



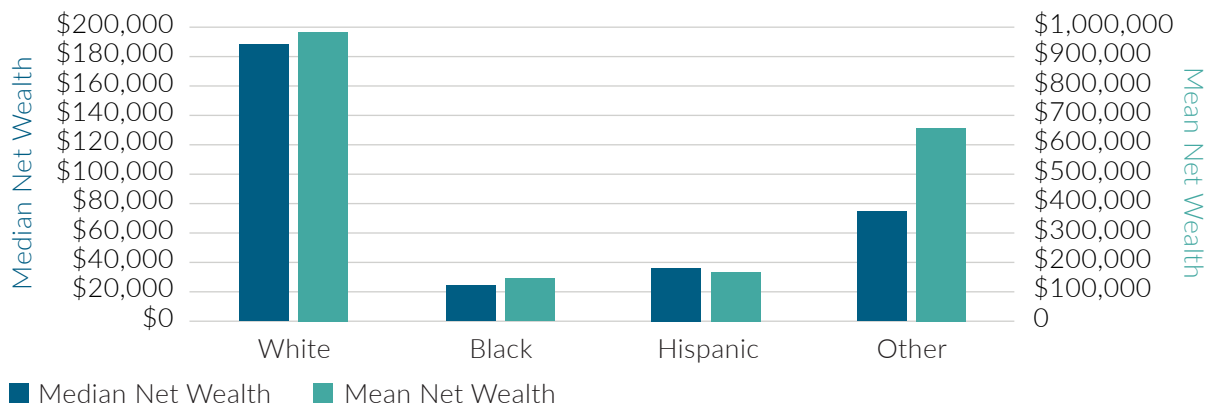
# Advancing Racial Equity While Generating Financial Returns

Racial equity investing seeks to close racial disparities in wealth and access to opportunities, resources, and decision-making while delivering competitive returns for investors.

## Racial Inequities in the US

The U.S. is an increasingly diverse country—U.S. Census Bureau projections indicate that by 2045, people of color will make up over half of the total U.S. population.<sup>1</sup> However, while Americans are increasingly diverse, resources are unequally distributed across groups.

**Figure 1: Racial Wealth Gap**



Source: Federal Reserve Board, 2019 Survey of Consumer Finances.

## Driving Change While Generating Alpha

Investors have the power to drive change and support the reduction of racial inequality by investing in:

- Racially diverse investment managers.
- Racially diverse companies.
- Business models and investment strategies that advance racial equity.

Pursuing this strategy of racial equity investing can help investors identify potential sources of alpha in three ways:

- **Enhanced Financial Performance:** Investing in companies that exhibit racial diversity in their leadership and workforces can allow investors to experience the benefits of inclusive, diverse, and equitable companies. Research shows that companies in the top quartile for racial diversity of their executive teams are 33% more likely to have financial returns above their respective national industry medians.<sup>2</sup>
- **New Investment Opportunities:** Investing in racially inclusive products or services can allow investors to tap into new market segments with little competition. Products targeting previously excluded groups may enjoy market leadership and more diverse asset managers may identify previously overlooked market opportunities.
- **Risk Mitigation:** Avoiding companies that exacerbate racial inequities can help investors mitigate risk in their portfolios. Companies that fail to adapt to an increasingly diverse America may face systemic risks to their businesses.<sup>3</sup> By avoiding such companies, investors may improve the risk profile of their investment portfolios in the long term.

## Getting Started

Below is a road map for investors, managers, and consultants looking to advance racial equity in their portfolios and firms.

Investors	Investment Managers & Consultants
<p><b>Intentionality For Impact</b> Establish an intentionality for impact and define the racial equity goals of the portfolio (e.g., improving healthcare access for low-income communities of color).</p>	<p><b>Intentionality For Impact</b> Establish an intentionality for impact and define the racial equity goals of the investment strategy or firm-wide initiative.</p>
<p><b>Diverse Managers</b> Determine what percent of your portfolio you would like to allocate to diverse managers, and when you aim to achieve this goal.</p>	<p><b>Diverse Partners</b> For firms using an open architecture platform, determine what percent of investment managers on your platform you would like to be diverse, and when you aim to achieve this goal.</p>
<p><b>Shareholders Engagement</b> Engage with companies to request greater disclosure of racial diversity, racial equity pay reporting, and other racial factors.</p>	<p><b>Employee Engagement</b> Build out firm-wide programs around advancing diversity, equity and inclusion. Establish and communicate actionable racial equity goals (e.g., what percentage of your leadership, new hires and revenue-generating teams you aim to have racially diverse, and by when).</p>
<p><b>Define Investment Goals</b> Determine your racial equity investing goals: what negative screens would you consider placing on your portfolio? What percent of your portfolio would you like to allocate to diverse managers? What areas of racial equity will your portfolio seek to advance? When those are defined, communicate them with your investment consultant or manager, and record them in your investment policy statement where possible.</p>	<p><b>Define and Grow Investment Offerings</b> Develop investment offerings that advance racial equity through any of the applications previously discussed, and/or implement negative screens on investments that exacerbate racial inequities.</p>

Glenmede has capabilities in designing portfolios that seek to support racial inequities. For more information, please contact us at [SustainableandImpactInvesting@glenmede.com](mailto:SustainableandImpactInvesting@glenmede.com).

- <sup>1</sup> U.S. Census Bureau. Demographic Turning Points for the United States: Population Projections for 2020 to 2060. Feb., 2020. Retrieved from <https://www.census.gov/content/dam/Census/library/publications/2020/demo/p25-1144.pdf> (accessed Oct. 18, 2023).
- <sup>2</sup> McKinsey. Why diversity matters. Jan. 1, 2015. Retrieved from <https://www.mckinsey.com/capabilities/people-and-organizational-performance/our-insights/why-diversity-matters> (Accessed Oct. 19, 2023).
- <sup>3</sup> Harvard Kennedy School Center for Public Leadership. Racial Equity as a Topic for Responsible Investment. Feb. 15, 2023. Retrieved from <https://clje.law.harvard.edu/app/uploads/2023/03/Wood-2023-Racial-Equity-as-a-Topic-for-Responsible-Investment.pdf> (Accessed Oct. 18, 2023).

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