Zevin Asset Management, LLC

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How can investors help confront racial injustice?

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A responsible investment approach should be informed by the real world beyond balance sheets and earnings statements. At Zevin Asset Management, we examine key environmental, social and governance (ESG) factors to shape our view of the future and find companies that respect people and planet.

That is why, as impact investors, we must confront racial injustice. Inequality and injustice based on race, after all, were founding economic realities of American life. Two centuries later, inequality, abuse, and discrimination are still present in every sector—in education, housing, healthcare, and policing.

Not surprisingly, those conditions shape businesses' risks and opportunities. For example, consumer-facing companies and retailers that ignore communities of color miss out on key customers and market opportunities. And, in an economy where Black, Latinx, and Indigenous people are still underrepresented in management and professional roles, firms that recruit and retain diverse candidates can gain a competitive edge.

This paper is an update of our original call to action and a review of our continuing work to build an awareness of racial justice into investment—both as an analytical lens and an economic reality. Doing so helps us protect the value of our portfolios and channel our clients' voices to help create positive change.

See tips on how individual investors, families, and foundations can get involved in this work at the end of this document.

Research and screening

We examine racial justice in our portfolios by conducting primary research, partnering with experts (like the NAACP, the American Friends Service Committee, OpenMIC, Freedom To Thrive, Worth Rises, and ACRE) and listening to folks in affected communities. As in all of our ESG work, Zevin Asset Management's research on racial injustice helps shape our investment decisions.

That starts with our commitment to avoid investment in companies that have a history of exploiting communities of color and economically disadvantaged communities. Because we seek an end to mass incarceration and acknowledge the deep racial problems in our criminal justice system, we do not purchase shares of companies with substantial involvement in incarceration and detention.

Active ownership: engaging with companies about racial justice

Screening out unacceptable companies is only one part of socially responsible investing. We also address racial injustice through shareholder advocacy—pressing companies in our portfolios to make changes that improve risk management and create a positive social impact.

As active shareowners, we vote our clients' shares at company meetings, and we support shareholder proposals that ask firms to improve workforce diversity. We also go further by voting against all board directors at companies that lack racial and ethnic diversity.

Inclusive leadership

Voting against a board slate sends a strong message to companies, and it can also propel a dialogue about diversity and inclusion. That message is critical in the tech sector, where Black, Latinx, and Indigenous people are underrepresented by nearly 20 percent compared with their presence in the overall labor force.

The diversity crisis in tech demands our attention as citizens and also as investors. Firms that accelerate recruitment, retention, and promotion of underrepresented people of color have a positive social impact and lay a foundation for stronger financial performance. A recent report by Intel and the research firm Dalberg found that the tech sector "could generate an additional $300-$370Bn each year if the racial/ethnic diversity of tech companies' workforces reflected that of the talent pool." McKinsey & Company reports that companies that lead on racial diversity are more likely to have above-average financial returns.

We have pressed **Intel** to appoint more underrepresented minority directors to its board, and we challenged **Apple** to make a serious plan to integrate its senior ranks. Across the board, we press companies to set time-bound public goals around inclusion and put their money where their mouth is: firms should tie executive payouts to the integration of their workforce.

These dialogues are challenging—executives are slow to redistribute power and address racial injustice in their own ranks. That is why we use all of our tools as investors, including innovative shareholder proposals which increase pressure on companies and bring issues straight to the board.

In 2018, we extended our work on inclusion and human capital risk in the tech sector, pressing leading tech firms to improve by linking executive compensation plans to key diversity and sustainability objectives. Our pioneering shareholder proposal led to a successful negotiation at **Citrix Systems**: the internet security firm agreed to spell out how diversity and inclusion factors influence annual CEO performance evaluation. Our recent proposals at **Alphabet** (Google's parent company) received international media attention and the votes of more than a quarter of external investors. On a subsequent earnings call, Alphabet announced a good first step: senior executives will now play a more direct role in the racial and gender inclusion strategy. But real progress is slow, and we expect to continue to press Alphabet, along with fellow tech giant **Amazon**, with challenging proposals in 2020.

The Pay Gap: Aiming for an intersectional approach

America's stubborn pay gap is an intersectional issue that presents complicated risks and opportunities for companies. An intersectional effort to address these problems must recognize that racial injustice feeds on and exacerbates gender inequality in every sector—and vice-versa. Overall, women make 80 cents for every dollar men earn. But Black women earn even less, garnering only 66 percent of the pay of comparable white male workers. Women of color in particular face twice the marginalization as men of color and their white women counterparts. For companies trying to retain a talented and diverse workforce, what may work to hire and support white women may not necessarily work with women of color.

Unfairness in pay is particularly stark in the retail sector where wages are low and women and people of color are under-represented in management. So, we've taken the issue directly to the annual meeting of **TJX Companies**. We have filed shareholder proposals challenging the discount fashion retailer to report gender-, race-, and ethnicity-based pay gaps in its workforce. The proposal has received support from more than one-quarter of investors, adding pressure to our continuing engagement with the company.

Our approach carries forward important work already underway to address the gender pay gap in the tech and financial sectors and adds an intersectional perspective. In recent years we successfully withdrew similar proposals at **Colgate-Palmolive** and **Marriott International** after those companies took several good steps. Colgate created an annual race and gender pay equity risk review, and both companies improved reporting on global workforce diversity.

Companies and incarceration

Mass incarceration is racial injustice, and the private sector has a role in both.

One in every 31 Americans lives under some form of "correctional control" (prison, jail, probation, or parole). But those numbers are strongly concentrated in communities of color because of systemic racism in the criminal justice system. Companies often deepen that injustice. For instance, many firms that bid on prison and probation contracts also lobby for more inmate beds and feed the swirl of prison profit.

As noted above, Zevin Asset Management does not invest in for-profit prison owners and operators like **GEO Group** and **CoreCivic**. But we are working for impact with companies we do hold in client portfolios about risks related to America's racially unjust prison problem:

- In a country where one third of citizens have a criminal record, companies need hiring policies that don't discriminate against returning citizens. We urge firms to review their use of criminal background checks in hiring, guard against racial discrimination in those checks, and help create opportunity by hiring in communities affected by incarceration. In recent years, we have written to large employers, including **Starbucks** and **Target Corporation**, to disclose or develop so-called Fair Chance Hiring policies, and we're collaborating with other investors to urge more companies to go public with their efforts.
- Experts, including formerly incarcerated people, tell us that prison work programs can be positive if they are safe, pay a fair wage, avoid discrimination, and contain dignity and training. However, in practice, those standards are

rarely met and companies have faced outrage when their use of prison labor comes to light. Responsible investors' long-term goal should be to shrink the swirl of profit around incarceration — and that includes prison labor. We have met with **PepsiCo** and **Target** and pushed for details on their use of prison labor in the supply chain. And we convinced Intel to inspect its U.S. vendors for prison labor. When the chip maker found evidence of prison labor, we worked constructively with executives to examine ethical risks and push for new safeguards. Last year, **Intel** took the positive (but still small) step of changing supply chain policies to explicitly prohibit "exploitative prison labor." Intel officials also convinced the Responsible Business Alliance to adopt the policy as well. That means that the policy on exploitative prison labor will affect that entire consortium of more than 120 electronics, retail, and toy companies, including **Walmart**, **Cisco**, and **Best Buy**.

- Finally, we have helped channel investor voices to urge banks, asset owners, and asset managers to divest from the prison industrial complex. We were part of a large coalition of investors and grassroots groups that convinced **JPMorgan Chase** to end its banking relationships with CoreCivic and GEO Group. And this spring, we testified in support of prison and detention divestment at the Boston City Council.

Next steps

For too long, investors have willfully ignored the critical role of race in their portfolios. Ironically, that includes many foundations that are dedicated to dismantling structural inequities based on race and class.

For impact investment managers, that means working to identify and address the role of race in portfolios. For foundations and individuals, that means asking your manager about how they analyze and act against racial injustice. Zevin Asset Management has worked to create collaboration and advance these practices by leading a group of peer firms and foundations committed to using impact investing and shareholder advocacy for racial justice and risk management. This Racial Justice Investing (RJI) is a large network that meets monthly with periodic public investor briefings to expand our impact.

As a first step, though, we must all listen to, engage with, and amplify the experiences of communities of color. This process should *fundamentally change* the way we view our investments.

Companies in our portfolios are vulnerable to great risks. They are often part of the problem. Our job is to channel investor capital and voices toward solutions.

On behalf of our clients, we're using a racial justice lens to flag risks and find companies that are seeking solutions and opportunities with communities of color. And, through investor advocacy, we can change firms for positive social impact.

Thank you for reading. Zevin Asset Management and our partners are still shaping this work, and we welcome your thoughts at pat@zevin.com.

Investor Actions for Confronting Racial Injustice

- **Divest** from organizations who profit from mass incarceration—similar to the fossil fuel divestment campaign, the aim here is to delegitimize business models.
- **Divest** from companies whose operations have a disproportionately negative impact on communities of color such as predatory lending or fast food.
- **Understand** the institutional racism in company practices and **encourage** companies to provide greater transparency on core diversity metrics and pay equity practices.
- **Ask** companies to thoughtfully review their criminal background check policies
- **Urge** companies to pay a living wage
- **Urge** companies to locate facilities to and provide good jobs in low income communities.
- **Consider** social impact bonds that target recidivism
- **Support** worker-owned coops and other social enterprises that employ people with records.
- **Fund** entrepreneurs of color or companies that are minority owned and managed.
- **Hire** and **invest** with managers that are owned and/or managed by people of color.

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