home ownership interact across time. This is particularly relevant since early career opportunities for blacks and other ethnic groups continue to be hampered by discrimination in both hiring and salary, impacting long-term wealth potential.³⁴

Studies have shown that financial gifts from parents to adult children comprise at least 20% of wealth, and inheritances account for up to 50% of total wealth, in the US.³⁵ People of color do receive some money from parents, but a larger portion of adult children of color give money to their parents compared to white adult children (Figures 17 and 18). This trend tends to drag down wealth for this demographic.³⁶

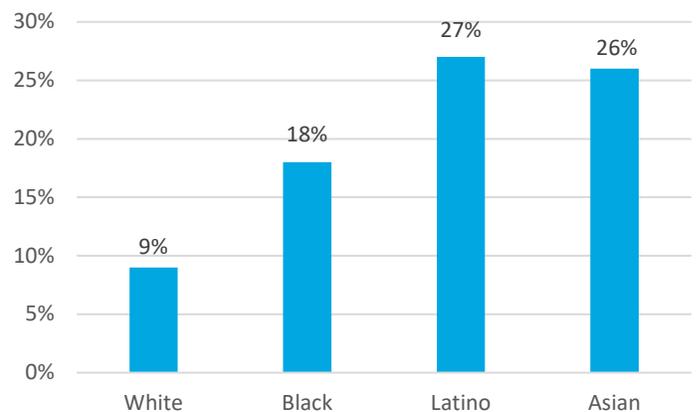
Financial gifts from parents to adult children comprise at least 20% of wealth, and inheritances account for up to 50% of total wealth, in the US

Figure 17: Parents providing financial support to adult children



Source: PSID, Insight Center for Community and Economic Development

Figure 18: Adult children providing financial support to parents



Source: PSID, Federal Reserve Bank of Boston

In a Federal Reserve Bank of St. Louis research paper, the analysis focused on financial transfers of \$10,000 or more between generations to determine their contribution to wealth in 2013. Among college-educated households, only 9% of black households received such a large financial gift, compared with close to one-third of white households. Not only do very few black households receive large family financial transfers, but when they do the amounts are significantly smaller.³⁷

³³<https://www.entrepreneur.com/encyclopedia/friends-family-financing>

³⁴<https://academic.oup.com/sf/article-abstract/93/4/1451/2332119?redirectedFrom=fulltext>

³⁵<https://www.aeaweb.org/articles?id=10.1257/jep.8.4.145>

³⁶<http://www.insightccd.org/wp-content/uploads/2015/07/Bootstraps-are-for-Black-Kids-Sept.pdf>

³⁷<https://files.stlouisfed.org/files/htdocs/publications/review/2017-02-15/family-achievements-how-a-college-degree-accumulates-wealth-for-whites-and-not-for-blacks.pdf>



Lower financial transfers from parents to adult children in the black community may constrain home ownership for black millennials

Lower financial transfers from parents to adult children in the black community may constrain home ownership for black millennials. In a research report,³⁸ data derived from the Panel Study of Income Dynamics (PSID)³⁹ found that 12% of white adult children (ages 25-34 years) received financial support from their parents for home ownership compared to only 2% percent of black adult children. Moreover, both Brookings and Pew Research have estimated that the loss of wealth resulting from the foreclosure crisis between 2007 and 2009 disproportionately affected black and Hispanic families, making them less able to provide support for their children’s education, home purchases and other types of financial transfers.⁴⁰

It’s difficult to for a young adult to save for a down payment on a home or for retirement when receiving little support from financial transfers and when their own limited financial resources are used to help support parents or other family with financial needs.

Does a college education close the wealth gap?

Even with a bachelor’s degree, black individuals do not achieve net worth commensurate with whites who lack a bachelor’s degree (Figure 19). Hispanics and other races appear to fare better, although from a median net worth measurement, Hispanic college graduates still don’t achieve comparable net worth to whites with no bachelor’s degree.

Figure 19: Mean and median net worth by race and educational attainment- 2016 (\$000)

	Median Net Worth	Mean Net Worth
No bachelor’s degree		
White	98.1	367.8
Black	11.6	99.3
Hispanic	17.5	105.7
Other	34.3	183.7
Bachelor’s degree or higher		
White	397.1	1,821.3
Black	68.2	271.2
Hispanic	77.9	609.6
Other	210.2	941.0

Source: Federal Reserve Survey of Consumer Finance

Lifetime earnings of black and Hispanic individuals are 20% or more below those of similarly educated whites

While a college education is linked to higher lifetime earnings and wealth, research from the Federal Reserve Bank of St. Louis shows that this is less true for black college-educated households. Among those with college and graduate degrees, lifetime earnings of black and Hispanic individuals are 20% or more below those of similarly educated whites.⁴¹ A college degree boosts earnings and may add to black and Hispanic wealth over time, but in general, not as much as it does for white and Asian households (Figure 20).⁴²

³⁸ <http://www.insightcced.org/wp-content/uploads/2015/07/Bootstraps-are-for-Black-Kids-Sept.pdf>

³⁹ The Panel Study of Income Dynamics (PSID) is a University of Michigan Institute for Social Research survey. It has been tracking households and their descendants since 1968 and has widened its initial focus on income and employment to include wealth, health, expenditures, child development etc. The PSID also collects information on family financial transfers in the form of large gifts and/or inheritances.

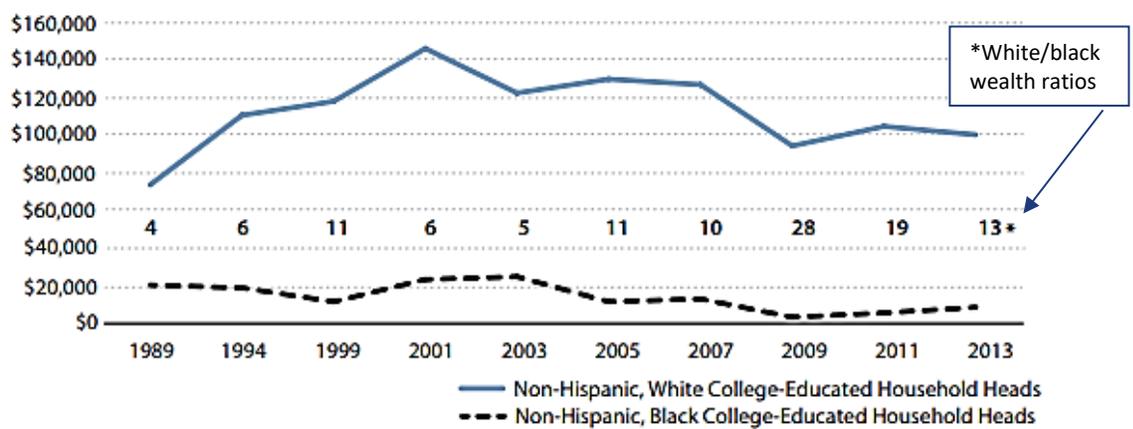
⁴⁰ <https://www.brookings.edu/research/millennials/>

⁴¹ <https://files.stlouisfed.org/files/htdocs/publications/review/2017-02-15/family-achievements-how-a-college-degree-accumulates-wealth-for-whites-and-not-for-blacks.pdf>

⁴² <https://cew.georgetown.edu/cew-reports/the-college-payoff/>



Figure 20: Median net wealth (excluding home equity) of non-Hispanic college-educated white and black households, 1989-2013



Source: Federal Reserve Bank of St. Louis and the Panel Study of Income Dynamics (PSID)

While the earnings may not match those of whites or Asians, a research report from the Upjohn Institute calculates lifetime “career earnings returns” to a college degree for black individuals of over 170% compared to blacks with only a high school degree (Figure 21).⁴³ This still points to the benefits of a college education for boosting black and Hispanic income relative to other races, even if the impact to black wealth is not as great as for whites.

Figure 21: Median weekly earnings by educational attainment in 2014⁴⁴

Education Level	White	Black	Asian	Hispanic
Less than high school	\$493	\$440	\$477	\$466
High school graduate	696	579	604	595
Some college	791	637	748	689
Bachelor’s degree	1,132	895	1,149	937
Bachelor’s and higher	1,219	970	1,328	1,007
Advanced degree	1,390	1,149	1,562	1,235

Source: Bureau of Labor Statistics

Enrolling, financial support and graduating from college

White adults are more likely than black and Hispanic adults to have graduated from college. Over the past 30 years, college enrollment rates for black and white students have converged (65% black enrollment vs. 70% white enrollment in 2013)⁴⁵; however, six-year completion (graduation) rates have not (40% vs. 62% in 2011)⁴⁶, leaving many young black people with student debt but no degree. Hispanic people have fared better as their completion rate rose to 51% during that period, although fewer Hispanics have college degrees than whites or Asians⁴⁷ (Figure 22).

⁴³ <http://www.upjohn.org/sites/default/files/pdf/Response-to-NYT-oped-by-Bartik-and-Hershbein.pdf>;

http://research.upjohn.org/cgi/viewcontent.cgi?article=1302&context=up_workingpapers

⁴⁴ <https://www.bls.gov/opub/ted/2015/median-weekly-earnings-by-education-gender-race-and-ethnicity-in-2014.htm>

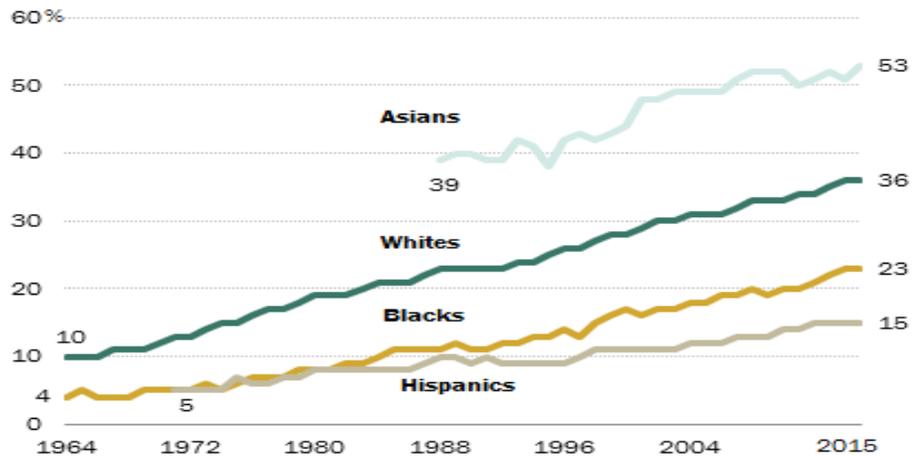
⁴⁵ <https://fivethirtyeight.com/features/race-gap-narrows-in-college-enrollment-but-not-in-graduation/>

⁴⁶ https://nces.ed.gov/programs/digest/d12/tables/dt12_376.asp

⁴⁷ <http://www.pewsocialtrends.org/2016/06/27/1-demographic-trends-and-economic-well-being/>



Figure 22: Percentage of US adults 25 and older who have at least a bachelor’s degree



Source: Pew Research Center

Research found that over a third of all white children received some amount of financial support from their parents for college education compared to 14% of all black children. Without financial support, fewer black children who attended college earned their degree compared to white children. With financial support, however, the college completion rate is nearly the same for both races. Figure 23 compares the percent of all white and black students who graduate from college either with or without educational financial support from their parents.⁴⁸

Figure 23: Children’s college educational achievement by parent’s support for education

Achievement	Without Financial Help		With Financial Help	
	Whites	Blacks	Whites	Blacks
College Degree	25%	11%	68%	66%
Graduate School	8%	3%	27%	28%

Source: Insight Center for Community Development

Increasing wealth and access to affordable capital should positively affect academic outcome for people of color

Black students start out with fewer financial resources and are likely to take on more student loan debt compared with white and Hispanic students (Figure 24). As a result, it appears that black students are more likely to leave college with debt but without a degree, which greatly increases the likelihood of defaulting and damaging their credit.⁴⁹ Lack of family financial transfers impacts a student’s ability to complete college. Increasing wealth and access to affordable capital should positively affect academic outcome for people of color.

Figure 24: Education loan data

	White	Black	Hispanic	Other
<i>Debts (% of all families with)</i>				
Education loans	20%	31%	19%	26%

Source: Federal Reserve Board, Survey of Consumer Finances

⁴⁸ <http://www.insightccd.org/wp-content/uploads/2015/07/Bootstraps-are-for-Black-Kids-Sept.pdf>

⁴⁹ <https://www.federalreserve.gov/econres/notes/feds-notes/recent-trends-in-wealth-holding-by-race-and-ethnicity-evidence-from-the-survey-of-consumer-finance-20170927.htm>



What are some solutions?

We see an abundance of opportunity for investors to take active roles in addressing racial wealth inequality

Inequality in America is rooted in systems and structures that have been in place for decades and in some cases centuries. The dismantling of structural racism will require changes across institutions, communities and individuals, and it will take time. Like all groups in society, investors can play a critical role in that change process. Given the relationship between investment capital and wealth building, we see an abundance of opportunity for investors to take active roles in addressing racial wealth inequality.

Investors should commit to understanding how one’s investments affect different communities and to hiring asset managers with a similar understanding and sensitivity. Investors may also want to consider racial and ethnic diversity in evaluating asset managers. While race, ethnicity or gender are not guarantees of performance or even of an in-depth analysis of racial/economic inequity, asset managers with diverse perspectives may bring new viewpoints to the investment analysis process and shed new light on potential investment opportunities. These may help break the systemic patterns of racial bias that have been present in the industry since its inception.

More specifically, when looking at potential solutions, as a starting place we argue that investors can begin to roll back some of the most entrenched and structural issues that have caused cyclical poverty and wealth disparities by focusing on income inequality; access to housing; and access to capital. We highlight these three areas because they seem to offer the greatest potential for addressing inequality through investment and because the marketplace for these types of products is more advanced than other potential solution sets.

Figure 25: Investment Opportunities for Addressing the Racial Wealth and Income Gap

	Income Inequality	Access to Housing	Access to Capital
Public Equity	<ul style="list-style-type: none"> Companies with policies and practices that support living wages and pay equity Strong diversity policies, hiring and supply chain practices 	<ul style="list-style-type: none"> Affordable housing real estate investment trusts (REITS) 	<ul style="list-style-type: none"> Exclusion of financial institutions with predatory lending practices
Alternative Investments	<ul style="list-style-type: none"> Direct or fund investments in companies with living-wage and pay-equity policies and practices 	<ul style="list-style-type: none"> Affordable housing private equity funds Community land trusts Affordable mortgage lending products Co-op funds 	<ul style="list-style-type: none"> Private equity funds investing in small businesses owned by people in underserved communities, women and/or people of color Venture capital funds addressing high-growth solutions to correct large-scale market failures (e.g., gentrification)
Fixed Income	<ul style="list-style-type: none"> Funds that increase economic opportunity in underserved communities (e.g., impact-oriented municipal funds and securities) 	<ul style="list-style-type: none"> Affordable mortgage-backed Securities 	<ul style="list-style-type: none"> CDFIs supporting small business in low-income communities Community investment notes supporting small businesses in low-income communities Private debt
Cash			<ul style="list-style-type: none"> Community banks, especially those in communities of color

Note: Access to these investments will vary based on investor type and size. Not all investment opportunities will be available to every investor. Investment returns associated with specific managers or strategies are available upon discussion with our business development team.

Source: Cornerstone Capital Group



A general approach to fair wages and good employment benefits will have a disproportionately positive impact on communities of color

Income Inequality

- Investors in the public and private equity realm have been experimenting with investment approaches that directly address income inequality by supporting individual companies, or funds that focus on companies, which pay their employees a living, equitable wage and provide benefits. A general approach to fair wages and good employment benefits will have a disproportionately positive impact on communities of color, who are more likely to hold low-wage jobs that are affected by fair- and living-wage initiatives. While higher wages for very low-income individuals may not help build wealth, it should help them to reduce debt — a positive outcome that may help low-income households begin to build savings. This is particularly important for women of color, who tend to earn lower wages than their male counterparts.⁵⁰
- In the private debt arena, investors can tap a fund focused on increasing economic opportunity across targeted communities of color. The fund provides loans to small businesses that are owned by individuals of color and women, or that create quality job opportunities for, or provide products or services for, people of color. The fund partners with CDFIs and community banks for deal flow. The strategy objectives are growth, sustainability and social justice.
- Investors can put money in a fixed income fund that invests in a global portfolio of intermediaries and funds that finance mission-driven organizations. It blends financial, social and environmental returns into a vehicle with a solid track record of repayment. The fund invests in social enterprises, nonprofits and mission-driven organizations. These organizations invest across a broad range of solutions including: affordable housing, small business and a range of other sustainable initiatives.
- There are numerous state and national CDFIs which provide loans through FDIC deposit funding. The CDFIs invest in underserved communities by underwriting loans to businesses and mortgages to fund housing and commercial properties in those neighborhoods.

Access to Housing

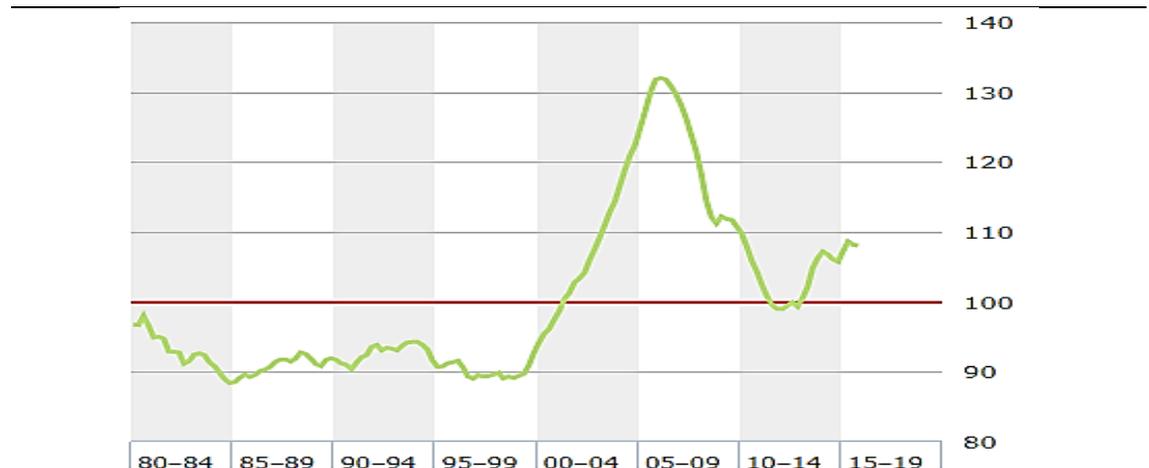
It is critical that the opportunity for home ownership be made available to creditworthy Americans regardless of race or ethnicity

Home ownership historically has been a critical component of wealth for most Americans. For investors hoping to address the issue of wealth disparity between white households and neighborhoods of color, it is critical that the opportunity for home ownership be made available to creditworthy Americans regardless of race or ethnicity. Following the global economic recession in 2008, access to affordable mortgages became notably tighter, and low-income communities including many households of color were essentially shut out of home ownership — again (Figure 26). Since then, a small number of products have been developed by housing advocates to address this challenge. For the most part, however, these opportunities are only available through funds backed by philanthropic capital or government securities.

⁵⁰ https://www.aauw.org/aauw_check/pdf_download/show_pdf.php?file=The-Simple-Truth



**Figure 26: Ratio of house prices to median household income, Q1 1980 – Q2 2016
(long-term average = 100)**



Source: Zillow, The Economist

Affordable rental housing could enable lower-income families to save money and begin to build liquid savings and wealth

In many communities, the lack of affordable housing has hit a crisis point, with demand far outstripping supply. Economists believe that the demand for affordable housing will not lessen in the near term given the increasing cost of housing in many communities along with wages that aren't keeping pace with rising costs⁵¹. This demand, coupled with the potential for government subsidy⁵², has spurred investor interest in affordable *rental* housing. Lower rent, typically less than 30% of household income, could enable lower-income families to save money and begin to build liquid savings and wealth.

(It is worth noting that the 2017 Tax and Jobs Act, which lowered the corporate tax rate from 35% in 2017 to 21% in 2018, reduces the tax loss benefits of the Low Income Housing Tax Credit (LIHTC) investments, since the value of depreciation expense deductions would be lessened significantly. This will likely reduce the future supply of affordable rental housing by nearly 235,000 homes over 10 years based on Novogradac & Company analysis using the current market after-tax rates of return. Novogradac found that lowering the corporate tax rate to 21% would reduce LIHTC equity by about 14%, translating to about \$1.7 billion or more in lost equity annually. This loss of investor equity translates into the loss of 200,500 to 212,400 affordable rental homes, or more, over 10 years.⁵³)

A number of affordable housing products are on the market in the private equity space, including funds targeting affordable housing units in mixed-income developments.

- A variety of for-profit and nonprofit developers have made major investments in affordable rental housing, supported by private investors and government agencies. These investments have begun to make a dent in the affordable housing crisis, though there is ample opportunity for additional investment.

⁵¹ <https://www.economist.com/graphic-detail/2016/08/24/american-house-prices-realty-check>

⁵² <https://www.nhlp.org/resource-center/low-income-housing-tax-credits/>

⁵³ <https://www.novoco.com/notes-from-novogradac/final-tax-reform-bill-would-reduce-affordable-rental-housing-production-nearly-235000-homes>



- Investors can access real estate funds that invest in affordable housing across the US. The fund will buy, build or preserve affordable housing in areas with few affordable units but high proximity to opportunities like good schools and jobs. Its investment goal is to preserve capital and deliver steady returns throughout the real estate cycle.
- Fixed income mortgage funds that underwrite mortgages in communities with a high percentage of people of color are available to interested investors.

Access to Capital

Perhaps the most important thing that investors interested in closing the wealth gap can do is to facilitate access to capital for individuals of color

Perhaps the most important thing that investors interested in closing the wealth gap can do is to facilitate access to capital for individuals of color. Less than 1% of American venture capital-backed founders are black, and less than 0.2% of venture capital goes to companies that are headed by women of color.^{54 55}

To address this chronic problem, as well as the general underinvestment in low-income communities, some investors have been actively working to make more capital available. For example, there are a number of private equity funds and direct investment opportunities focused on supporting entrepreneurs of color and businesses located in underserved communities.

Further, community development finance institutions, many of which have been providing loans to low-income communities for more than two decades, have become staples in the fixed-income category because they provide relatively low-risk and high-impact opportunities for investors who want to support low-income communities, communities of color, and communities in targeted neighborhoods.

It must be noted that some of the country's oldest and most reliable institutions — community banks — are also the most important and overlooked vehicles for providing opportunity to low-income communities and communities of color. These banks, which are typically locally owned and operated, tend to the needs of local businesses and families. They have seen a resurgence in popularity by impact-seeking investors who recognize the potential of community banks to provide much-needed capital to local residents, especially residents of color.

- Investors can access an investment fund focused on providing responsible financing to small businesses nationwide across the US. The firm aims to support small businesses that are key to economic growth, job creation and sustainability of local communities. The firm's team has extensive experience in impact investing.
- Community investment notes are growing in popularity as investors seek vehicles to disrupt the power and wealth imbalance in the US and look to use their fixed-income strategies to provide opportunity in disinvested communities.
- Venture funds can be a good way to invest for impact. One venture fund targets investments in underserved communities that can generate at least a market rate of return along with

⁵⁴ Center for Global Policy Solutions

⁵⁵ <https://www.refinery29.com/2018/02/190430/black-women-vc-funding-experiences>



social and environmental returns. The fund seeks to support entrepreneurs who are making better-quality products and services more affordable to underserved communities. The objective is to provide early-stage entrepreneurs in underserved communities with access to capital, so they can grow their businesses while benefiting these communities. Another venture fund aims to provide access to capital for entrepreneurs who are women and/or individuals of color. The fund's highly experienced founder aims to generate both good returns and meaningful, measurable impacts across diverse sectors and geographies.

- A variety of fixed income funds invest to help people of color in targeted communities by providing affordable commercial loans, commercial and residential mortgages, and debt capital to minority-owned small businesses, helping to create jobs and provide needed services.
- A small number of regional, national and international funds are emerging that focus on providing early-stage equity for co-ops. Co-ops can make small business ownership more feasible for cash-strapped entrepreneurs and facilitate the development of a new system of ownership that could provide opportunity for wealth building in lower-income communities in unprecedented ways.
- There are various crowdfunding sites, venture and angel groups that allow investors to become angel equity investors in new companies, to invest in loans and debt funding minority-owned businesses, and even to help debt-laden borrowers fix their finances by restructuring consumer and mortgage debt and repairing their credit score with debt-reduction loans.
- In the near future, Opportunity Funds, which invest in business or real estate equity in IRS-approved Opportunity Zones, may prove to be a possible alternative investment. Opportunity Funds are designed to promote equity ownership in communities of color where funding for businesses and commercial real estate is lacking. The idea is to build wealth in the poorest communities nationwide.

Conclusion

The legacy of structural racism is long and enduring, but opportunities do exist for remedying the influence of policies and practices that have embedded economic inequality into virtually every American institution. With the increased appetite of investors to tackle entrenched problems and a growing willingness to look at the tremendous negative impacts of income and wealth inequality, as a society we have a new opportunity to use capital to solve some of the problems that have been created by capital. Through this report we have highlighted opportunities to use investment capital to do just that. We look forward to learning about and sharing new investment solutions that are being used to tackle these critical issues, and to working with others to address racial and income inequality through the strategic and thoughtful deployment of investment capital.

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