Since we published the first edition of this report in 2018, there has been a widespread increase in the general public’s awareness about structural racism and the many ways people of color have been systematically denied access to social and economic opportunity since the earliest days of European arrival to what is now the United States.

The COVID-19 pandemic has exposed alarming weaknesses in the systems we depend on upon in everyday life in the U.S. – healthcare, education, and economic systems, to name just a few. It has cast a harsh light on the disproportionate impacts of these weaknesses on people of color, whose health and wealth have been decimated at far greater rates than those experienced by whites.

Moreover, there has been a dramatic growth in awareness of how the financial system has functionally been closed off to people of color, starting with the largest companies, most of which pay lip-service (at best) to racial equity and many of which do not address the issue at all.

Investors can contribute to the narrowing of economic disparities by investing in communities of color. In this report, we update the findings of our original work in 2018. We also offer fresh insights into how both the #MeToo and Black Lives Matter movements have galvanized shareholder engagement initiatives, with investors increasingly pressing companies to be more transparent and accountable regarding their policies, practices and cultures. We have added a section as well regarding support for diverse asset managers with strong track records who are often overlooked. Lastly, we are pleased to note that over the past two years there has been an increase in investment solutions that seek to address racial and ethnic economic disparities.

Please see important disclosures at the end of this report
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Authors’ note: Because racism is deeply embedded in U.S. 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 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.

Note on usage: We use the term ‘people of color’ to refer to Black, Hispanic and ‘other’ demographics as defined by the U.S. Census Bureau and other government sources. We rely on U.S. 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. The report uses the terms Hispanic or Latino depending on the study being cited. 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%).
Summary: Investing to advance racial equity

Household wealth underpins financial security. It helps families weather difficulties such as health issues or natural disasters, and enables them 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.

People of color in the U.S. earn far less and possess a fraction of the household wealth of white communities. This legacy of inequality is rooted in policies and practices that were designed to provide greater opportunity and wealth to white people than to people of color. In the 20th century, policies such as the New Deal and G.I. Bill set the stage for the emergence of a robust middle class; they also embedded discriminatory practices that severely limited the ability of communities of color to participate in that upward mobility. Many decades on, the overhang from these policies persists, and for many households of color this economic inequality was exacerbated by the 2007-09 recession.

Economic inequality presents a threat to the health of the U.S. economy. People of color will become the majority of the U.S. population in approximately 2045, according to a new U.S. 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 create major headwinds for future U.S. economic growth, and fuel growing social unrest.

The current Covid-19 pandemic has further upended communities of color in the U.S., especially Black and Latino Americans, decimating both their health and wealth at greater rates than white Americans. People of color tend to have more underlying health conditions, resulting from poverty and disparities in access to health. This renders them more susceptible to the worst effects of the virus. People of color often work in front-line jobs, further heightening their risk. Many who work in service industries such as restaurants, hospitality and retail, which were badly harmed during the U.S. economic shutdown, were furloughed or lost their jobs. And many small businesses owned by people of color have had to close or curtail their activity yet were unable to access paycheck protection program (PPP) funds, creating further disadvantages relative to white peers. Many of these small businesses may not survive the economic shutdown, further damaging the economic opportunity of communities of color.¹

2020 has also been marked by massive mobilization of people who are outraged by persistent and pervasive incarceration and police violence against people of color, especially Black men. Investors are developing orchestrated campaigns to influence the criminal justice system through divestment of companies that profit from it while supporting investment initiatives designed to help formerly incarcerated people and immigrants succeed economically.

As a result, a new wave of investors has become activated around racial equity, and new initiatives and investments are emerging. Investors are increasingly interested in concrete ways to invest in a more equitable economic playing field. They seek 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 four of the main current components of economic inequality:

- **Income and wealth 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:** Providing capital to entrepreneurs of color, especially those providing products and services that benefit their communities, is key to closing the wealth gap. Only 1% of venture capital dollars went to Black start-up founders in 2018, and only 1.8% to Latino founders. Asian-backed startups fared better at 17.7% of venture-backed founders. Further, 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.

- **Access to education:** Limited access to quality education or skills training needed to succeed in the evolving knowledge-based economy puts the next generation of people of color at risk of falling further behind in terms of earnings and household wealth.

In this report, we update the findings of our original work in 2018. We also offer fresh insights into how both the #MeToo and Black Lives Matter movements have galvanized shareholder engagement initiatives, with investors increasingly pressing companies to be more transparent and accountable regarding their policies, practices and cultures. We have added a section as well regarding support for diverse asset managers with strong track records who are often overlooked. Lastly, we are pleased to note that over the past two years there has been an increase in investment solutions that seek to address racial and ethnic economic disparities (Figure 1).
Figure 1: Investment opportunities for advancing racial equity

<table>
<thead>
<tr>
<th></th>
<th>Public Equity</th>
<th>Alternative Investments</th>
<th>Fixed Income</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income &amp; Wealth Inequality</strong></td>
<td>• Companies with policies &amp; practices that support living wages &amp; pay equity</td>
<td>• Direct or fund investments in companies with living-wage &amp; pay-equity policies and practices</td>
<td>• Funds that increase economic opportunity in underserved communities (e.g., impact-oriented municipal bonds)</td>
</tr>
<tr>
<td></td>
<td>• Strong diversity policies, hiring &amp; supply chain practices</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Access to Housing</strong></td>
<td>• Affordable housing real estate investment trusts (REITs)</td>
<td>• Affordable housing private equity funds</td>
<td>• Affordable mortgage-backed securities</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Community land trusts</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Affordable mortgage lending products</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Co-op funds</td>
<td></td>
</tr>
<tr>
<td><strong>Access to Capital</strong></td>
<td>• Exclusion of financial institutions with predatory lending practices</td>
<td>• Private equity funds investing in small businesses owned by people in underserved communities</td>
<td>• CDFIs supporting small business in low-income communities</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Venture capital (VC) funds targeting high-growth solutions to correct market failures (e.g., gentrification)</td>
<td>• Community investment notes supporting small businesses in low-income communities</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Private debt</td>
</tr>
<tr>
<td><strong>Access to Education</strong></td>
<td><strong>n/a</strong></td>
<td>• VC funds that invest in EdTech companies across the education spectrum from K-12 to adult learning</td>
<td>• Private debt fund that creates programs to upskill and retain diverse employees</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• VC funds that invest to make higher education more affordable, pioneer new learning approaches &amp; help employers identify diverse talent</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Private equity fund that invests in education, workforce training, information services and software</td>
<td></td>
</tr>
</tbody>
</table>

**Cash**: Community banks, especially those in communities of color

**Note**: Not all investment opportunities will be available to every investor. Source: Cornerstone Capital Group
Demographic trends: more diverse, but lower income

According to the U.S. census projection, people of color will emerge as the majority of the country’s population by 2045 (Figure 2). 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. The millennial generation already resembles the projected future demographic composition of the U.S. (Figure 3).

This larger, younger generation has fewer financial resources than its predecessors (Figure 4). 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 (Figure 5).

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.
A legacy of structural racism

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. 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.

Turning to the 20th century, we examine two pivotal government programs that helped create the U.S. middle class 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 U.S. 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. 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 people of color to buy homes. Through redlining, the FHA and other private and public sector participants 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 6), not owning a home in those critical decades set back wealth creation massively for those affected by discrimination.

Figure 6: Appreciation in median home values following formation of the FHA

Note: 1940-2000 data is adjusted to 2000 dollars. Source: U.S. Census

Note: 1940-2000 data is adjusted to 2000 dollars. Source: U.S. Census
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 implemented discriminatory practices along with the legislation. Administration of the program was handled at the state and local levels, 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 veterans of color 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.

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.

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 banned racial discrimination in housing, segregation still occurs in the U.S. Researchers have found that neighborhoods which had been redlined back in the 1930s are still mostly Black and Hispanic. In 1977, the U.S. 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 to benefit both the banks and the communities they served. 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. 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.
Four key components of current economic inequality

1. Income & wealth inequality — Household income and balance sheet

The **income gap** among white, Black, Asian 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 U.S. 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 7).

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 eight times higher than that of Black households; in 2016 it was 13 times higher.20

![Figure 7: Median household income by race/ethnicity of household head (2018 dollars)](image)

Because of consistently lower earnings, the financial profile or balance sheet of Black and Hispanic households tends to be weaker (Figure 8). They have fewer assets, tend to carry more unsecured debt on credit cards and for education, and experience the highest incidence of credit problems.22

![Figure 8: Household financial profile by race/ethnicity, 2016 survey](image)

<table>
<thead>
<tr>
<th>Net Worth</th>
<th>White</th>
<th>Black</th>
<th>Hispanic</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median ($000)</td>
<td>171.0</td>
<td>17.6</td>
<td>20.7</td>
<td>64.8</td>
</tr>
<tr>
<td>% w/Zero Net worth</td>
<td>9</td>
<td>19</td>
<td>13</td>
<td>14</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Assets (% of families with)</th>
<th>White</th>
<th>Black</th>
<th>Hispanic</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Residence</td>
<td>73</td>
<td>45</td>
<td>46</td>
<td>54</td>
</tr>
<tr>
<td>Vehicle</td>
<td>90</td>
<td>73</td>
<td>80</td>
<td>80</td>
</tr>
<tr>
<td>Retirement accounts</td>
<td>60</td>
<td>34</td>
<td>30</td>
<td>48</td>
</tr>
<tr>
<td>Business equity</td>
<td>15</td>
<td>7</td>
<td>6</td>
<td>13</td>
</tr>
<tr>
<td>Direct &amp; indirect equity</td>
<td>61</td>
<td>31</td>
<td>28</td>
<td>47</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Debts (% of families with)</th>
<th>White</th>
<th>Black</th>
<th>Hispanic</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt secured by home</td>
<td>46</td>
<td>32</td>
<td>31</td>
<td>38</td>
</tr>
<tr>
<td>Car loan</td>
<td>34</td>
<td>33</td>
<td>32</td>
<td>34</td>
</tr>
<tr>
<td>Credit card balance</td>
<td>42</td>
<td>48</td>
<td>50</td>
<td>44</td>
</tr>
<tr>
<td>Education loans</td>
<td>20</td>
<td>31</td>
<td>19</td>
<td>26</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Credit Experience (% families with)</th>
<th>White</th>
<th>Black</th>
<th>Hispanic</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payment-to-income ratio greater than 40%</td>
<td>6</td>
<td>9</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td>Late on payments 60 days or more</td>
<td>5</td>
<td>10</td>
<td>4</td>
<td>9</td>
</tr>
<tr>
<td>Denied credit or feared denial</td>
<td>15</td>
<td>35</td>
<td>32</td>
<td>25</td>
</tr>
</tbody>
</table>

Source: U.S. Census Bureau and Peter G. Peterson Foundation

Source: Federal Reserve Board, Survey of Consumer Finance
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 five days for Black households.23 24

One in three U.S. 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 9 and 10).

Figure 9: Households with less than one day in liquid savings

<table>
<thead>
<tr>
<th>Ethnicity</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asian and Other</td>
<td>20%</td>
</tr>
<tr>
<td>Hispanic</td>
<td>25%</td>
</tr>
<tr>
<td>Black</td>
<td>35%</td>
</tr>
<tr>
<td>White</td>
<td>11%</td>
</tr>
</tbody>
</table>

Figure 10: Typical days of liquid savings by race/ethnicity

<table>
<thead>
<tr>
<th>Ethnicity</th>
<th>Days</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asian and Other</td>
<td>21</td>
</tr>
<tr>
<td>Hispanic</td>
<td>12</td>
</tr>
<tr>
<td>Black</td>
<td>5</td>
</tr>
<tr>
<td>White</td>
<td>31</td>
</tr>
</tbody>
</table>

Source: Pew’s Survey of American Family Finances

2. Home ownership and affordable housing

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

As shown in Figure 11, nearly three-quarters of white households own their 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.25

Figure 11: Household financial profile by race/ethnicity—home ownership (2016 survey)

<table>
<thead>
<tr>
<th></th>
<th>White</th>
<th>Black</th>
<th>Hispanic</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Worth ($000)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Median</td>
<td>171</td>
<td>17.6</td>
<td>20.7</td>
<td>64.8</td>
</tr>
<tr>
<td>Mean</td>
<td>933.7</td>
<td>138.2</td>
<td>191.2</td>
<td>457.8</td>
</tr>
<tr>
<td>Home (% of families own)</td>
<td>73</td>
<td>45</td>
<td>46</td>
<td>54</td>
</tr>
<tr>
<td>Home Mortgage (% of families with)</td>
<td>46</td>
<td>32</td>
<td>31</td>
<td>38</td>
</tr>
<tr>
<td>Wealth from housing (owned):</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% of assets in housing</td>
<td>32</td>
<td>37</td>
<td>39</td>
<td>35</td>
</tr>
<tr>
<td>Mean net housing wealth*</td>
<td>215.8</td>
<td>94.4</td>
<td>129.8</td>
<td>220.7</td>
</tr>
</tbody>
</table>

* Numbers do not always add up due to different methods of calculation.

Source: Federal Reserve Board, Survey of Consumer Finance
An update of these numbers in the first quarter of 2019 (Figure 12) shows that while home ownership for whites, Hispanics and other racial/ethnic groups has remained stable or improved, the numbers have deteriorated for Black Americans.

Figure 12: Home ownership rates from HUD’s National Housing Market Survey, Q1 2019

<table>
<thead>
<tr>
<th>Race</th>
<th>Overall</th>
<th>White</th>
<th>Black</th>
<th>Hispanic</th>
<th>Other Race</th>
<th>Two or More Races</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home ownership rate</td>
<td>64.2%</td>
<td>73.2%</td>
<td>41.8%</td>
<td>47.4%</td>
<td>56.3%</td>
<td>50.9%</td>
</tr>
</tbody>
</table>

Source: HUD PD&R National Housing Market Survey

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. 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. He found Blacks were 2.8 times more likely to be turned down for a mortgage loan and 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. Additionally, more modest homes in underserved communities tended to lose more value during that time.

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. People of color who are Millennials and Generation X have fared poorly between 1976 and 2019. Statistics from the U.S. Census Bureau compiled by ApartmentList.com show stark differences among racial/ethnic groups by age over those decades (Figure 13).
Black millennial home ownership trails that of both prior Black generations and other racial/ethnic groups. For white millennial households, the home ownership gap between generations disappears by age 38 (the horizontal axis refers to homeowners’ age between 1976 and 2019). Hispanic millennial home ownership is slightly lower than Generation X but slightly higher than baby boomers. So, while Hispanics trail whites and Asians in home ownership, they are besting their elders, a trend not seen in Black millennial households.\textsuperscript{30}

The rebound in housing prices and rents since 2009 makes it even more challenging for renters to transition to home ownership, further constraining access by millennials of color to a key means of accumulating wealth (Figure 14).\textsuperscript{31}

Source: CBPP tabulations of the Census Bureau’s American Community Survey.

Figure 13: Generational divides in home ownership by race/ethnicity

Source: ApartmentList.com

![Graph showing home ownership rates by race/ethnicity for White, Black, Hispanic, and Asian households.](image)

Figure 14: Percentage increases in rent vs renter income, 2001-18, adjusted for inflation

Source: CBPP tabulations of the Census Bureau’s American Community Survey.
3. Access to capital

Access to capital for entrepreneurs of color

Perhaps the most important thing that investors interested in closing the wealth gap can do is to facilitate access to financial services – especially investment capital for entrepreneurs of color.

The total addressable market for businesses run by and for people of color is huge. According to a University of Georgia study, the combined buying power of Blacks, Asian-Americans and Native Americans is estimated at $2.4 trillion, while Hispanics are estimated to have $1.5 trillion in spending power. Yet only 1% of venture capital dollars went to Black start-up founders in 2018, according to a study by Silicon Valley Bank and others. Latino founders made up only 1.8% of those receiving funding. Asians backed startups fared better, making up 17.7% of venture-backed founders.

According to some studies, white men make up over 90% of venture capitalists. Just 1% of venture capitalists are Latino and 3% are Black. Approximately 81% of VC funds have no Black investors, according to BLCK VC, a community built by Black venture investors focused on increasing the number of Black investment professionals and investors in the venture capital sector. This lack of diversity in the venture field may account for the limited investment in ventures founded by people of color.

Venture funds are not the only area of finance where people of color are shortchanged with regards to financing businesses. According to the U.S. Census Survey of Business Owners and Self-Employed Persons (data is from 2017), only 13% of all loans are issued to minority-owned businesses.

Entrepreneurship is beneficial to economic growth and development. It has been at the core of every economic recovery in history. The creation of small businesses boosts economic growth by introducing new products, services, and technologies into the economy. Most importantly, it provides new job opportunities, challenges existing firms, and boosts competition and productivity. Later in this report we cite venture funds that specifically target entrepreneurs and businesses run by people of color while generating solid returns. Investment in these types of funds may help to close the wealth gap in the future.

The role of family transfers of wealth

For most people, the first source of finance capital is family and/or friends. Family financial transfers are an important source of wealth accumulation capacity, beginning with college tuition. (And as we discuss in the next section on “access to education,” the two issues are tightly interlinked in a cause/effect cycle in terms of how they impact income and wealth inequality.) 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 background.
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 racial/ethnic groups continue to be hampered by discrimination in both hiring and salary, impacting long-term wealth potential.42

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 U.S.43 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.44

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.45

Lower financial transfers from parents to adult children in the Black community likely constrains home ownership for Black millennials. In a research report,46 data derived from the Panel Study of Income Dynamics (PSID)47 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. 48

4. Access to Education

As noted above, access to affordable capital and access to education are closely intertwined. Even with a bachelor’s degree, Black individuals do not achieve net worth commensurate with whites who lack a bachelor’s degree (Figure 15). Among those with college and graduate degrees, lifetime earnings of Black and Hispanic individuals are 20% or more below those of similarly educated whites.49

<table>
<thead>
<tr>
<th>Figure 15: Mean and median net worth by race and educational attainment, 2016 ($000)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>No bachelor’s degree</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>2013</td>
</tr>
<tr>
<td>White</td>
</tr>
<tr>
<td>Black</td>
</tr>
<tr>
<td>Hispanic</td>
</tr>
<tr>
<td>Other</td>
</tr>
<tr>
<td><strong>Bachelor’s degree or higher</strong></td>
</tr>
<tr>
<td>White</td>
</tr>
<tr>
<td>Black</td>
</tr>
<tr>
<td>Hispanic</td>
</tr>
<tr>
<td>Other</td>
</tr>
</tbody>
</table>

Source: Federal Reserve Survey of Consumer Finance
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 households (Figure 16).50

Figure 16: Median net wealth (excluding home equity) of non-Hispanic college-educated white and Black households, 1989-2013

![Graph showing median net wealth over time for non-Hispanic, college-educated white and Black households.]

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

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);51 however, six-year completion (graduation) rates have not (40% vs. 62% in 2011),52 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 Asians53 (Figure 17).

Figure 17: Percentage of U.S. adults 25 and older who have at least a bachelor’s degree

![Graph showing percentage of U.S. adults with at least a bachelor's degree by race and ethnicity from 1964 to 2015.]

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 groups. Figure 18 compares the percentage of all white and Black students who graduate from college either with or without educational financial support from their parents.54

Figure 18: Children’s college educational achievement by parent’s support for education

<table>
<thead>
<tr>
<th>Achievement</th>
<th>Without Financial Help</th>
<th>With Financial Help</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Whites</td>
<td>Blacks</td>
</tr>
<tr>
<td>College Degree</td>
<td>25%</td>
<td>11%</td>
</tr>
<tr>
<td>Graduate School</td>
<td>8%</td>
<td>3%</td>
</tr>
</tbody>
</table>

Source: Insight Center for Community Development

Black students start out with fewer financial resources and are likely to take on more student loan debt compared with white and Hispanic students. 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.55
Investing to advance racial equity: solutions

The dismantling of structural racism will require change across institutions, communities and individuals. 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 economic inequality.

Investors should commit to understanding how one’s investments affect different communities. Investors may also want to consider racial and ethnic diversity in evaluating asset managers. While race, ethnicity or gender do not guarantee performance or even an in-depth analysis of racial/economic inequity, asset managers with diverse perspectives tend to bring new viewpoints to the analysis of potential investment opportunities. We also argue that investors can make an impact by supporting efforts to hold public companies more accountable related to their practices and their products and services.

When looking at potential investment 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 and wealth inequality; access to housing; access to capital; and access to education. We highlight these four 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.

<table>
<thead>
<tr>
<th><strong>Figure 19: Investment opportunities for advancing racial equity</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Public Equity</strong></td>
</tr>
</tbody>
</table>
| Income Inequality | • Companies with policies & practices that support living wages & pay equity  
• Strong diversity policies, hiring & supply chain practices | • Direct or fund investments in companies with living-wage & pay-equity policies and practices | • Funds that increase economic opportunity in underserved communities (e.g., impact-oriented municipal bonds) |
| Access to Housing | • Affordable housing real estate investment trusts (REITs)  
| Access to Capital | • Exclusion of financial institutions with predatory lending practices | • Private equity funds investing in small businesses owned by people in underserved communities  
• Venture capital (VC) funds targeting high-growth solutions to correct market failures (e.g., gentrification) | • CDFIs supporting small business in low-income communities  
• Community investment notes supporting small businesses in low-income communities |
| Access to Education | n/a | • VC funds that invest in EdTech companies across the education spectrum from K-12 to adult learning  
• VC funds that invest to make higher education more affordable, pioneer new learning approaches & help employers identify diverse talent  
• Private equity fund that invests in education, workforce training, information services and software | • Private debt funds that create programs to upskill and retain diverse employees |

Cash: Community banks, especially those in communities of color

Note: Not all investment opportunities will be available to every investor. Source: Cornerstone Capital Group
Diversity in asset management

The asset management industry manages nearly $70 trillion in investment capital, including assets at large pension funds, 401ks and IRAs. According to a study by the Knight Foundation in collaboration with Bella Research Group, less than 1% of the $70 trillion is managed by firms that have 50% or more ownership by women or people of color. 56

Despite a great deal of public hand-wringing about the paltry number of managers of color, there are many reasons for these dismal statistics. First, structural barriers exist that make it extremely difficult for new asset managers to succeed. Many asset owners, especially pension funds and foundations, have policies regarding the tenure of asset managers, such as policies requiring at least a three-year performance track record. Yet many newer managers are people of color and women, who have been systematically excluded from financial services for years.

Large banks and custodians also act as barriers to allowing new asset managers to be featured as part of their asset management infrastructures. For instance, a common policy of these institutions requires that investment funds have a minimum amount of assets under management (AUM) before being eligible for consideration. While it is understandable to have policies that take into account the potential for financial risk, there is little evidence that funds managed by people of color and women — who are often considered “emerging managers” — underperform. The Knight Foundation study results reflect those of previous studies, which indicate that there is no underperformance by women managers or managers of color, many of whom are first-time managers. Until the industry stops the vicious cycle that prevents new managers from having access to platforms that will enable them to grow assets under management, the structural barriers to women managers and managers of color will persist.

The changes that our times demand regarding racial equity in finance require new perspectives and an understanding of how communities work in order to understand the types of investments that will have a positive impact on communities. So-called race-neutral or gender-neutral perspectives from asset managers result in strategies that de facto support the status quo. As Sally Uren, the CEO of Forum for the Future recently noted, the financial system technically is not ‘broken’ – it is working perfectly for those who designed it and who are intended to benefit from it.57 There is not sufficient motivation for those who benefit from the current system to change it in order to make space for others, i.e. diverse managers, to benefit. Until there is more pressure from asset owners to require more diversity and accountability in the managers with whom they deploy their assets, we are unlikely to see major changes.

For those who want to take a stand, there are examples of asset owners who are developing relevant policies and practices, such as developing guidelines for the inclusion of diverse managers into Investment Policy Statements and holding CIOs accountable for incorporating diverse managers into the investment process. Groups such as the Diverse Asset Managers Initiative58 and Mission Investors Exchange59 are sharing best practices and models for foundations and others to incorporate a commitment to diverse managers into their work.

Manager Diversity at Cornerstone

Evaluating manager diversity is a core element of Cornerstone’s due diligence process. Of the firms with whom we have client assets:

- 29% are at least 50% owned by women or people of color
- 45% have executive leadership teams and investment departments with 25-50% women
- 50% employ 25-50% people of color on their investment teams
Corporate accountability and shareholder engagement

In addition to the targeted investment strategies we’ve identified, which tend to be weighted toward fixed income/cash and alternatives, it is important to address the critical role of shareholder engagement with public companies as a means of highlighting change and holding corporations accountable for their actions.

The increased visibility of the Black Lives Matter movement in 2020, following the outrage related to the murder of George Floyd in Minneapolis, is leading investors to call for fundamental change across industries from sports to entertainment to banking. They are seeking:

- changes to policies and practices;
- meaningful changes to the products and services a company sells and how they are produced;
- diversity across the board of directors and senior management.

As with many movements, much of the change begins with who is sitting at the decision-making table and how much power and influence they have. With that in mind, investors are seeking more transparency and accountability regarding the diversity of corporations, especially at the board and senior leadership levels.

**Board diversity**

Institutional Shareholder Services (ISS) tracks data from the 3,000 largest companies in the U.S.; their data suggests that while new appointments of board members of color are increasing slightly, they still account for just 10.5% of board seats in 2019 (Figure 20). Clearly, the data indicates that there is significant progress to be made. Some asset managers, such as Zevin Asset Management, are changing their proxy voting policies and voting against all nominees to a board of directors unless the nominee and/or the slate reflects the diversity of the company’s geographic operations.

**Figure 20: Proportion of ethnic minorities on boards**

<table>
<thead>
<tr>
<th>Year</th>
<th>Black/African American</th>
<th>Asian</th>
<th>Hispanic/Latin American</th>
<th>Other (Indian, Middle Eastern, Native American)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>1.4%</td>
<td>2.9%</td>
<td>4.1%</td>
<td>1.6%</td>
</tr>
<tr>
<td>2009</td>
<td>1.5%</td>
<td>2.9%</td>
<td>4.1%</td>
<td>1.8%</td>
</tr>
<tr>
<td>2010</td>
<td>1.5%</td>
<td>2.9%</td>
<td>4.1%</td>
<td>1.6%</td>
</tr>
<tr>
<td>2011</td>
<td>1.6%</td>
<td>2.9%</td>
<td>4.1%</td>
<td>1.6%</td>
</tr>
<tr>
<td>2012</td>
<td>1.7%</td>
<td>2.9%</td>
<td>4.1%</td>
<td>1.6%</td>
</tr>
<tr>
<td>2013</td>
<td>1.8%</td>
<td>2.9%</td>
<td>4.1%</td>
<td>1.6%</td>
</tr>
<tr>
<td>2014</td>
<td>1.9%</td>
<td>2.9%</td>
<td>4.1%</td>
<td>1.6%</td>
</tr>
<tr>
<td>2015</td>
<td>2.0%</td>
<td>2.9%</td>
<td>4.1%</td>
<td>1.6%</td>
</tr>
<tr>
<td>2016</td>
<td>2.1%</td>
<td>2.9%</td>
<td>4.1%</td>
<td>1.6%</td>
</tr>
<tr>
<td>2017</td>
<td>2.2%</td>
<td>2.9%</td>
<td>4.1%</td>
<td>1.6%</td>
</tr>
<tr>
<td>2018</td>
<td>2.3%</td>
<td>2.9%</td>
<td>4.1%</td>
<td>1.6%</td>
</tr>
<tr>
<td>2019</td>
<td>2.4%</td>
<td>2.9%</td>
<td>4.1%</td>
<td>1.6%</td>
</tr>
</tbody>
</table>

Some asset managers are voting against all nominees to a board unless the nominee and/or slate reflects the diversity of the company’s geographic operations.
Employee diversity

It is considerably more difficult to get consistent, reliable data about employee and senior leadership diversity than it is for boards because corporations are not consistent in how they report such data. In 2017, Forbes completed a painstaking research project that concluded only 3% of Forbes 500 companies provide full disclosure regarding the diversity of their employees.

It is virtually impossible to hold companies accountable regarding the diversity of their workforce and leadership if they do not publicly disclose diversity data. To address this issue and others, As You Sow, a national organization whose mission is to promote environmental and social corporate responsibility through shareholder advocacy, coalition building, and innovative legal strategies, is conducting in-depth research on the diversity practices of S&P 500 companies in order to set benchmarks and establish industry-wide best practices regarding diversity and inclusion. With this information, active shareholder campaigns will follow, leading to improvements in disclosure and accountability.

Accountability and shareholder engagement

Basic workplace initiatives to create more inclusive cultures have limited effect unless they are coupled with true introspection and a willingness to confront a culture’s sacred beliefs. Real change takes work and commitment from leadership. It also takes accountability; simply saying one is committed to racial equity is not enough.

For example, one of the largest financial services groups in the world, Morgan Stanley, publicly took a pro-diversity stand, creating the role of Global Chief Diversity Officer 16 years ago. Marilyn Booker, the Black woman who held the position (and who spent 26 years in total at the firm), was let go in late 2019. She is now suing the firm for discrimination. The lawsuit alleges that Morgan Stanley “utterly failed when it has had to actually look itself in the mirror and decide whether it wants to truly address its deep-seated racially unjust policies that have resulted in alarmingly low and disproportionate numbers of Black and other employees of color amongst its ranks, and in particular, its executive ranks.” According to the New York Times, the bank settled a class-action suit for almost $24 million regarding the treatment of Black employees in 2007. It has also been sued for discrimination by at least eight other former employees in the past four years.

Investors are among the many advocates demanding that corporations do more than make superficial comments – they want action and accountability. For example, since the #MeToo movement, shareholder advocates have been demanding that companies change their dispute resolution policies to ensure that sexual harassment claims are made public, in an effort to curb such behavior. The same argument holds true for race discrimination; forced arbitration clauses have prevented the public disclosure of many disputes and lawsuits. In a sign of the momentum that is building on this issue, investors representing more than $54 billion in assets have signed on to a statement to pressure companies to end the practice of forced arbitration.

The issue of pay equity is also drawing widespread attention because of the enormous implications of pay disparities based on race and gender. For the most part, corporations have not been transparent, and public policy has shielded them from having to disclose relevant data.
It's no wonder, given that available aggregate data shows significant discrepancies between how much white workers make and how much people of color with similar education make.

Investment firms such as Zevin Asset Management and Nia Global Solutions, along with coalitions such as As You Sow and the Investor Alliance for Human Rights, are leading multiple shareholder resolutions aimed at holding companies accountable. As a starting point, shareholders are demanding that companies begin disclosing critical data related to their employee composition, retention and promotion rates, pay disparities, complaints of discrimination, and other variables related to companies’ treatment of employees of color and women.

In 2020, at least 12 resolutions of this kind were filed with publicly traded companies. All of them were withdrawn before they went to a vote because management agreed to comply with the shareholders’ demands. As these practices become more common, shareholders are also beginning to demand that CEOs and management teams be held to higher standards and that their compensation be impacted by their performance related to diversity, equity and inclusion. “The only thing that we have found to make a difference is when executive compensation is tied to goals around diversity,” noted Sonia Kowal, Zevin’s president.65

**Products and services of publicly traded companies**

Directly or indirectly, many if not most corporations have profited from structural racism – through the employment of low-wage workers who are hired to make their products or provide their services; through the land on which their facilities are located, which were likely originally home to Native Americans; or through the products they sell, which in some cases have a direct and immediate negative impact on communities of color. Investors are beginning to ask much harder questions of corporations regarding their products and services and whether they are currently making profits in ways that are harmful to communities of color.

The investment firm Robasciotti & Phillipson wanted to know which products and services people of color think are most harmful to their communities. Their research yielded a list of companies to exclude in their social justice strategy because of the impact of those businesses on communities of color. Most of the companies that are excluded from Robasciotti’s social justice strategy66 are involved in one or more of the following areas:

- Prison involvement
- Immigrant detention
- Money bail involvement
- Surveillance
- For-profit colleges
Other investment strategies that specifically address the inequities that result from the mass incarceration of people of color include:

- Divesting from companies that employ prisoners and pay minimal wages
- Actively investing in companies that have agreed not to discriminate against people who were formerly incarcerated and have signed the Fair Chance Pledge
- Divesting from companies that have monopolies with the private industry and who use their monopolies, such as phone companies, in predatory ways that extort money from people who are incarcerated
- Actively investing in companies that employ people who were formerly incarcerated, such as Dave’s Killer Bread

Only time will tell how effective these strategies will be at making fundamental changes in publicly listed companies but there is no doubt that it will take active engagement by investors to make sure that the clock is not turned back and the limited gains that have occurred are not erased.

Solutions to address income and wealth 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 focused on companies, that 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. While higher pay 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.

In the private debt arena, investors can tap funds focused on increasing economic opportunity in communities of color. The funds provide loans to small businesses that are owned by individuals of color or women, or that create quality job opportunities for, or provide products or services for, people of color. Some funds partner with CDFIs and community banks for deal flow.

Investors can put money in a fixed income fund that invests in a global portfolio of intermediaries. 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 community development finance institutions (CDFIs), and Black, Hispanic, Asian and Native American owned banks which provide loans through FDIC deposit funding. These CDFIs and banks invest in underserved communities by underwriting loans to businesses and mortgages to fund housing and commercial properties in those neighborhoods.
Solutions to improve access to affordable housing

For investors hoping to address the issue of economic inequality between white households and neighborhoods of color, it is critical that the opportunity for home ownership be made available regardless of race or ethnicity. Since the housing crisis of the Great Recession, a small number of products have been developed by housing advocates to address this challenge. Such opportunities are primarily available through funds backed by philanthropic capital or government securities.

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 costs. This demand, coupled with the potential for government subsidy, 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. The Covid-19 pandemic and resultant huge increase in unemployment, will likely boost demand for affordable housing, further worsening the deficit of available supply. Here are some solutions:

- 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.

- Investors can access a real estate fund that invests in affordable housing across the U.S. The fund will buy, build or preserve affordable housing in areas with few affordable units but high proximity to opportunities such as good schools and jobs. Its investment goal is to preserve capital and deliver steady returns throughout the real estate cycle.

- Investors can hold fixed income mortgage funds, which underwrite mortgages in communities with a high percentage of people of color. There are also funds that offer homeowners debt-free access to their home equity by connecting them with investors who want to purchase a portion of their home’s equity.

Solutions to boost access to capital

Perhaps the most important thing that investors interested in reducing economic inequality can do is to facilitate access to capital – especially investment 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.

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, CDFIs, 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. Other sources of capital include:

- Investors can access investment funds focused on providing responsible financing to small businesses nationwide across the U.S. These funds aim to support small businesses that are key to economic growth, job creation and sustainability of local communities.

- Community investment notes are growing in popularity as investors seek vehicles to disrupt the power and wealth imbalance in the U.S. 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 invests in underserved communities that can generate at least a market rate of return along with social and environmental returns. The fund seeks to support early-stage entrepreneurs in underserved communities who are making better-quality products and services more affordable to those 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.

- 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 help build wealth 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 for entrepreneurs of color, 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.

Investing in access to education

The theme of access to education focuses on access to inclusive and quality education for all — including employment training and continuing education. Funds focused on educational and workforce training tend to invest in earlier-stage companies. As a result, many funds that focus on this sector tend to be venture capital (VC), private equity or private debt funds rather than public equity or debt.

We have identified 11 VC/private funds that address the following themes:

- Companies seeking to improve education outcomes and access, spanning early childhood, K12, higher education, and lifelong learning. This can include investments in crucial life skills, personalized learning, vocational preparation and college dropout prevention.

- EdTech companies across all stages of the education spectrum encompassing early childhood, K-12, higher education and career mobility/professional learning.

- Investments to make higher education more affordable, pioneer new approaches to learning, and help employers identify and hire talent from diverse backgrounds, with the goal of helping people get good-paying jobs and closing the skills gap.

- Provision of seed capital and regulatory support to entrepreneurs shaping the future of cities, with the “future of work” as a key investment theme.

- Investments in early-stage companies committed to closing gaps of access, opportunity or outcome for low-income communities and/or communities of color, including some educational and career-training-oriented companies.

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 tremendously negative implications 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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14 Center for Global Policy Solutions
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33 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 were determined by dividing reported liquid savings by monthly household income and then multiplying this figure by 30 to obtain the value in days.
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