Toward racial justice

Markers of corporate leadership in the United States
Investing for a thriving world: Racial justice is a key consideration

We analyze corporate efforts toward racial justice within the Thriving Public category of our sustainable investing research framework. Our themes are highly interconnected and always evolving. Read more about our unique thematic research approach in our “Investing for a thriving world” white paper.

Human health and wellness
Healthy individuals are a foundation of healthy society. Human health includes elements of preventive care, chronic disease treatment, and mental health support. Companies that support human health include conventional healthcare providers and holistic wellness businesses.

Environmental health and resource stewardship
A healthy planet supports all human activity and is at risk from the effects of climate change, which are becoming more visible and acute. Many companies are preparing for climate resiliency while others are creating solutions to mitigate climate change and its impacts.

Equity and access to opportunity and resources; efficiency and effectiveness of all systems
Healthy systems and societies are the connection between the health of individuals and the health of the planet. Our focus on topics such as diversity, equity, inclusion, and justice forms part of a broader theme called Equity and Ethos. We also consider access to information and opportunity.
Throughout 2020, a cascading series of pandemic-related challenges unfolded. We witnessed inescapable revelations about long-term systemic crises, including the planetary crisis of climate change and the social crisis of structural racism. These circumstances have brought suffering in many forms, and they have also set a foundation of possibility for urgent and overdue improvements.

In the wake of the killings of George Floyd, Breonna Taylor, Ahmaud Arbery, and many others, there has been more awareness of racial injustice in the United States. Corporate leaders, who may have been silent on these issues previously or delegated them to human resources departments, have become more vocal and active in their work to help create more equitable, inclusive, and just corporate settings. Corporate leaders can help to improve the overall health of our social system as well as their own organizations. These improvements, in turn, can potentially produce long-term financial and non-financial benefits.

As researchers and investors, we are keenly focused on investigating these changes and the potential benefits they could bring. When we analyze financially material and relevant sustainability issues, it is social issues, the “S” of ESG (Environmental, Social, and Governance), that have always been the hardest to measure. However, in many ways it is the human element of business that makes everything else possible. When we talk with CEOs, regardless of the type of business, their top priorities and concerns are consistently people-related: employees, customers, and communities.

Sustainable investing aims to take a more holistic view of corporate context and performance, with the premise that over the long term there is no such thing as an externality (a consequence not counted as a cost or benefit). We believe that management teams that are effective leaders on material sustainability issues or that are solving key sustainability challenges may also be more likely to create thriving businesses. Specifically, we believe that companies that demonstrate leadership in their contributions to a more just society might also benefit strategically and financially over the long term. This report explains our analytical approach to identifying companies showing leadership on the theme of racial justice.

By nature, analysis of systemic issues requires ongoing attention, and any one report does not render our research complete or conclusive. While we have learned from and been advised by numerous experts in the course of this work, we will continue to seek a more complete understanding, more effective engagement, and more relevant analytical approaches. I am grateful for our Sustainable Investing Team and Equity Research Team members who contributed to this report: Chelsea Agyiri, Sam Alpert, Shelby Centofanti, Stephanie Dobson, Kasia Ifill, and Kate Lakin.

Katherine Collins, CFA, MTS
Head of Sustainable Investing
SECTION 1

Why is racial justice an essential issue for businesses and investors?

We outline key factors that motivate increased focus and action on racial justice from the private sector.

Moral imperative. Most of this report focuses on the business case for diversity, inclusion, and equity, and that business case is powerful. We note that our current hyper-politicized setting makes it easy to confuse enduring ethics with shallower forms of political correctness. However, the tangible logic of business benefit appears petty when compared with the deeper understanding of justice as a requirement for realizing our full potential as a society. Beyond the business case, in our view, justice is a goal worth pursuing because it is right.

“Many executives, especially those who lead larger companies, recognize that an unjust system can create limitations, increase risk, and introduce system-wide fragilities that impede progress on all other dimensions.”

Systemic risk. Additionally, many executives, especially those who lead larger companies, recognize that an unjust system can create limitations, increase risk, and introduce system-wide fragilities that impede progress on all other dimensions. In contrast, attention to inclusion and justice has the potential to expand opportunity, growth, and stability. Importantly, diversity alone is not the ultimate objective. Evidence shows that both individual and collective benefits expand as we move beyond diversity to improve equity, inclusion, and justice.
Performance. With respect to corporate performance, there is growing evidence that an inclusive work environment can be more effective. For example, separate studies by McKinsey and Boston Consulting Group (BCG) found strong links between diversity and corporate performance. McKinsey’s report showed that more diverse leadership teams were associated with higher earnings before interest and taxes (EBIT) margins, and BCG’s analysis showed that diverse management was associated with much higher innovation-based revenues, in addition to higher EBIT margins.\(^1\)\(^2\)

In particular, as the work of researcher Scott Page and others has demonstrated, there are often links between demographic diversity and cognitive diversity, a key ingredient in developing the problem-solving skills of a team. Cognitive diversity, which refers to the presence of different points of view and skill sets, brings added insights and abilities to the tasks at hand, and is especially important when the work involves navigation of complex problems or shifting operating conditions.\(^3\)

As with other forms of diversity, gaining the benefits of cognitive diversity requires not only the presence of different experiences and expertise, but also the creation of an operating environment that allows those differences to be expressed.

Common sense. On a more tactical level, there are also obvious business benefits to growing the potential pool of employees, customers, and partners. Diversity, equity, and inclusion are increasingly important to all of these constituents, with impact on company reputations, customer loyalty, and employee retention. We believe that all of these elements have clear links to long-term financial potential for businesses, especially for those that depend on human creativity, collaboration, and engagement. Therefore, for business leaders and investors, diversity, equity, and inclusion are of vital importance, in our view.

The particularly painful, acute, and persistent presence of injustice toward Black people in the United States warrants extra attention. Improving the health of our social system also means looking at the wide reach of structural racism and its effects on groups that include Hispanic, Asian, and Native American people. The Covid-19 pandemic and related outbreaks of violence have had an outsized impact in these communities. While not a focus of this paper, this awareness is part of our research framework and may be a topic for future commentary.
SECTION 2

Context, progress, and challenges

Within the short scope of this research paper, it is impossible to fully explore the deep and complicated roots of racial injustice in the United States. However, without acknowledging important historical elements, we cannot begin to comprehend our current challenges, nor the ingredients required for potential improvements.

Examining the longer arc of history

Current injustice toward Black people in the United States is rooted in the horrific history of slavery, which is still poorly understood and taught in a limited way in many educational settings. Structural racism has been reinforced in the post-Civil War era through cultural norms, unfair access to education, housing, and other resources, and policies such as redlining and discriminatory lending. All of these have a long arc of negative impact. Our current social setting is the result of hundreds of years of racial discrimination.

Racial disparity in U.S. median wage levels, 1940–2010

Even when official policies change, bias persists and is evident in many different arenas. For example, educational disparities between Black and white people in the United States steadily narrowed from the late 1800s until about 1960, as access to education for Black Americans improved from near-zero levels at the start of that period. However, despite developments like the 1954 Supreme Court decision in Brown v. Board of Education and the passage of the 1964 Civil Rights Act, progress since that time has not continued or accelerated; rather it has stalled.\(^5\) Similarly, income disparities meaningfully narrowed from the 1940s through about 1980. However, since then, progress has stalled for Black men and the negative gap has re-accelerated for Black women.\(^6\) Also, stark disparities are seen in health data. For example, death rates from diabetes are twice as high for Black Americans than they are for non-Hispanic white Americans, and pregnancy-related mortality rates are more than three times higher for Black woman than for white women.\(^7,8\)

Related to these other measures, and perhaps the most comprehensive economic indicator of the compounding element noted above, is the wealth gap. The wealth gap between Black and white households has persisted at stunningly high levels. Currently, median Black household wealth is less than 10% of median white household wealth.\(^9\) In Boston, where many of our team members live, the difference is even greater: A 2015 study by the the Federal Reserve Bank of Boston, Duke University, and The New School showed median net worth for white households of $247,500, while the same figure for Black households in the city was $8. For Caribbean Black households in the area, this figure was $12,000.\(^10\)

**Why has progress proven so elusive?**

Many observers note that there have been important improvements in numerous policies and processes over time, and yet, overall progress toward racial justice in the United States has been frustratingly slow. What factors contribute to this disconnect?

As noted above, an incomplete understanding of both past and present facts leaves a knowledge and awareness gap. And we know that racial bias is structural, embedded in all sorts of systems in interconnected ways. Even when this bias is acknowledged, it is hard to comprehend its complete impact: To paraphrase the writer David Foster Wallace, in the United States, this is the water in which we are swimming.

Modern information flows are both a help and a hindrance. Despite much broader access to information through current technologies, some of these same tools have contributed to the rising challenge of “filter bubbles,” where communities can become more fractured, fragmented, and polarized. Developments like social media platforms have created many new forums for exchange but have also made it harder to engage in public dialogue that is informed by shared understanding of facts combined with the richness of different lived experiences and points of view.\(^12\)

Additionally, there is a disconnect between the characteristics of injustice, which is multidimensional, long term, and systemic, and our tools to address it, which tend to be narrowly focused, short-term, and tactical. Many efforts to address corporate diversity, for example, only focus on one issue or activity, such as recruiting new hires or one-time training sessions for managers, versus taking a more holistic and ongoing approach. Also, many well-intentioned activities have not been designed with an understanding of intersectionality, potential points of friction, or unintended consequences. Finally, many efforts lack the ongoing management focus and investment required for long-term success.\(^13\)

**“As of 2020, just four companies in the Fortune 500 had Black CEOs.”**

We see some of the same patterns within data on corporate leadership teams: As of 2020, just four companies in the Fortune 500 had Black CEOs, and as of 2018, just 9% of corporate board members were Black compared with 13% of the total U.S. population.\(^11\)
SECTION 3

What is changing now?

While acknowledging the long duration and challenges presented by the injustice and structural bias described above, it is also clear that our current setting offers evidence of change and opportunity.

Analysis of complex social issues requires different tools than analysis of traditional financial metrics. When we analyze shifts that are longer term and more systemic in nature, a helpful framework is Donella Meadows’ Leverage Points in a System, which illustrates the many layers and interconnections that are at work in any complex adaptive system. Using the Meadows framework to inform our structural analysis, we highlight three major categories of change that are influencing current corporate focus on racial justice. At each level, we believe the potential benefits to businesses who lead on diversity, equity, inclusion, and justice are clear.

Shift in ethos: First, there is a shift in ethos — a growth in awareness, prioritization, and intention. Changes at this meta-level of a system are hard to quantify, and yet we do have clear signals that this ethos shift is underway within the U.S. business community. Company management teams have been much more vocal regarding the importance of both diversity and racial justice, and some important commitments have been made, though we do not yet know what the long-term impact will be. One indicator of this shift in ethos is the frequency with which diversity, equity, and inclusion are mentioned on corporate quarterly earnings conference calls, which rocketed to 40% of S&P earnings calls in mid-2020 and have persisted at a rate well above prior periods.

Additionally, employees are increasingly vocal regarding their expectations in the workplace. A 2019 Pew Research survey found that 75% of respondents agreed that it is important for companies and organizations to promote racial and ethnic diversity, and 64% credited diversity with having a positive impact on a country’s culture. Finally, customer expectations are also rising: The 2020 Edelman Trust Barometer reported that 63% of people expect companies to follow through with concrete action when they make general statements in support of racial equality.

“Black communities in the United States represent about $1.4 trillion in buying power as of 2019, up nearly 50% in the past decade.”
A strong majority of Americans believe it is important for companies to promote workplace diversity
(Percentage of respondents saying it is ___ for companies and organizations to promote racial and ethnic diversity in the workplace)

<table>
<thead>
<tr>
<th></th>
<th>VERY IMPORTANT</th>
<th>SOMEWHAT IMPORTANT</th>
<th>NET</th>
</tr>
</thead>
<tbody>
<tr>
<td>All adults</td>
<td>49%</td>
<td>26%</td>
<td>75%</td>
</tr>
<tr>
<td>White</td>
<td>43%</td>
<td>30%</td>
<td>73%</td>
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<td>81%</td>
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<tr>
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<td>75%</td>
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<tr>
<td>Rep/Lean Rep</td>
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<td>32%</td>
<td>61%</td>
</tr>
<tr>
<td>Dem/Lean Dem</td>
<td>64%</td>
<td>22%</td>
<td>86%</td>
</tr>
</tbody>
</table>

Note: Whites and Blacks include those who report being only one race and are non-Hispanic. Hispanics are of any race. This question was asked of a random half sample: estimates for Asians are included in the total but are not shown separately due to small sample size.
Source: Pew Research Center.

Shift in demographics: In the heart of our social and economic systems, the composition of participants has continued to develop as well. Communities, customers, and employees within the United States have all become more racially diverse over time, which brings opportunity for companies that are able to connect with the entire population and to benefit from its cumulative strengths. For example, over the next 10 years, only about one quarter of new entrants to the labor force in the United States will be white, and the proportion of Black workers will be growing at roughly four times the rate of white workers. Additionally, Black communities in the United States represent about $1.4 trillion in buying power as of 2019, up nearly 50% in the past decade. Given this high and rising importance, companies that are more inclusive and connected are likely to be strategically advantaged.
Shift in tools and approaches: As expertise and experience has continued to develop, we have seen advances in the types of tools and approaches available to address diversity and racial justice. Building upon the work of numerous social movements, nonprofit endeavors, lived experience, and academic research, company leadership teams now can draw upon a greater library of resources and expertise than in the past. At a tactical level, companies can now compare their employee data and racial justice commitments with peers, consult with NGOs and community organizations about best practices, review academic research on historical context, and confer with consultants who analyze management techniques. Most important, across all of these settings, corporate managers can listen and directly learn from Black leaders and communities.
SECTION 4

How can we analyze corporate progress and leadership?

The tools for analyzing systemic social issues often do not map well to standard corporate disclosures. Though our analytical questions are focused on inclusion, belonging, and justice, the data we have to work with is mainly centered on diversity — a first step toward these more advanced goals.

Diversity, equity, and inclusion are important across many dimensions, including internal characteristics like age, race, gender, ethnicity, and sexual orientation and external characteristics like educational background, citizenship, religious or spiritual beliefs, socioeconomic status, and experience and expertise. Moreover, intersectionality means that none of these characteristics exist in isolation. Therefore, our analysis needs to avoid simplistic and reductionist “counting” exercises to reflect multidimensional reality.

Though detailed information on racial diversity within corporations is not yet widely reported, there is a growing level of disclosure, attention, and action from many leading companies. Increased transparency is important because we know that at this point company leadership teams rarely reflect the composition of the communities they intend to serve. This disconnect is a consequence of systemic racism, and it contributes to perpetuating bias throughout our organizations, with negative implications for both business and society. On the other hand, our research indicates that companies that demonstrate leadership have potential to establish more effective teams, greater ease in recruiting, and stronger customer loyalty.

Improvements in reporting and disclosure

For most U.S. companies, disclosure of diversity data is currently limited in both breadth and depth. According to Just Capital, only 6% of Russell 1000 companies disclose intersectional data that includes gender, race, and ethnicity, as of early 2021. Even fewer provide detail on composition within different job functions or metrics that are trackable over time. In addition to improving performance on point-in-time metrics, companies have the opportunity to set clear commitments and goals, make policy improvements, and communicate with transparency.

A recent McKinsey study, based on a small but meaningful sample of large employers, gives us some clues regarding racial composition at various levels within the workforce, showing that representation for Black employees declines meaningfully for mid- to higher-level management positions, while representation on corporate boards is closer to that of the overall population.
Black employees are under-represented at senior management levels¹

<table>
<thead>
<tr>
<th>Level</th>
<th>Black employees</th>
<th>White employees</th>
<th>Other employees of color³</th>
<th>Asian employees</th>
<th>Hispanic/Latino employees</th>
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</thead>
<tbody>
<tr>
<td>Hourly</td>
<td>19</td>
<td>60</td>
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<td>13</td>
<td>6</td>
</tr>
<tr>
<td>Salaried</td>
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<td>5</td>
<td>12</td>
<td>11</td>
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<tr>
<td>Entry level</td>
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<td>8</td>
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<tr>
<td>Manager</td>
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<td>72</td>
<td>3</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>Senior Manager</td>
<td>5</td>
<td>76</td>
<td>3</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>VP¹</td>
<td>4</td>
<td>77</td>
<td>3</td>
<td>3</td>
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<tr>
<td>SVP²</td>
<td>4</td>
<td>76</td>
<td>3</td>
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<td>3</td>
</tr>
<tr>
<td>Executive</td>
<td>6</td>
<td>76</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
</tbody>
</table>

Note: Figures may not sum to 100%, because of rounding.

¹ June 2020 snapshot, aggregate data across 23 companies.
² Includes Native Hawaiian, Pacific Islander, and Indigenous (e.g., Aboriginal, First Nation, Native American) employees and employees who identify as having two or more races.
³ Vice President.
⁴ Senior Vice President.

Source: 2021 Race in the Workplace Survey (n=24,842 employees); “Where are the Black CEOs?,” Fortune, February 4, 2021, fortune.com; McKinsey analysis based on representative sample of U.S. employees across all demographics at companies participating in survey.

When we have more information, better questions and better actions can result. For example, a review of the data trends in the McKinsey study might shift a plan of action from being solely focused on equity in recruiting (the “pipeline challenge”) to also focusing on systemic improvements in manager development and performance assessment processes. Investors and corporate leaders benefit not only from a greater volume of data but also from better and more relevant information.
Beyond structured data

Even when we have much more detail on composition of corporate teams, we know that narrowly defined metrics are never complete. For example, board and executive team diversity, the most widely available information today, is a small component that leads toward a more comprehensive examination of racial diversity throughout all parts of an organization. This, in turn, is a step toward understanding vital but hard-to-quantify elements like corporate culture and inclusion.

As fundamental investors, we can assess other forms of information that provide valuable insights. Companies release a wide range of data, from annual reports and quarterly conference calls to proxy and regulatory information to published research and consumer advertising. Investors can analyze where diversity shows up in these communications and, just as importantly, how it shows up. Does management use legal language, strategic language, or personal language when discussing diversity? Does the CEO mention inclusion and justice without being prompted, and if so, in what context? Can we see belonging represented in the company’s research protocols and marketing messages? Can we see the links between an organization’s diversity commitments and its core business strategy?

Information outside of corporate sources is also valuable, and increasingly so. How do employees rate the company on public evaluation sites, or comment about their workplace on social media? What can government, nonprofits, and investigative media tell us about corporate culture? What are our own personal observations from interacting with management teams, customers, peers, and community members affected by the company? These complementary data sources are sometimes broad and structured and sometimes narrow and anecdotal, and we believe all of them contribute to the mosaic of more complete understanding.

We can also assess changes over time, in both quantitative and qualitative terms. Companies are evolving organisms, yet much of our structured data is static. It is useful to review how the people who make up a company have developed, and to compare progress across different professional functions, organizations, and industries.

“Again, we note that assembling diverse teams is a start, and not the finish line.”

Again, we note that assembling diverse teams is a start, and not the finish line. When research confirms progress regarding racial diversity, this is a first step toward equity; equity is a step toward inclusion; inclusion is a step toward belonging; and belonging finally starts to approach the ultimate goal, justice. As conditions progress along this continuum, the potential individual and collective benefits increase as well. Given their relevance as material business issues, we believe diversity, equity, and inclusion are important issues for all investors.
SECTION 5

Defining leadership as part of our investment research

Considering a “mental model” of indicators of corporate leadership can extend the analysis described in the previous sections to make it more helpful to our research.

In our sustainable investment research at Putnam, we seek to identify corporate leadership across four key dimensions:

**Materiality:** Focus that is informed by thoughtful analysis of materiality and long-term business relevance

**Creativity and proactivity:** Action that goes beyond compliance or box-checking activity to demonstrate heightened commitment and potential benefit

**Transparency:** Goals that are specific, with candid and consistent reports of progress

**Impact:** Benefits that are meaningful both inside the company and beyond its corporate borders

Translating leadership attributes in pursuit of racial justice

When we translate this general leadership framework to assess corporate activity in pursuit of diversity, equity, inclusion, and racial justice, we can further refine our assessment. By incorporating the insights from the research summarized in this publication, we note several characteristics of leadership that are specific to racial justice:

**Context relevant:** Strategy that is linked to the company’s specific sector, business, strategy, and setting, with consistency between internal commitments to employees, engagement of business partners and suppliers, and external messaging to customers, investors, or other stakeholders

**Multidimensional:** Action that reflects an understanding of the systemic nature of structural racism, going beyond a single area of intervention; for example, leading companies often include a mix of community engagement, broad-based internal training and education, involvement of suppliers and customers, and improvements in hiring, evaluation, and advancement-related processes

**Collaborative:** Engagement that includes partners who have different and complementary areas of expertise, across extended time periods and in forms that go beyond narrow transactional arrangements; in particular, partnership for racial justice that recognizes Black leadership and expertise

**Long term:** Commitment that is sustained over multiple years, with extensions and improvements over time, and with progress on completeness and transparency of reporting
Company examples

The companies below represent just a few examples of certain elements of corporate leadership currently identified through our analytical framework. We look forward to analyzing progress and effectiveness for these and other corporate initiatives as they continue to develop. Company actions that exemplify some of the leadership characteristics noted above include:

Microsoft (MSFT), in 2020, extended a wide range of commitments to diversity, inclusion, and support of Black individuals and communities with activity that represents more than $1 billion in financial commitment. Internally, the company is investing an additional $150 million in its own diversity and inclusion efforts, with a commitment to double the number of Black employees in senior positions in the United States by 2025. The company has introduced new and required training for all employees and has increased investment in career planning and talent development. These actions build upon Microsoft’s ongoing DEI focus and disclosure of relevant data, which we believe has been superior to many peers. Extending influence beyond the company’s own operations, Microsoft has created a partner fund for Black-owned business partners that plans to double the number of Black-owned suppliers by 2023, and is taking several actions that support depository institutions, nonprofits, and high schools that are led by Black individuals and/or serve Black communities.22

Etsy (ETSY), the e-commerce platform, added a landing page for Black creators and their products during 2020, promoting Black-owned businesses. The company also has specific, public, and long-term diversity and inclusion goals, which include approximately doubling the percentage of Black and Hispanic employees in Etsy’s workforce by 2023, ensuring that at least 50% of Etsy’s small- and medium-sized enterprise suppliers are owned by women, minorities, or veterans by 2022, and defining key performance indicators and baseline data for marketplace diversity by 2021. Additionally, Etsy donated $1 million to Equal Justice Initiative and other organizations in 2020.23

Thermo Fisher (TMO), a diagnostic and medical supply company, recently began a partnership (The Just Project) with Historically Black Colleges and Universities (HBCUs) to help address the Covid-19 pandemic’s impact on communities of color, which have been disproportionately affected. Thermo is providing testing systems to the member schools at no cost, and the company has also committed to hire 500 HBCU interns and graduates during the next three years.24

Bank of America (BAC) has announced a $1 billion four-year commitment to strengthen communities of color, focused on those that have experienced a greater impact from the Covid-19 crisis. Areas of concentration will include health, including grants to expand testing and patient care; jobs training, reskilling, and upskilling; small-business support; and housing and community support through direct investments in Minority Depository Institutions. This expanded plan builds upon the company’s $100 million in donations to nonprofit partners and $250 million commitment to lending for small and minority-owned businesses.25

Specific company examples: In this section, the companies selected as examples demonstrate corporate leadership elements identified through our analytical framework. Specific metrics, analysis, and relevant company examples are developed and determined by Putnam’s Sustainable Investing team research, which seeks to identify corporate leadership across four key dimensions: materiality, creativity and proactivity, transparency, and impact. Company examples are intended to help illustrate the investment process and should not be considered a recommendation to purchase or sell any security. It should not be assumed that any investment in these securities was, or will prove to be, profitable, or that the investment decisions we make in the future will be profitable or equal to the investment performance of securities referenced herein. A security may be selected for the portfolio based on factors other than the sustainability metrics and leadership characteristics highlighted herein, and the analysis is not intended to be relied upon as a forecast or investment advice, and is not a recommendation, offer, or solicitation to buy or sell any securities or to adopt any investment strategy. Holdings and portfolio characteristics are for a representative account and are shown for illustrative purposes only. Each account is managed individually. Accordingly, account characteristics may vary.
Levi’s (LEVI) disclosed diversity metrics for its employees for the first time in early 2021, providing a level of detail that most peers do not. Like many companies, the more detailed assessment and disclosure shows limited racial diversity within upper management levels. Levi’s has committed to a wide range of improved internal processes, including hiring a new head of Diversity, Inclusion & Belonging; strengthening its partnerships with HBCUs for pipeline and talent development; and changing key recruiting and retention strategies. The company will also proactively seek a new Black leader to join its Board of Directors, train 100% of leaders on anti-racism and racial equity, and will publish wage equity audits every other year.\(^{26}\)

Walmart (WMT) has expanded action and reporting on diversity, equity, and inclusion, including disclosures on workforce representation by level of responsibility, gender, and ethnicity as well as promotion rates. For example, as of mid-2020, almost 12% of company managers are Black, and 18% of those promoted to manager have been Black associates. Company leadership is required to participate in training on inclusive leadership and mentorship. Building upon this progress, the company is extending focus on five key systems, with objectives on issues that include opportunities for minority suppliers and access to capital, access to health and education, and review of hiring practices for formerly incarcerated applicants. Additionally, the company has established a new center for racial equity that will lead some of the areas above and direct a $100 million philanthropic commitment to complement the company’s other initiatives.\(^{27}\)

**Characteristics of leadership in advancing racial justice:**

- Context relevant
- Multidimensional
- Collaborative
- Long term

Sustainable Future holdings as of 6/30/22: Levi’s (1.51%); Etsy (1.02%); and Thermo Fisher (3.10%). Microsoft, Bank of America, and Walmart were not held.

Sustainable Leaders holdings as of 6/30/22: Levi’s (0.71%); Etsy (0.30%); Thermo Fisher (2.37%); Microsoft (8.51%); Bank of America (1.98%); and Walmart (2.68%).

Holdings are for a representative account and are shown for illustrative purposes only. Each account is managed individually. Accordingly, account characteristics may vary.
SECTION 6

Conclusion

Researching racial justice in the private sector involves engaging with this complex issue using tools that often have a more narrow or tactical focus. Our framework for identifying markers of corporate leadership aims to more closely align with the systemic and multidimensional nature of the issues at hand.

During the past year in the United States, we have refocused attention on the centuries-long compounding of racial injustice and its painful and unacceptable implications for Black, Hispanic, Asian, and Native American people. These conditions have catalyzed and accelerated positive action across many parts of society, including the corporate sector. Our framework for analyzing corporate leadership typically includes assessment of materiality, creativity and proactivity, transparency, and impact. As mentioned earlier in this report, the characteristics of racial injustice are multidimensional, long term, and systemic. Therefore, our research framework identifies markers of corporate leadership in this area as including context relevance, multidimensional approaches, collaborative engagement, and long-term commitment.

At a company-specific level, corporate leaders in diversity, equity, inclusion, and justice have potential to develop more effective teams, improve recruiting and retention, and enhance customer reach and loyalty. Because of these connections, we believe racial justice is a relevant and vital topic for investors to consider. More broadly, as racial injustice is addressed, businesses in the United States could benefit from a healthier social structure and lower systemic risk. Most important, at the highest level, company leadership teams and investors have opportunities to contribute to more just social and economic systems, creating conditions where all participants can hopefully thrive and contribute to their fullest potential.
Endnotes
15 https://www.rbcinsightresearch.com/ui/main/report/f8d5434a-de56-454a-a9d4-f100f0245667
Members of our Sustainable Investing Team and Equity Research Team contributed to this report

Our sustainable investing team is part of the core equity team, and we integrate analysis of financially material ESG issues within our overall fundamental research. This integration yields a more complete understanding of companies. As investment managers, we believe that an effective, sustainable global economy is essential to the creation of potential long-term value.

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Director of Equity Research  
Investment Management
Consider these risks before investing: The value of investments in the fund’s portfolio may fall or fail to rise over extended periods of time for a variety of reasons, including general economic, political, or financial market conditions; investor sentiment and market perceptions; government actions; geopolitical events or changes; and factors related to a specific issuer, geography, industry, or sector. These and other factors may lead to increased volatility and reduced liquidity in the fund’s portfolio holdings.

Growth stocks may be more susceptible to earnings disappointments, technological obsolescence, falling prices, and profits, and the market may not favor growth-style investing. Investments in small and midsize companies increase the risk of greater price fluctuations. International investing involves currency, economic, and political risks. Emerging market securities have illiquidity and volatility risks.

Investing with a focus on companies that exhibit a commitment to sustainable business practices may result in the fund investing in certain types of companies, industries, or sectors that underperform the market as a whole. In evaluating an investment opportunity, we may make investment decisions based on information and data that is incomplete or inaccurate. In addition, a company’s business practices, products, or services may change over time. As a result of these possibilities, among others, the fund may temporarily hold securities that are inconsistent with the fund’s sustainable investment criteria.

Our investment techniques, analyses, and judgments may not produce the outcome we intend. The investments we select for the fund may not perform as well as other securities that we do not select for the fund. We, or the fund’s other service providers, may experience disruptions or operating errors that could have a negative effect on the fund. You can lose money by investing in the fund.