MAY 2021

Zevin Asset Management

IMPACT BRIEF

How can investors help confront racial injustice?

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. In spite of halting progress, our economy, and our capital markets specifically, are still systematic in failing BIPOC (Black, Indigenous, and people of color) communities, continuing to extract value from them, and profiting — and thereby contributing to — their further marginalization and carceration.

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, Color of Change, and the Movement for Black Lives) and listening to people 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

Students protesting in Washington, D.C. (Photo: Lorie Shaull)

2 Oliver Street, Suite 806, Boston, MA 02109 • www.zevin.com • invest@zevin.com • 617.742.6666

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. Last year, we convinced Apple to tie a portion of executive pay to social goals, including diversity and inclusion metrics. This is just a first step, but it is uncommon move toward material accountability in a period when dozens of large corporations are making high-flying statements on racial justice with little detail on their follow-up.

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 progress is slow, and we will expect to continue pressing Alphabet on diversity and inclusion via the same shareholder proposal, and we are leading a new proposal questioning the independence of Amazon's board chairman in light of the company's many racial justice risks — including its Rekognition AI product which is marketed to law enforcement agencies.

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 filed shareholder proposals challenging the discount fashion retailer to report gender-, race-, and ethnicity-based pay gaps in its workforce. After repeatedly submitting this proposal, in 2020, the company finally published information on race-based pay equity. But this is just a first step: TJX's report merely states that it has analyzed its workforce and "no meaningful difference" in pay exists. We'll keep pressing for more information on the analysis and specific data to allow comparability between retail companies.

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.

Can the private sector live up to its #BlackLivesMatter rhetoric?

Many companies have a gap between their lofty pledges and their practices on racial justice. Many of the same companies that came out in support of Black communities last year, for instance, continue to support trade associations, like ALEC, which have lobbied in favor of voter suppression laws and supported extremist politicians like those that set the stage for January's Capitol insurrection.

In 2020, Home Depot pledged a $1 million donation to the Lawyers' Committee for Civil Rights Under Law in June. However, after years of concerns about Home Depot's approach to diversity and inclusion, the company still refuses to publicly disclose the entirety of the EEO-1 workforce composition form that it submits every year to federal regulators.

This is an essential good practice for large employers, so we joined the New York City Pension Funds in a shareholder proposal demanding public disclosure of this key information. In 2021, Home Depot responded to the shareholder proposal by agreeing to annually disclose data on its workforce diversity.

There is growing evidence that investor pressure can force sunlight on racial justice issues in the workplace. Coca-Cola, AT&T and Target all announced this quarter that they will begin publishing their EEO-1 submissions. After we engaged repeatedly with Starbucks on racial justice over the last three years, the company published its EEO-1 report for the first time last quarter. Even more significantly, Starbucks set new targets for at least 30% of its U.S. corporate employees — and 40% of its U.S. retail and manufacturing employees — to be people of color by 2025. The goals will be tied to executive compensation, which has been a major priority of our advocacy around inclusion.

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 poli-

INVESTOR ACTIONS FOR CONFRONTING RACIAL INJUSTICE

- Commit to actively **engage** with, **amplify**, and **include** Black voices in investor spaces and company engagements, taking direction and guidance from their expertise and lived experience.
- Commit to **integrating** racial justice into investment decision-making and engagement strategies.
- **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 and to locate facilities to and provide good jobs in low income communities.
- **Reinvest** in communities via Community Development Financial Institutions, affordable housing, Black-led community development projects, vehicles aimed at addressing the structural racial wealth gap, and financing Black entrepreneurs, cooperatives, community land trusts.
- Use our investor voice to **advance** anti-racist public policy through investor statements, public comments, and collective action.
- Commit to **embed** a racial equity and justice lens into our own organizations. This may include: ensuring diversity, equity, and inclusion in hiring, promotion, and compensation; engaging with stakeholders of color to inform our work; and hiring financial managers and consultants of color.

cies 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**.

- We have also 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. In 2021, we were among a group of inves-tors sounding the alarm when Barclays was planning to violate the spirit of its 2019 promise to avoid financing the private prison sector. The bank had planned to be the lead underwriter for a bond issuance to build two new prisons in Alabama to be owned by CoreCivic. Our responsiveness to grassroots activists and ability to raise concerns in the media and in investor networks led to Barclays and Keybanc ending their support for the deal. More vigilance like this is needed in the future.

Next steps for asset owners

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 investing 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 co-founding and 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) network is a large coalition that meets monthly with periodic public investor briefings; educational content related to the centuries-long relationship between capitalism, markets and white supremacy; and, opportunities for collaborating in working groups and on new shareholder activism intiatives.

In the summer of 2020, when continuing systemic marginalization and state violence against Black communities was plain for many to see, the RJI network helped to organize investor members and many more in an "Investor Statement of Solidarity to Address Systemic Racism and Call to Action," which we encourage you to review online.

Each organization is different, and there are many possible first steps, but one thing is certain: 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.

As an investment firm, we try to invite in the truth that wealth in this country was built on the backs of black and brown people. We are trying to push in the other direction. We acknowledge that, left to its own devices, financial capitalism exploits racist inequality and profits alongside white supremacy.

The truth is that we are not doing enough to enact our conviction that Black Lives Matter, but we are trying to be an accountable part of the solution, responsive to and helpful to movement leaders. We are seeking opportunities to expand our work in solidarity with BIPOC communities and activists. And we are working with investment industry peers on calls to action around racial justice.

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 towards positive social impact.

We will report to you about this work and we welcome your engagement and critique.

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

Zevin Asset Management

Certified B Corporation

2 Oliver Street, Suite 806, Boston, MA 02109 • www.zevin.com • invest@zevin.com • 617.742.6666