



# INVESTING IN EQUALITY

## Integrating LGBT Issues into Total Portfolio Activation

SEPTEMBER 2016



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## Acknowledgments

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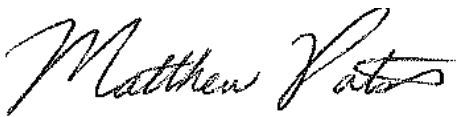
## Foreword

We are pleased to present the latest iteration of Total Portfolio Activation, a white paper providing a framework for investors to expand the scope of impact in LGBT issues across asset classes in their portfolios. We believe that all investments have impact, regardless of asset class, and that individual and institutional investors alike should consider how best to achieve their financial goals while leveraging their investments in a way that aligns with their mission and values.

In 2015, the United States Supreme Court ruled in favor of same-sex marriage for the lesbian, gay, bisexual, and transgender (LGBT) community. While legal protection for LGBT people has improved in the United States, there is still considerable progress needed to bring the LGBT community to full equality. With advancement across much of Europe and the Americas toward LGBT equality, there has been a corresponding backlash in many places around the world, including the United States.

In *Investing in Equality: Integrating LGBT Issues into Total Portfolio Activation* we provide a framework for impact investors as they consider how to invest in and support LGBT issues across common portfolio asset classes such as public equities and fixed income, and alternative asset classes such as private equity and venture capital. We know through years of academic research that inclusive employment practices correlate with stronger shareholder returns over time. A 2013 study conducted by the Williams Institute on Sexual Orientation and Gender Identity Law and Public Policy at UCLA School of Law found a link between more inclusive work environments and positive health outcomes, higher job satisfaction, and greater job commitment from LGBT employees. By identifying opportunities for investment in LGBT issues, investors can maximize the potential for positive impact and portfolio returns.

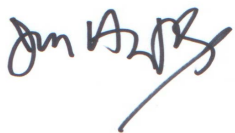
Our hope is that investors use the resources and case studies in this white paper as a guide for identifying investment opportunities that advance LGBT rights and equality. We look forward to leading the conversation in this space and encouraging fellow investors to pursue opportunities for positive impact on LGBT issues.



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## Introduction: Advancing an Unfinished Agenda

For many years, investors have found ways to deploy capital and use their voices as shareholders to empower the lesbian, gay, bisexual, and transgender (LGBT) community, primarily by supporting anti-discrimination measures related to sexual orientation and gender identity and expression.<sup>1</sup> Rapid gains over the last decade in areas such as marriage equality reflect a generational sea change in public attitudes toward LGBT issues. At the same time, growing numbers of investors, from institutional investors like pension funds, philanthropic foundations, and family offices to individual investors such as socially conscious millennials, are seeking investments that align with their purpose and values and generate positive social impacts on the world. As sustainable, responsible, and impact investors begin to think holistically about their entire investment portfolios, some are beginning to ask how to invest in support of LGBT issues across the diverse array of asset classes commonly found in their portfolios — from conventional asset classes such as public equities, fixed income, and cash to more alternative asset classes such as private equity and venture capital, private debt, and real assets.

An emerging framework for impact investing known as Total Portfolio Activation can help expand the scope of impact investing in LGBT issues across asset classes.<sup>2</sup> Rather than focus on only a single fund or strategy, Total Portfolio Activation invites investors to consider opportunities to integrate LGBT issues into investment considerations across the full spectrum of asset classes. It also gives investors tools for identifying gaps where explicit investment opportunities may not currently exist. For enterprising investors and the philanthropic community that funds LGBT programs, Total Portfolio Activation provides a useful blueprint for cultivating this emerging terrain — in much the way that investors concerned about women’s empowerment have developed a robust field of “gender lens investing” over the last decade.<sup>3</sup>

Academic researchers and financial practitioners have increasingly documented a strong business case for investing in LGBT equality. According to LGBT Capital, the global spending power of LGBT consumers has recently been estimated at \$3.7 trillion in 2015; LGBT household wealth in the US alone is more than \$5 trillion.<sup>4</sup> In response to this demand, growing numbers of businesses have begun to cater explicitly to this gay, lesbian, and transgender market, while many companies are making internal investments to ensure that their workplaces are supportive of LGBT employees in order to attract and retain the best talent. Studies have found links between more inclusive work environments and positive health outcomes, higher job satisfaction, and greater job commitment from LGBT employees.<sup>5</sup> Research by Credit Suisse has found that investing in businesses that go out of their way to provide LGBT-friendly work environments need not lead to any sacrifice in investment returns, and some analysts have identified “a long-term trend toward outperformance of companies relative to their respective sector peers after adopting LGBT-inclusive workplace policies.”<sup>6</sup> As we shall see below, increasing numbers of investment funds have been developed to seize precisely this opportunity.

However, several challenges remain for the LGBT community that a total portfolio approach to LGBT issues can also help address. For example, major political and legal victories related to LGBT civil rights have repeatedly been met with a subsequent backlash.<sup>7</sup> Following the

1 For consistency, we use LGBT throughout this paper but acknowledge the other acronyms used to include queer, intersex, asexual, pansexual, and non-binary people, and their allies, within this diverse community.

2 Joshua Humphreys, Christi Electris, and Ann Solomon, “[Total Portfolio Activation: A Framework for Creating Social and Environmental Impact across Asset Classes](#),” Tellus Institute, 2012, with support from Tides and Trillium Asset Management.

3 See Joy Anderson and Katherine Miles, “[Gender Lens Investing: A Review and a Roadmap](#),” Criterion Institute, October 1, 2015; and the Women Effect initiative at [www.womeneffect.com](http://www.womeneffect.com).

4 LGBT Capital, “[Global LGBT \(Lesbian, Gay, Bisexual, Transgender\) Annual Spending Power \(LGBT-GDP\) Estimated to Be US\\$3.7 Trillion in New Data from LGBT Capital](#),” Press Release, August 3, 2015.

5 See, for example, M. V. Lee Badgett, et al., “[The Business Impact of LGBT-Supportive Workplace Policies](#),” The Williams Institute on Sexual Orientation and Gender Identity Law and Public Policy, UCLA School of Law, May 2013; and Jon Miller and Lucy Parker, “[Open for Business: The Economic and Business Case for Global LGB&T Inclusion](#),” Open for Business, 2015; and Sylvia Ann Hewlett and Kenji Yoshino, “[LGBT-Inclusive Companies Are Better at 3 Big Things](#),” Harvard Business Review, February 2, 2016.

6 The quote is from John Roberts and Cristian A. Landa, “Return on Equality, the Real ROE: The Shareholder Case for LGBT Workplace Equality,” Denver Investments, 2014. See also, *inter alia*, Eric Berger and Nicole Douillet, “[What’s the Effect of Pro-LGBT Policies on Stock Price?](#)” Harvard Business Review, July 2, 2014; Seth McNew, “[Supporting LGBT-Friendly Companies Can Be Profitable](#),” The Motley Fool, December 3, 2014; and Julia Dawson, et al., “LGBT: The Value of Diversity,” Credit Suisse ESG Research, April 15, 2016.

7 Carlos A. Ball, ed., *After Marriage Equality: The Future of LGBT Rights* (New York: New York University Press, 2016).

legalization of same-sex marriage in Massachusetts in 2004, then-President George W. Bush responded by calling for a constitutional amendment defining marriage as a union between a man and a woman as part of his re-election bid. More recently, with marriage equality constitutionally sanctioned as the law of the land in 2015, political tides have shifted against LGBT civil rights in many states - as evidenced by the transphobic campaign that defeated the Houston Equal Rights Ordinance, as well as by the introduction of discriminatory laws targeted at individuals based on their sexual orientation or gender identity, including North Carolina's House Bill 2. Major health inequities, ranging from increased risk for mental health disorders and suicide to grappling with prejudice from healthcare providers, continue to exist within the LGBT community, and hate crimes directed at LGBT groups and individuals, such as the recent shooting in Orlando, Florida, remain far too common, often without enforceable remedies.<sup>8</sup> LGBT youth and transgender people are disproportionately incarcerated, according to multiple sources.<sup>9</sup> When considered from a global perspective, far too many countries continue to criminalize homosexual acts or fail to recognize same-sex unions and other LGBT issues.<sup>10</sup> Advancing the agenda of equality for LGBT people consequently remains an unfinished project.

As leaders from the Johnson Family Foundation have recently highlighted, philanthropy clearly has a role to play in advancing parts of this agenda, as grantmakers.<sup>11</sup> Equally important, though, is for philanthropy to look beyond grantmaking and to embrace a broader role by joining a growing group of investors that are pro-actively seeking ways to leverage investment capital for positive impact on LGBT issues.

## Applying Total Portfolio Activation to LGBT Issues

The Total Portfolio Activation approach is based on initial research commissioned by Tides and Trillium Asset Management in 2012, originally undertaken by analysts at Tellus Institute, and further developed since that time by researchers at Croatan Institute with a growing group of collaborators, practitioners, and sponsors.<sup>12</sup> Rooted in emerging financial research that explores the different ways investors can have impact across asset classes, Total Portfolio Activation begins with the basic premise that every investment has social and environmental impact.<sup>13</sup> Investors consequently have an opportunity to activate far more of their assets in pursuit of positive social and environmental outcomes, not only through small-scale private investments, but across a much fuller range of asset classes in diversified portfolios. Investors using this model undertake a systematic portfolio assessment, identifying misaligned investments, gaps and opportunities, and then restructure their portfolio in order to minimize negative impacts and maximize the potential for positive impacts on mission-related social and environmental issues of concern. Because investments in different asset classes provide varying opportunities for impact, the Total Portfolio Activation framework gives investors both a toolkit and a process for assessing those opportunities and re-allocating their assets to achieve their mission.

Total Portfolio Activation can be used to take multiple environmental and social impact criteria into account, or it can be applied thematically in more focused ways.<sup>14</sup> Given

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8 Samantha Franklin and Andrew Lane, "[Ending LGBT Health Inequities](#)," *Stanford Social Innovation Review*, spring 2016.

9 See, for example, Jody Marksamer and Harper Jean Tobin, "[Standing with LGBT Prisoners: An Advocate's Guide to Ending Abuse and Combating Imprisonment](#)," Washington, DC: National Center for Transgender Equality, 2013; and Christina Gilbert and Hannah Hussey, "[Young, Queer, and Locked Up: LGBT Youth in the Adult Criminal Justice System](#)," Campaign for Youth Justice, June 18, 2015.

10 Darla Cameron and Bonnie Berkowitz, "[The State of Gay Rights around the World](#)," *Washington Post*, June 14, 2016.

11 Franklin and Lane, "[Ending LGBT Health Inequities](#)."

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12 Humphreys, Electris, and Solomon, "[Total Portfolio Activation](#);" Humphreys, "[Institutional Pathways for Fossil-free Investing: Endowment Management in a Warming World](#)," Tellus Institute, 2013; Electris, et al., "[The Impact of Equity Engagement](#)," Croatan Institute, November 2014; and Kristin Lang, et al., "[Investing for Positive Impact on Women: Integrating Gender into Total Portfolio Activation](#)," Croatan Institute, November 2015.

13 David Wood and Belinda Hoff, "Handbook on Responsible Investment across Asset Classes," Boston College, Center for Corporate Citizenship, 2007; Jed Emerson and Lindsay Smalling, "[Construction of an Impact Portfolio: Total Portfolio Management for Multiple Returns](#)," ImpactAssets Issue Brief no. 15, October 2015; and Harry Hummels and Matteo Millone, "The Social Function of Asset Classes in Microfinance: Enhancing Performance through Donations, Private Equity, and Debt," in *Microfinance Institutions: Financial and Social Performance*, ed. R. Mersland (Hampshire, UK: Palgrave Macmillan, 2014), chap. 9.

14 "[Evolution of an Impact Portfolio: From Implementation to Results](#)," Sonen Capital, October 2013; and "A Portfolio Approach to Impact Investment," JPMorgan Chase, October 2012.

rapid developments in the field, investors concerned specifically about issues such as women's empowerment or climate change, for example, can now take a total portfolio approach to address these themes.<sup>15</sup> While the available investment opportunities may not yet be as robust for investors focusing on LGBT issues, emerging approaches to gender-lens investing and fossil-free "Divest-Invest" portfolios can nevertheless provide useful models for building a more comprehensive approach to investing in LGBT equality.

Total Portfolio Activation identifies four inter-related areas of investment activity for pursuing impact opportunities, each of which has implications for investing with a positive impact on LGBT issues:

**1. Investment selection:** This first area of activity focuses on investment research, analysis, and the fundamental decision to buy, hold, or sell a given investment. Investment selection determines which companies and instruments to invest in based on specific criteria that may have an impact on LGBT issues. For example, as discussed more fully below, indices such as Denver Investments' Workplace Equality Index and the Human Rights Campaign's Corporate Equality Index identify companies based on indicators that point to supportive workplace policies and protections for their employees. This activity can also include the selection of the investment managers themselves; financial consultants and money managers with strong LGBT workplace protections and teams that display diversity across lines of gender, race, ethnicity, sexual orientation, and gender identity demonstrate that these organizations are "walking their walk."

**2. Active ownership and engagement:** In this second area of activity, investors take a more active approach to influencing social impact outcomes by engaging directly or through collaborative initiatives with companies, issuers, and intermediaries. This can include participating in dialogue behind closed doors, filing shareholder resolutions, signing onto investor statements and amicus briefs, or taking more

assertive actions when other forms of engagement fail. As we shall see below, shareholder engagement is one of the highest impact areas of investment activity within public equities, and initiatives such as the Impact of Equity Engagement (IE2) are developing rigorous frameworks for managing and measuring the impact of shareholder engagement activities by public equity investors.<sup>16</sup> Engagement can also be critical for bondholders and private equity investors who have privileged access to companies and issuers. This activity also includes an investor's engagement with its clients and the broader community of stakeholders in which it operates. In asset classes like cash, where few LGBT-focused products exist, analyzing the relationship between a financial institution and the LGBT community becomes an important consideration for impact investors.

**3. Networks:** "Network effects" can enhance impact investing opportunities.<sup>17</sup> Joining wider coalitions, particularly multi-stakeholder initiatives that include both investors and non-investors, has been shown to be an effective means for leveraging collective power in order to pursue positive changes and impact.<sup>18</sup> Networks are often critical for entrepreneurs and angel investors in the private equity and venture capital space, and several emerging networks relevant to LGBT investing could be leveraged further by impact investors. For example, Pride Planners is a national network of financial professionals that provides educational materials focused on the needs of LGBT clients and provides networking opportunities for like-minded individuals.<sup>19</sup>

**4. Policy:** Finally, research and practice have repeatedly demonstrated the vital role that policy considerations can play within the impact investing arena, so Total Portfolio Activation includes investors' interactions with government, policymakers, and regulatory bodies as a core component of its framework. The Impact Investing Policy Collaborative, a five-year inquiry developed by Pacific Community Ventures and the Initiative for Responsible Investment at Harvard, has documented numerous ways that public policy can

15 Lang, et al., "[Investing for Positive Impact on Women: Integrating Gender into Total Portfolio Activation](#)"; Humphreys, "[Institutional Pathways for Fossil-free Investing](#)"; and "[The Clean Fifteen Divest-Invest Portfolio: A Total Portfolio Approach to Fossil-free Climate Solutions](#)," Croatan Institute and SOCAP. A useful case study of a mission-related philanthropic investor combining gender-lens investing with a 100% fossil-free "Divest-Invest" portfolio strategy is provided by the Wallace Global Fund. See <http://wgf.org/mission-investing/>.

16 To learn more about this approach and its impacts, see Electris, et al., "[The Impact of Equity Engagement](#)."

17 Useful background on the positive externalities associated with network effects can be found in David Easley and Jon Kleinberg, *Networks, Crowds, and Markets: Reasoning about a Highly Connected World* (New York: Cambridge University Press, 2010).

18 See, for example, Electris, et al., "[The Impact of Equity Engagement](#)."

19 [Pride Planners](#), accessed August 2016.

shape the impact investment marketplace, and given how deeply enmeshed LGBT issues are in civil rights law and regulation, understanding rapidly changing policy contexts is particularly germane for investing through LGBT lenses, and opportunities abound for investors to intervene in constructive ways in support of the LGBT community.<sup>20</sup> To take only one example, numerous investment management firms signed onto an amicus brief in 2011 supporting *Gill v. Office of Personnel Management*, in order to challenge the Defense of Marriage Act, which was subsequently ruled unconstitutional.<sup>21</sup>

In addition to identifying opportunities for impact within these four overlapping areas of investment activity, investors concerned about LGBT issues can begin to analyze investment opportunities through multiple issue-based “lenses,” in much the way that gender lens investors have started to do.<sup>22</sup> Capital access, workplace equity, and targeted products and services are three lenses that LGBT investors are primarily beginning to use. Investors can increase access to capital to the LGBT community, for example, by providing access to financial services and training, as well as loans and equity financing. According to the Filene Research Institute, LGBT households are less likely to own their own homes or hold mortgages, so access to these products and services remains out of reach for many.<sup>23</sup> Additionally, in the case of access to equity and debt, venture capital has been shown to be dominated by straight, white men, making it challenging for LGBT entrepreneurs — particularly lesbians and people of color — to get capital on the same terms as startups whose founders look like the mainstream VC community. LGBT-oriented investors are beginning to think about ways to change these dynamics.

Most LGBT-related investments have placed the second lens — workplace equity — at the center of their approach. Analysts work to identify companies that adopt nondiscrimination policies that include sexual orientation and gender identity and expression, extend benefits to

**Pride Planners** was founded in 1999 by three financial planners who wanted to share resources and strategies tailored to meeting the needs of their LGBT clients. After noticing the lack of relevant materials in traditional financing advising networks, they decided to spread the word and develop a dedicated membership organization of like-minded planners serving the LGBT community. Today, Pride Planners continues to educate financial professionals and LGBT clients through their online resources and bi-annual conferences. At last count, Pride Planners listed more than 80 financial professionals on its website.

same-sex domestic partners, and provide healthcare insurance that covers reconstructive surgery and hormone treatments for transitioning transgender individuals, among other issues.

Finally, some LGBT-focused investors have made targeted investments in companies providing products and services that support the LGBT community. This has ranged from startups creating dating apps and travel guides to pharmaceutical companies investing in medications that would positively affect this community, such as those that reduce the risk of HIV infection. Opportunities to invest through this third lens extend across multiple asset classes.

Using multiple lenses in the investment process can potentially widen an investor’s impact opportunity set on LGBT issues, but the application of multiple lenses in itself may not necessarily translate into higher impact. For example, an investor that screens a portfolio across multiple LGBT areas of concern (seeking companies with high “corporate equality” scores and LGBT-oriented products), but does not engage with companies to improve their performance on LGBT issues, may ultimately have less impact than one that engages with company management in a focused way through a single lens, such as workplace equity. Total Portfolio Activation provides investors with a framework for grappling with these issues and identifying the impact opportunity set most relevant to their concerns.

Again, much like in the gender-lens investing arena, we have found that investors concerned about LGBT issues currently tend to take one of two basic approaches: either they target their investment strategy narrowly around LGBT themes, without substantial consideration of wider environmental

20 The IIPC continues its work through the [Accelerating Impact Investing Initiative \(AI3\)](#).

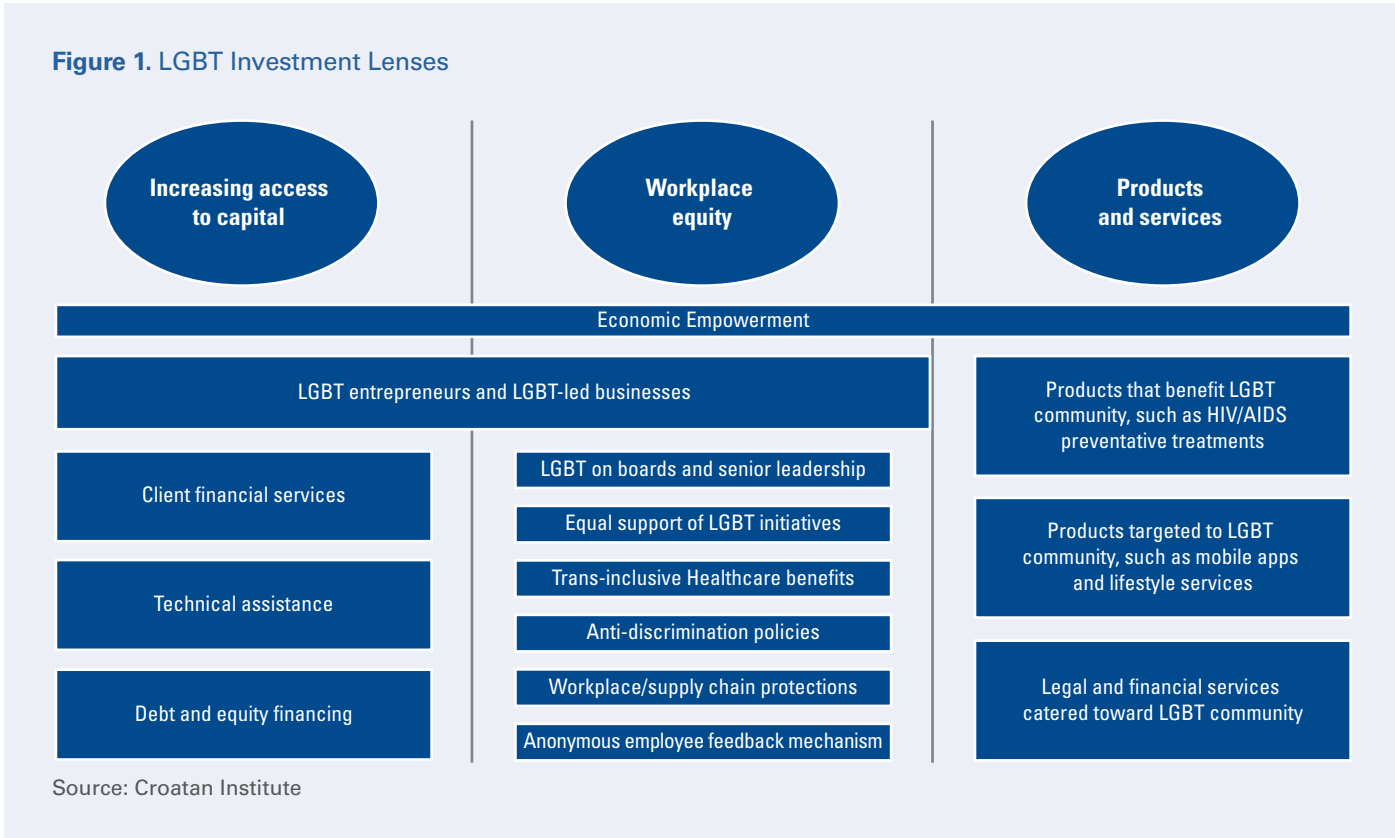
21 Trillium Asset Management, “[Leadership on LGBT Issues](#),” 2015.

22 Joy Anderson and Katherine Miles, “Gender Lens Investing: A Review and a Roadmap.”

23 George Hofheimer and Matthew Leiber, “Understanding the LGBT Opportunity in Financial Services,” Madison: Filene Research Institute, September 2015.



Figure 1. LGBT Investment Lenses



or social issues, or they integrate LGBT issues into a more holistic strategy addressing multiple, often inter-related environmental, social, and governance (ESG) issues. Each approach raises its own set of impact considerations that will need to be analyzed.

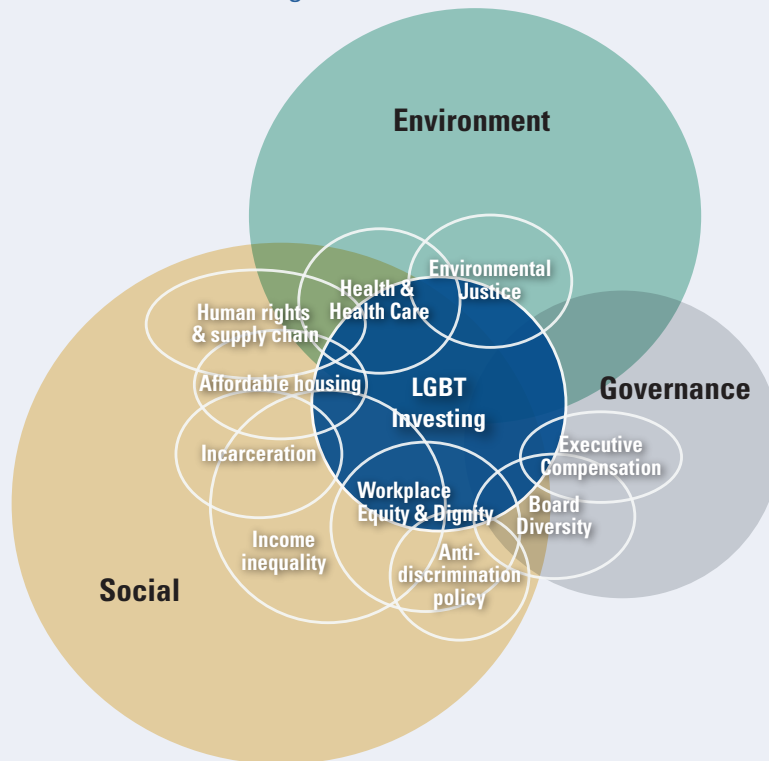
**1. Focused LGBT strategies:** Investment products that focus exclusively on LGBT themes have begun to emerge, particularly within public equity and fixed-income asset classes, where we find both passively managed index products and actively managed strategies. Focused strategies may rely on only a single lens, such as workplace equity, or apply multiple lenses to their approach in order to magnify impact opportunities. A direct investment into a mid-sized, lesbian-owned travel company that caters to LGBT clients, for example, could be viewed through two or more lenses. However, a listed equity strategy focused on investing in a portfolio of publicly-traded companies with LGBT-friendly workplaces may impact a wider group of companies.

**2. Holistic ESG strategies with explicit LGBT criteria:** Investment products that explicitly incorporate LGBT criteria into a broader framework of ESG analysis, risk management, and impact investing may have a different impact profile

than those narrowly focused exclusively on LGBT issues. We have found that investors that have had some of the deepest impact on workplace equality policies for the LGBT community, in listed equities for example, have done so not by creating a segregated thematic LGBT strategy, but rather by applying their expertise in shareholder engagement and sustainable investment analysis to LGBT issues of concern within existing strategies.

Also many leading philanthropic foundations funding LGBT issues often address them as part of a broader programmatic approach. Some may see LGBT issues along “intersectional” lines related to race, youth, economic inequality, and human rights; others have many other funding priorities in addition to LGBT issues. In either case, a mission-related approach to impact investing for these kinds of funders would ideally embed LGBT-related investing into a more holistic strategy addressing a variety of distinctive, inter-related, and mission-aligned environmental and social factors. For example, some social investors may stress “the benefits of board diversity” but often view it exclusively through a gender lens, without explicit reference to racial inclusiveness or LGBT issues. Researchers at the Williams Institute have stressed how the relatively higher levels of poverty within the LGBT community may best be

**Figure 2. Holistic Approaches to LGBT Investing**



Source: Croatan Institute

addressed by eliminating a series of wage gaps related to race, ethnicity and gender.<sup>24</sup> At the same time, within the LGBT community, transgender and gender non-conforming people experience higher levels of poverty and inequality due to a variety of interlocking factors related to education, housing, health care, employment, and incarceration.<sup>25</sup>

In different ways, taking a more holistic approach to LGBT issues through a broader investment strategy that integrates a variety of inter-related ESG factors may provide more suitable mission alignment for an investor that shares those analytical priorities. In either case, whether one ultimately prefers to focus more narrowly or approach impact themes more broadly, the Total Portfolio Activation

framework provides investors with valuable tools to make precisely this sort of assessment, tailored to the impact focus of the investor.

With this framing in mind — across Total Portfolio Activation’s four inter-related areas of investment activity, three LGBT investment lenses, and two basic approaches to integrating LGBT issues into investment strategies – the next sections provide specific examples of a diverse array of LGBT-oriented investment opportunities that have emerged in this rapidly changing field. We have organized our presentation by asset class, with a focus on four key asset classes commonly found in diversified investment portfolios where LGBT investing has taken its fullest expression: cash and cash equivalents, public equity, fixed income (both public and private debt), and private equity and venture capital. Each asset class provides different opportunities for impact across the core areas of investment activity and the different investment lenses.

24 M. V. Lee Badgett and Alyssa Schneebaum, “[The Impact of Wage Equality on Sexual Orientation Poverty Gaps](#),” Williams Institute, June 2015.

25 Sylvia Rivera Law Project, “[Flow Chart: Disproportional Poverty](#),” accessed August 2016; and Daniel Bassichis, “[It’s War in Here: A Report on the Treatment of Transgender and Intersex People in New York Men’s Prisons](#),” Sylvia Rivera Law Project, 2006.

## CASE STUDY PHILANTHROPIC FUNDERS EMBRACE LGBT INVESTING

A growing number of philanthropic foundations that fund LGBT issues and organizations are beginning to leverage their endowment capital into mission-related investments that expand the reach of their programs beyond what grantmaking alone can do. As Mijo Lee, Executive Director of the Social Justice Fund Northwest, highlighted, the foundation bears a responsibility to invest its endowment in alignment with the foundation's values; strategic grant-making and sustainable, responsible, and impact investing are two complementary tools to advance their ultimate mission of social change. Based on conversations with several other leading LGBT-focused funders, including Arcus Foundation, the Astraea Lesbian Foundation, and the Mossier Foundation, foundations are increasingly exploring new ways to invest for impact across asset classes in order to extend beyond their primary focus on listed equities and fixed income.

Shareholder engagement in particular has long been a strategy employed by foundations, often working closely with investment managers that have track records of successfully engaging with companies on a wide range of ESG issues. Some foundations have also taken LGBT issues into consideration when making investment decisions and have gone so far as to provide seed capital to develop new products. For example, the Mossier Foundation, established to honor the late entrepreneur and gay travel expert Kevin Mossier, approached Denver Investments in 1997 to construct a portfolio screened for companies supportive of LGBT issues so that the foundation could invest in closer alignment with its mission. According to a trustee involved in this process, rapid advances around antidiscrimination policies and employee benefits opened opportunities to diversify the portfolio, leading ultimately to the creation of the Workplace Equality Index, which now underlies an exchange-traded fund publicly available to other investors.

In terms of shareholder advocacy, many leading LGBT funders have engaged in dialogue with companies and co-filed shareholder proposals related to antidiscrimination policies and LGBT employee benefits. Since 1997 Pride Foundation, a community foundation focused on the LGBT community in the

Pacific Northwest, has engaged with nearly two dozen different companies on their nondiscrimination policies, including McDonalds, Exxon Mobil, and Procter & Gamble. This has resulted in better protections for more than 2.9 million workers around the world.<sup>26</sup> For many years San Francisco-based Tides Foundation has also co-filed resolutions in collaboration with Walden Asset Management, requesting companies add sexual orientation and gender identity to their antidiscrimination policies. Equity Foundation, a LGBT community foundation based in Portland, Oregon, worked with Trillium Asset Management to encourage the home improvement retailer Lowe's to add gender identity to its antidiscrimination policy. More recently, the **Social Justice Fund NW**, a member-funded foundation focused on progressive social change including LGBT issues in the Northwest, filed two shareholder resolutions in collaboration with Trillium against National Fuel Gas, requesting that they add sexual orientation and gender identity to their nondiscrimination policy. The company was hostile to the idea, even though the resolution received a third of the vote both years. Ultimately National Fuel Gas, as federal contractors, was legally required by an executive order to add the provision to its policy in 2015.<sup>27</sup> The Needmor Fund, the Funding Exchange, and the Horizons Foundation are among other philanthropic funders that have engaged in shareholder advocacy on LGBT issues over the last decade and a half.

Other foundations have joined networks and multi-stakeholder initiatives or engaged in the policy arena in order to amplify their impact. In 2012 Equity Foundation, Tides, Pride Foundation, and San Francisco-based Horizons Foundation, along with asset managers Trillium and Calvert Investments, sent a letter to companies based in Washington urging them to support marriage

*continued >>*

<sup>26</sup> Pride Foundation, "[Shareholder Advocacy](#)," accessed August 2016.

<sup>27</sup> "[Non-Discrimination Proposal at National Fuel Gas Receives 33% of Vote](#)," Trillium News, March 25 2015.

equality legislation in their state.<sup>28</sup> And in 2014, The California Endowment, a health foundation that is also a leading funder of LGBT organizations, used its clout as an institutional investor when it copied Indiana governor Mike Pence on a letter to health insurer Anthem, threatening to pull its investments from the state following a “religious freedom” law that would have allowed businesses to discriminate against LGBT patrons.<sup>29</sup> Arcus Foundation, whose mission includes advancing social justice for LGBT people around the world, joined a shareholder coalition that sent letters to approximately 70 large-cap companies seeking information about whether their antidiscrimination and equal benefits policies extend to employees across their

global supply chains.<sup>30</sup> According to Clean Yield Asset Management, only 15 of these companies provided “excellent” or “very good responses,” leaving ample room for improvement and numerous opportunities for on-going shareholder dialogue by investors concerned about LGBT employee rights abroad.<sup>31</sup> As foreign states such as Singapore, Russia, and Uganda, and US states such as North Carolina, Indiana, and Mississippi continue to enact or enforce discriminatory legislation targeting the LGBT community, foundations have numerous opportunities to raise their concerns not only as philanthropic funders, but also as long-term investors in those markets.

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28 Trillium Asset Management, “[Trillium Urges Washington State Corporations to Support Marriage Equality Legislation](#),” February 1, 2012.

29 Funders for LGBTQ Issues. “2014 Tracking Report: Lesbian, Gay, Bisexual, Transgender and Queer Grantmaking by US Foundations.” New York: Funders for LGBTQ Issues, February 2016, p. 6; and Lisa Ranghelli, “[Should Foundations Use Their Investment Muscle to Advocate?](#)” Philamplify, April 9, 2015.

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30 Shelley Alpern, “[Investors Challenge Corporations to Strengthen Policies for Foreign-Based LGBT Workers](#),” Clean Yield Asset Management, November 11, 2014.

31 Shelley Alpern, “[You’re Sending Me Where?](#)” Clean Yield Asset Management, May 31, 2015.

## Integrating LGBT Equality across Investment Asset Classes

### Cash and Cash Equivalents

The asset class of cash and cash equivalents provides a ready entry point for many investors seeking to increase the impact of their investments in mission-aligned ways. According to researchers at Harvard University, “mission banking” does not differ substantially from other forms of banking, yet it often provides access to capital for lower-income borrowers and businesses. Shifting deposits and cash reserves into community development financial institutions gives investors opportunities to build community partnerships and serve specific geographically targeted regions that are often financially underserved.<sup>32</sup> Generally, investors can maintain the highest levels of

liquidity and transparency that characterize this asset class, often with relatively low risk, particularly when held at federally insured depository institutions such as banks and credit unions, within acceptable limits. Although we were unable to identify any bank or money market products focused specifically on LGBT issues, several community banks and credit unions have made concerted efforts to welcome and support LGBT customers and clients. Investors therefore have an opportunity to re-allocate their cash balances and money market holdings to these kinds of community development financial institutions and mission-oriented banks and credit unions.

For example, when North Carolina-based Self-Help Credit Union, the nation’s largest community development credit union, began offering home equity loans in 1985, the first loan it made was to a lesbian couple based in Durham. Self-Help is currently a financial partner of the Trans Justice Funding Project, an organization that uses Self-Help to pool and grant money for trans-related projects nationwide. TJFP chose Self-Help to house its

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32 Valeris Berezin, Lisa Hagerman, and David Wood, “[Cash as a Mission-Related Investment](#),” Initiative for Responsible Investment, Harvard University, February 2011. The National Community Investment Fund tracks the social impact and performance metrics of the mission-oriented banking sector through a series of reports and its BankImpact tools. See <http://www.ncif.org/>.

money because of the credit union's mission "to create and protect ownership and economic opportunity for all, especially people of color, women, rural residents, and low-wealth families and communities"; this allows the project to put its dollars to work even before providing grants. Self-Help also strives to foster a diverse and inclusive workplace, with a nondiscrimination policy that includes "sexual identity, gender identification including transgender status, and sexual orientation" and assistance for employees who are adopting children. More recently, the credit union has ventured into the policy realm when it comes to LGBT issues. CEO Martin Eakes was one of the first in the North Carolina business community to speak out against "Amendment One" in 2012, a state constitutional amendment that proposed to define marriage between a man and a woman as the only recognized domestic legal union in the state; Self-Help also provided over \$100,000 to fight the amendment.<sup>33</sup> More recently the credit union issued a statement opposing North Carolina House Bill 2, the state's infamous "bathroom bill" targeting transgender individuals, and has joined a broader network of investors in calling for the law's repeal because of its financial implications on the state's investment climate.<sup>34</sup>

Another way that community banks and credit unions have positively impacted the LGBT community is through providing inclusive financial services. According to a report from Filene Research Institute, same-sex households are less likely to own property or have a mortgage than heterosexual ones, partly out of fear that they will be discriminated against based on their sexual orientation.<sup>35</sup> This concern is not without merit: the report notes that "in 29 states, it remains legal for financial institutions to consider sexual orientation a credit risk."<sup>36</sup> To counter this trend, some banks and credit unions foster inclusivity by using gender neutral language rather than assuming heterosexual relationships as the norm; San Francisco Fire Credit Union has been using the term "partner" on its loan and membership applications since the early to mid-1990s, when it started including domestic partners in its employee insurance coverage.<sup>37</sup> Olympia Credit Union, based in Olympia, Washington, has shown its support to the local

LGBT community, by welcoming LGBT clients, participating in the Capital City Pride event, and giving charitable support to LGBT organizations, including a grant to PFLAG at the end of 2015.<sup>38</sup> Another supportive community bank was the former Wainwright Bank & Trust, long known as Boston's "gay bank." It was the first bank in Massachusetts to provide same-sex partner benefits, and it openly supported LGBT leaders and community groups by allowing them to use its facilities while ensuring inclusive banking services to the LGBT community. In 2010 the bank was acquired by Eastern Bank, which continues to support the LGBT community and clients. In 2013 Eastern Bank expanded its health coverage to include transitional surgery and support services, and it has consistently received high marks on the Human Rights Campaign Corporate Equality Index.<sup>39</sup>

An effort is also currently underway to create a nationwide credit union that caters specifically to the LGBT community and its allies. The establishment of Equality Credit Union, a project undertaken by Equality Washington in Seattle since 2014, would aim to provide a member-owned financial institution that would address the community's unique, unmet financial needs, such as challenges faced by gay and lesbian partners trying to purchase a home together or by transgender individuals having difficulty cashing checks due to a previous alias.<sup>40</sup> For investors concerned with LGBT issues, such a credit union could potentially provide a highly direct impact opportunity for LGBT economic empowerment, within the cash asset class.

## Public Equity

Currently most investment activity around LGBT issues occurs in the asset class of public equity — investments in stocks of publicly-traded companies. All four areas of investment activity — investment selection, active ownership and engagement, policy, and networks — open impact opportunities for investors in the listed equity asset class, but historically engagement has been the primary way that investors have pursued impact on LGBT issues in

33 Mark Binker, "[Self Help Helping Anti-Amendment Campaign](#)," *WRAL.com*, April 30, 2012.

34 "[Self-Help Opposes HB2](#)," Self-Help Shares, March 29, 2016.

35 Hofheimer and Leiber, "Understanding the LGBT Opportunity in Financial Services," p. 4.

36 *Ibid*, p. 13.

37 "[Significant Others: Targeting Gays and Lesbians in the Banking Sector](#)," *The Financial Brand*, April 2, 2013.

38 "[Our Local Community](#)," Olympia Credit Union, accessed August 2016.

39 Hannah Clay Wareham, "[Boston's Gay Bank Bought Out](#)," *Edge Media Network*, July 3, 2010; and "[Eastern Bank Corporation Receives Perfect Score on Human Rights Campaign's 2014 Corporate Equality Index](#)," Eastern Bank Press Release, December 9, 2013.

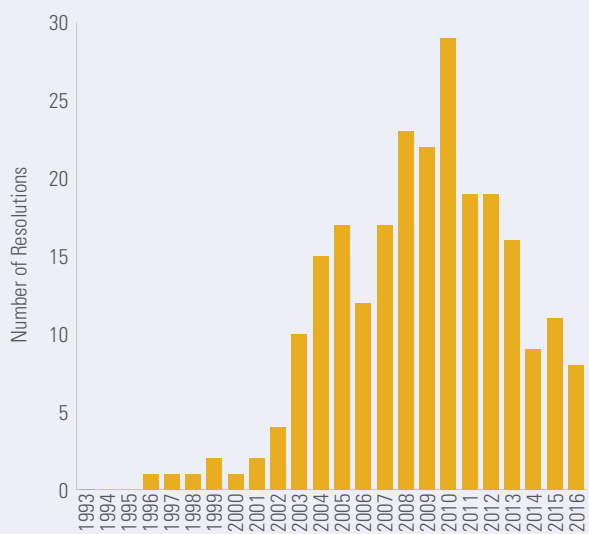
40 Equality Washington collaborated on the Filene Research Institute's 2015 study, "[Understanding the LGBT Opportunity in Financial Services](#)."

public equities, with notable progress, particularly through the lens of workplace equity. Many US corporations have undergone drastic changes in their handling of issues such as antidiscrimination policies, funding and public support of LGBT organizations and groups, and efforts to provide a more inclusive and positive experience for both their employees and their customers. Highly engaged shareholders that have dialogued with businesses on LGBT nondiscrimination policies since the mid-1990s, including the New York City Comptroller's office and groups such as Calvert Investments, Domini Social Investments, NorthStar Asset Management, Trillium Asset Management, and Walden Asset Management, can rightly claim some measure of credit for these rapid changes, working collaboratively in a loose network of LGBT clients, foundations, and other organizations and advocates in the LGBT community.<sup>41</sup> According to records maintained by Clean Yield Asset

Management, shareholder resolution proponents have negotiated corporate nondiscrimination policy changes at nearly 240 companies in the last two decades; peak years for these filings were 2004 through 2013.

According to As You Sow's most recent *Proxy Preview*, an annual report on the shareholder resolutions filed at corporate annual meetings on environmental, social, and governance issues, the number of resolutions related to LGBT workplace protections has actually declined in recent years — from 30 in 2011 to 17 in 2015 to just seven this year. Of those seven, two have already been withdrawn after corporate commitments to resolve the issue and the other five are suspected to be withdrawn as well.<sup>42</sup> Investors we interviewed repeatedly confirmed what researchers have also observed: that this seeming decline in shareholder activity has been due not to any lack of interest on the part of investors in engaging on LGBT issues, but rather to a rapid and broadly based change in attitude within the corporate community, from indifference to constructive engagement on LGBT issues.<sup>43</sup> (See the case study on Microsoft.) For example, long-time shareholder advocate Shelley Alpern of Clean Yield Asset Management recalled filing shareholder resolutions against Expeditors International seeking the addition of sexual orientation to their antidiscrimination policy in the mid-2000s; however, when an investor group led by the Pride Foundation later requested that they add gender identity as well in dialogue with the new CEO in the 2014-15 proxy season, the company did so with little hesitation.<sup>44</sup> According to the Human Rights Campaign, more than 90 percent of Fortune 500 companies have now adopted inclusive nondiscrimination policies protecting employees on the basis of sexual orientation, while 75 percent also include gender identity or expression in their policies.<sup>45</sup> While this rapid progress toward nondiscrimination policies in corporate America is noteworthy, clearly additional opportunities remain for investors to continue to engage in order to extend provisions to encompass gender identity and expression, to ensure that new policies are being enforced, and to raise similar issues with companies beyond the Fortune 500 and those based outside of the US.

**Figure 3. LGBT Nondiscrimination Policy Shareholder Resolutions, 1993-2016**



SOURCE: Clean Yield Asset Management, Trillium Asset Management, Croatan Institute analysis.

41 Neel Rane, "Twenty Years of Shareholder Proposals after *Cracker Barrel*: An Effective Tool for Implementing LGBT Employment Protections," *University of Pennsylvania Law Review* 162 (2014): 929-77; "Leadership on LGBT Issues," Trillium Asset Management, 2014; and "Walden Announces Successful Shareholder Engagement on Employment Non-Discrimination and Reflects on 25 Years of Work for LGBT Workplace Equality," Walden Asset Management, February 23, 2015.

42 Heidi Welsh and Michael Passoff, *Proxy Preview 2016*, As You Sow, 2016, p. 36.

43 Andrew Winston, "Business Is Taking Action on LGBT Rights. Will Climate Change Be Next?" *Harvard Business Review*, May 9, 2016.

44 Interview, Shelley Alpern, April 18, 2016.

45 Human Rights Campaign, "Corporate Equality Index 2016: Rating American Workplaces on Lesbian, Gay, Bisexual and Transgender Equality," 2015, p. 7.

## CASE STUDY MICROSOFT'S ENGAGEMENT ON LGBT ISSUES WITH EMPLOYEES AND SHAREHOLDERS

**Microsoft** (MSFT), the software company based in Redmond, Washington, has a long history of leadership on issues of concern to the LGBT community, and it has increasingly engaged with its employees and shareholders to advance LGBT rights both within the company and in the many states and countries where the company does business. In 1993 Microsoft became the first Fortune 500 company to offer same-sex domestic partner benefits. Over the last decade, the company has consistently received high marks on the Human Rights Campaign Corporate Equality Index, making it one of the “Best Places to Work for LGBT Equality.” It also makes comprehensive transition related health benefits available to transgender employees.

According to Dan Bross, Senior Director of Business and Corporate Responsibility, the internal culture of Microsoft has provided a foundation for the company's proactive approach to LGBT issues. For example, Ric Weiland, one of Microsoft's first five employees when the company was founded in 1975, was a prominent champion of nondiscrimination policies and a generous donor to LGBT organizations, such as the Pride Foundation. The company also has a highly visible LGBT employee resource group, known as Gay and Lesbian Employees at Microsoft (GLEAM), which counts more than 2,000 members globally and provides a platform for employee engagement on LGBT issues.

Since 2002, the company has adopted a strategy of constructive engagement and dialogue with its shareholders. The expansion of the company's nondiscrimination policy to include gender identity or expression more than a decade ago happened, in part, due to constructive dialogue with investors.

With support from engaged investors, Microsoft actively worked to support same-sex marriage legislation in Washington state in 2011 and 2012. Microsoft's stance mirrored the company's previous support for legislation banning employment discrimination on the basis of sexual orientation and expanding domestic partnership benefits across the state.<sup>46</sup>

Corporate and investor networks have also provided an opportunity for Microsoft to demonstrate leadership around LGBT issues. Earlier this year, Microsoft partnered with Out Leadership, a global LGBT business advisory organization, to bring the first-ever LGBT-focused event to the World Economic Forum in Davos, Switzerland. The session highlighted how pro-LGBT policies have benefited the bottom line of multinational corporations that have implemented them.<sup>47</sup> Given Microsoft's global supply chain, the company is also now working actively with leading shareholders and investor networks such as the United Nations-backed Principles for Responsible Investment to engage with countries where the LGBT community continues to face state-sanctioned discrimination.

Through “thoughtful engagement, investors help us be a better company,” noted Bross, who also serves as executive co-sponsor of GLEAM. “It is helpful to have partners in the investment community to remind us to lead through our policies.”

<sup>46</sup> Brad Smith, “[Marriage Equality in Washington State Would Be Good for Business](#),” Official Microsoft Blog, January 19, 2012.

<sup>47</sup> Out Leadership, “[Out Leadership Companies Leading the Charge around LGBT Inclusion in 2016](#),” January 25, 2016.

Although most shareholder resolutions have focused on antidiscrimination policies, some investors have developed creative ways to push companies in other areas. Resolution filers have traditionally avoided addressing employee benefits, out of concern that the Securities and Exchange Commission (SEC) would dismiss such proposals as “ordinary business.” However, in 2010 NorthStar Asset Management filed a resolution on same-sex domestic partner or spousal benefits with FedEx focusing on top level executives and tackling it as an executive compensation issue. Following discussions with NorthStar, FedEx agreed to extend benefits to same-sex partners not only of its executives, but also of all employees starting in 2012. Collaborating closely with creative and experienced shareholder advocates who can navigate the complexity of the proxy process can increase an investor’s potential for positive impact.

Another new front for high impact shareholder advocacy is around extending LGBT protections into global supply chains. As US-based and multinational companies continue to expand their operations overseas, advocates have expressed growing concern for LGBT workers based in countries with weak protections or even hostile environments. Last year, for example, NorthStar filed a proposal at Stryker Corporation, which was subsequently withdrawn after the company agreed to publicize its supplier diversity policy online.<sup>48</sup> Indeed, other investors we spoke with cited this topic and the need for investor engagement in states hostile to LGBT legal protections, such as Singapore, as emerging issues increasingly gaining traction. Investors involved in global networks such as the UN-backed Principles for Responsible Investment are increasingly engaging with companies and countries on precisely these issues.

Finally, engaged investors have addressed LGBT issues through corporate political contributions and lobbying in support of anti-LGBT candidates and measures. In 2010, for example, Equity Foundation, in partnership with Trillium Asset Management, engaged with two major retailers, Target and Best Buy, after reports surfaced that both companies had contributed to a political action committee that supported a Minnesota gubernatorial candidate vocally opposed to same-sex marriage. Equity Foundation eventually divested from Target but continued to have dialogue with the company over its concerns;

shortly thereafter, in the context of widespread consumer boycotts of the company as well, the CEO apologized and committed to review the company’s guidelines around political spending. Target was subsequently added back to the Foundation’s portfolio.<sup>49</sup>

Engaged public equity investors can also use their voices to weigh in on important policy issues of relevance to the LGBT community. Following the Indiana legislature’s passage of the Religious Freedom Restoration Act, The California Endowment (TCE) sent a letter to the CEO of health insurance company Anthem — headquartered in Indianapolis — and copied the state’s Governor Mike Pence. In the letter TCE CEO Robert Ross noted that the law ran counter to the foundation’s mission and values and concluded, “If this refusal to address the discriminatory legal environment persists, we will be compelled by both our fiduciary responsibility — as well as our conscience — to reconsider our investments in Indiana within that negative context.”<sup>50</sup> Public equity investors have similarly expressed concern about anti-LGBT policies in other states: Trillium Asset Management, with the California State Teachers Retirement System (CALSTRS), Croatan Institute, and the New York City Comptroller’s Office, has been leading a major investor statement calling for the repeal of North Carolina’s infamous House Bill 2. In 2013, Clean Yield and the office of New York State Comptroller submitted an investor letter on behalf of investors with \$327 billion in assets to the corporate sponsors of the 2014 Sochi Olympics, asking them to urge Russia to rescind its anti-LGBT laws.<sup>51</sup> Finally, investors have also engaged on policy matters at the national level. Calvert Investments has written letters to members of the US House and Senate encouraging them to pass the Employment Non-Discrimination Act (ENDA), a nationwide policy that would prohibit companies with more than fourteen employees from discriminating on the basis of sexual orientation or gender identity.<sup>52</sup>

Beyond engagement and policy advocacy, the ultimate decision to buy, hold, or sell a security has increasingly been shaped by research and analysis on LGBT issues. In

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49 More information on this case can be found in Humphreys, et al., “[Total Portfolio Activation](#),” p. 10.

50 Lisa Ranghelli, “[Should Foundations Use Their Investment Muscle to Advocate?](#)”

51 Shelley Alpern, “[Clean Yield Urges Olympic Sponsors to Speak Out for Russian LGBT Rights](#),” Clean Yield Asset Management, December 9, 2013.

52 Calvert Investments, “[Investing for LGBT Equality](#).”

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48 Welsh and Passoff, p. 37.



listed equities, strategies that incorporate LGBT-related criteria tend to do so in one of two ways: either as part of a broader integration of ESG criteria or as a focused strategy organized specifically around LGBT themes. Many of the firms most actively engaged in shareholder advocacy on LGBT issues generally incorporate LGBT-related investment criteria not in isolation but as part of a broader, more holistic approach to sustainable, responsible, and impact investing. Thus investment firms such as Calvert Investments, Clean Yield Asset Management, NorthStar Asset Management, Trillium Asset Management, and Walden Asset Management, to mention several of the more active shareholder advocates, have not created any specific LGBT “fund”; instead, LGBT issues are incorporated into the fundamental investment analysis and decision-making process across all of their strategies. LGBT considerations are consequently analyzed alongside a host of other concerns, such as board diversity, community relations, and income inequality, many of which have disproportionate impacts on the LGBT community.

Each firm has its own distinctive approach to integrating LGBT issues into their broader ESG investment strategies, depending on data, methodology, and investment thesis, so investors will need to assess each for the most appropriate fit. Some firms use controversies over LGBT issues to analyze and manage risk. While some focus on LGBT issues only where they may be perceived as “material” to investment performance, others integrate them because of values alignment or in pursuit of a social impact thesis. Although some conduct their own bottom-up, in-house research, others depend far more heavily on third-party data providers. In general, workplace equity is the primary lens through which listed equity investors are analyzing LGBT issues, but some firms are also actively seeking companies that provide supportive products and services, in tech, finance, or pharmaceuticals for example, to address unmet needs within the LGBT community. Because shareholder advocacy is an integral element of these investors’ strategies, they frequently see their investments in companies as potential opportunities for engagement in order to improve companies’ performance on LGBT issues.

Increasingly, listed-equity money managers have developed strategies or indices organized specifically around LGBT issues. Denver Investments’ Workplace Equality Index, developed in 1998 at the initial request of the Mossier Foundation, focuses specifically on LGBT workplace issues in public equities, for example. Seeking deeper alignment between the foundation’s investments and the founder’s values, the foundation requested a portfolio that screened

on LGBT equality and human rights.<sup>53</sup> The Index began with only 24 companies at a time when third-party data on LGBT issues were simply not readily available. The initial team at Denver Investments therefore conducted its own proprietary research, literally placing calls to companies in order to access the appropriate information. Today the index includes 240 US publicly-traded companies, and Denver Investments now relies on some third party data in addition to its direct research and surveying. The firm sends anonymous surveys to employees in order to learn firsthand whether the policies companies purport to have are in fact implemented in the workplace.

As its name suggests, the Workplace Equality Index focuses on select indicators seen through an employment lens: whether a company has antidiscrimination policies for sexual orientation and gender identity, offers partner health benefits, and supports employee LGBT groups. Denver Investments also assesses workplace culture for employees located in different parts of the country and whether a company provides health coverage for hormone treatments and surgery for its transgendered employees. Although Denver Investments does not engage in public shareholder advocacy, Portfolio Manager John Roberts noted that Denver’s direct interactions with companies through its research has led to constructive dialogue and concrete changes in policies and practices that ultimately qualified companies for inclusion on the index. Along with separate accounts managed at Denver, the Index underlies an exchange-traded fund, the Workplace Equality Portfolio ETF (EQLT), which was launched in February 2014 with ALPS Advisors, Inc.<sup>54</sup>

In 1992, shareholders and activists associated with the Equality Project developed The Equality Principles, a set of corporate workplace policy benchmarks that went on to form the basis for the Human Rights Campaign’s Corporate Equality Index. This index takes a similar approach to Denver Investments but relies on self-reported corporate responses to a survey that asks a series of questions related to LGBT workplace equality. Along with questions about antidiscrimination policies and trainings, healthcare coverage, and health benefits for same-sex partners and spouses, it also asks about collective bargaining, public engagement with the LGBT community such as marketing and advertising, and whether businesses provide LGBT-inclusive products and services. At its creation in 2003,

53 [“About the Workplace Equality Index,”](#) EQLT Workplace Equality Index, accessed August 2016.

54 More information at <http://www.eqltfund.com/>.

only 13 companies were listed in the Index; in 2016, 407 businesses received a rating of 100 percent.<sup>55</sup> In addition to serving as a source for consumers, the Corporate Equality Index is also a resource for several LGBT-focused products, including a Credit Suisse LGBT Equality Index managed by S&P Dow Jones and the online trading platform Motif, which bundles stocks into customizable stock portfolios, called “motifs.” Motif’s Gay-Friendly portfolio of 25 stocks uses the Corporate Equality Index as its LGBT filter.<sup>56</sup>

Another investment manager utilizing HRC’s Corporate Equality Index to run a LGBT-focused public equity strategy is US Trust, Bank of America Private Wealth Management. US Trust has developed a series of Socially Innovative Investing (S2I) strategies, which merge values-based investing with strong financial performance around particular themes. The Human Rights and Recognition (H2R) Strategy weighs metrics and data points to evaluate a company based both on its policies and practices around equality and support for the LGBT community. The strategy is also customizable across ESG issues, so that an investor who wants to add a focus on, say, racial equity or workers’ rights, in addition to LGBT issues, can readily do so in mission-aligned ways.

Equality Funds is a relatively new money manager that also models its portfolio around the hypothesis that companies with more progressive workplace policies toward LGBT employees tend to be high achievers when it comes to financial performance. It currently holds separately managed accounts for individuals starting at \$25,000.<sup>57</sup> Internationally, the Ireland-based LGBT Diversity Fund is managed by Newscape Capital Group. Like others in this space, the strategy embraces the thesis that companies with supportive LGBT policies with more open and accepting workplaces attract talent and generate a positive financial impact as a result, but it applies these criteria to a broader global universe of publicly traded companies rather than focusing primarily on US domestic stocks.<sup>58</sup>

A final consideration around listed equity investment selection is the selection of the money managers or investment consultants themselves. One LGBT foundation we interviewed felt it was critical to find a money manager

with LGBT, racial, and gender diversity both within its team and at the leadership level. Reviewing an investment firm’s staff and workplace policies can help investors select a money manager that reflects the same values it is trying to instill in the companies in which it invests.

## Private Equity and Venture Capital

Private equity and venture capital provides an opportunity for investing directly in private companies started by LGBT entrepreneurs or that are developing products and services for the LGBT community. At present few if any private equity or venture funds have been organized narrowly around LGBT themes in the way one finds in the public equity asset class. However, Calvert Special Equities, the private equity group of Calvert Investments, reported incorporating LGBT issues as part of an inclusiveness lens it is beginning to apply to its portfolio. Some angel investor and venture capital networks now also include LGBT categories among their investment opportunities and provide options to co-invest in them. Angellist, for example, has an active “Gay and Lesbian Market Angel Investors” group, which lists a number of products and services geared toward the LGBT community. These include networking and dating apps for mobile devices, travel and tourism services, clothing lines and services, and products ranging from music to vodka. Accredited investors provide capital either individually or as part of a “syndicate,” which pools a number of investments for the same company for a minimum of \$1,000. Over the past year, Angellist members have invested \$156 million into 382 startups in the Gay and Lesbian Market.<sup>59</sup>

A number of networks focused on promoting LGBT entrepreneurship and access to capital provide private equity investors with useful resources. StartOut is a nonprofit whose mission is to foster LGBT entrepreneurship and combat workplace discrimination through economic empowerment. Along with providing education, networking, and mentorship, it also looks for opportunities to connect the companies within their network to accredited investors.<sup>60</sup> The National Gay & Lesbian Chamber of Commerce (NGLCC), one of the largest national organizations focused on the LGBT business community, seeks to take advantage of economic impacts to promote equality. The network shares best practices and helps to link larger corporations with smaller LGBT businesses through their supply chains. In

55 Human Rights Campaign, “[Corporate Equality Index 2016](#),” p. 2.

56 “[Invest in Gay Friendly](#),” Motif, accessed August 2016; and for the Credit Suisse LGBT Equality Index (CSLGBT), visit <http://customindices.spindices.com/indices/equality/credit-suisse-lgbt-equality-index>.

57 [Equality Funds](#), accessed August 2016.

58 “[LGBT Diversity Fund Fact Sheet](#),” August 2015.

59 “[Gay and Lesbian Angel Investors](#),” accessed August 2016.

60 “[Access to Capital](#),” [StartOut](#), accessed August 2016.

## CASE STUDY TRILLIUM ASSET MANAGEMENT: A HOLISTIC APPROACH TO INTEGRATING LGBT ISSUES INTO ASSET MANAGEMENT

**Trillium Asset Management** is an employee-owned investment management firm with a history of investing for impact around LGBT issues across all four areas of Total Portfolio Activation, with a particular focus on high-impact engagement. As part of its integration of ESG factors into its investment decision-making process, Trillium incorporates LGBT issues such as inclusive workplace policies when determining which companies to include in its portfolio, avoiding companies with pervasive patterns of workplace discrimination and seeking those that have inclusive workplaces, protect the environment, produce safe products, and respect human rights.

It also actively uses shareholder engagement strategies to prod companies to strengthen their policies, in order to manage risk and pursue positive social impact. In 1995 Trillium was the first investment manager to file a shareholder resolution requesting a company — Johnson & Johnson — to add sexual orientation to its antidiscrimination policy. Since then, Trillium has successfully engaged with more than a dozen companies on similar issues, including Amgen, Chrysler, Expeditors International, Gardner Denver, ExxonMobil, Halliburton, JC Penney, Lowe's, McDonalds, Pentair, Wabtec, and Wal-Mart. Although companies are increasingly adding provisions around sexual orientation and gender identity and expression through direct dialogue, Trillium continues to use the proxy process when constructive engagement breaks down. At JB Hunt Transport Services, a trucking company based in Arkansas, for example, Trillium recently received a majority of shareholder support for a resolution calling on the company to add both sexual orientation and gender identity or expression to its employment antidiscrimination policy. In response to this strong vote, JB Hunt's management created an internal task force to study the impact of adding these categories to its employment policy, and at a summer board meeting the company voted to adopt fully inclusive nondiscrimination policies for its approximately 20,000

employees. Arkansas is one of more than two dozen states where companies may still legally discriminate against employees based on their sexual orientation or gender identity, so Trillium routinely engages in public policy advocacy to support the expansion of LGBT rights. The firm has challenged the Defense of Marriage Act by filing an amicus brief in *Gill v. Office of Personnel Management*, supported the Employment Non-Discrimination Act by testifying before Congress, and opposed discriminatory state legislation by coordinating investor statements against initiatives such as North Carolina House Bill 2.

Despite growing investor support for LGBT issues, Trillium recently found in an independent analysis that numerous mutual funds continue to vote against shareholder resolutions requesting companies adopt fully inclusive workplace policies. In some cases a mutual fund's voting record against anti-bias provisions contradicted its own internal policies and programs to retain and attract LGBT employees. Trillium is in the early stages of coordinating a new shareholder campaign to engage investors on this issue.

In addition to integrating LGBT issues into investment selection, shareholder engagement, and public policy, Trillium also "walks the walk" on LGBT issues in terms of its own corporate culture. Since the firm's founding, Trillium has provided a supportive environment for members of the LGBT community on its investment team. In 2001 Trillium was one of only five companies to receive a perfect score on what is now the Human Rights Campaign's Corporate Equality Index, and its current CEO Matthew Patsky has been a highly visible member of the LGBT community, an active fundraiser for LGBT organizations, and an advocate for LGBT causes for over 30 years. The firm's employee-owners also regularly make generous corporate charitable gifts to LGBT organizations, such as GLAAD (Gay and Lesbian Alliance Against Defamation), GLAD (Gay and Lesbian Advocates and Defenders), and PFLAG.

The information provided is not a recommendation to buy or sell the securities mentioned. The securities were selected on an objective basis for illustrative purposes and do not represent all of the securities purchased, sold or recommended. It should not be assumed that investments in the securities has been or will be profitable.

another example of the sea change within this space, many of the corporate partners listed on the website were the very same ones facing shareholder resolutions about their antidiscrimination policies over the past two decades.<sup>61</sup> In 2015 NGLCC and the US Small Business Administration (SBA) partnered to create the LGBT Business Builder, which conducts outreach and education as well as highlighting the NGLCC's LGBT Business Enterprise Certification program.<sup>62</sup> Some entrepreneurial tech networks are more targeted within the LGBT community. Lesbians Who Tech is a network geared toward lesbians working in technology fields.<sup>63</sup> Trans Tech Social Enterprises is a social enterprise that teaches business skills and provides membership benefits to members of the trans community.<sup>64</sup> Impact-oriented private equity and venture capital investors can turn to these networks in order to cultivate dealflow and identify opportunities for direct investments.

Companies and investors in the private equity space also have the opportunity to engage on policy issues that affect the LGBT community. For example, following the North Carolina General Assembly's decision to pass HB2, the B Corporation community decided to move its annual retreat out of the Research Triangle, which was to be held in the fall of 2016.<sup>65</sup> As companies who have a mission to provide social and environmental as well as financial returns, the event organizers believed it was important to use the retreat as a leverage point to get the attention of state policy makers. B Corporations have commonly received direct private investment from mission-aligned impact investors and private equity firms.<sup>66</sup> Some investors have expressed concern about the effect that HB2 will have on attracting capital and talent to businesses within the state. Google Ventures placed the state on a "no buy" list in protest over the legislation, while SJF Ventures, an impact investment firm located in Durham, noted that investors may be hesitant to provide financial support for North Carolina-based portfolio companies, such as TransLoc and Validic.<sup>67</sup> Startups in the state have started a petition

voicing their opposition to the bill and highlighting that three-quarters of institutional investment comes from outside of North Carolina — capital which is used for salaries, taxes, and future investment. At the time of writing, more than 175 companies had signed on.<sup>68</sup> Investors' Circle — a leading network for early-stage impact investing, including foundations, family offices, angel investors, and venture capitalists — also signed the petition, issued a statement highlighting the entrepreneurial innovation in North Carolina and risk to diversity and inclusiveness that the bill poses, and participated in the B Corporations' lobbying efforts.

Although still in the very early stages, LGBT-oriented investors are beginning to explore opportunities to make private equity investments abroad. One interviewee we spoke with, for example, is currently working with LGBT entrepreneurs in countries such as Kenya and Uganda where the LGBT community is openly persecuted or subject to human rights violations. Providing seed capital and technical assistance to LGBT entrepreneurs in order to build their capacity and connect them with wider markets presents exceptionally high risks beyond those associated with emerging markets themselves. Accepting capital that has been earmarked for LGBT-led firms in a repressive environment hostile to the LGBT community could place those entrepreneurs in a difficult situation, so investors will need to tread cautiously and work closely with local advocates and stakeholders who understand the culture on the ground. Despite these challenges, international private impact investment could be a place where philanthropic risk capital can be deployed by foundations with global LGBT programs that are seeking to activate a fuller range of portfolio assets for positive impact.

## Fixed Income

The fixed income asset class provides a specific set of opportunities for impact investors, offering a relatively low-risk profile, stable income, and predictable returns across a wide spectrum of characteristics related to tenor, yield, scale, and liquidity. In addition to investing in listed companies through corporate bonds, fixed income investors can also provide debt financing to public authorities and agencies and nonprofit organizations in the municipal bond market, and in private debt markets, to a wide range of businesses, projects, and funds, from promissory notes with individual private companies to debt crowdfunding

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61 "[Corporate Partners](#)," NGLCC, accessed August 2016.

62 Andy DiAntonio, "[5 Ways the LGBT Business Builder Can Help Grow Your Small Business](#)," NGLCC, June 23, 2015.

63 [Lesbians Who Tech](#), accessed August 2016.

64 [Trans Tech Social Enterprises](#), accessed August 2016.

65 B Lab, "[Nearly 1,700 Companies Withdraw From North Carolina Events in Response to HB2](#)," *CSRWire*, April 11, 2016.

66 More information about investing in B Corporations is available at "[FAQs for Investors and Directors of Potential B Corporations](#)."

67 Laura Baverman, "[North Carolina Startups Organize Against HB2](#)," *ExitEvent*, April 5, 2016.

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68 [Startups Against HB2](#), accessed August 2016.

and international microfinance institutions.<sup>69</sup> We broadly distinguish fixed income investments around LGBT opportunities between strategies in the public bond markets and those focused on private debt.

### Public Fixed Income

Public fixed income can help round out an investor's portfolio, while following similar strategies to those seen in the public equity space when it comes to investment selection. The portfolio management team for the Human Rights and Recognition Strategy at US Trust works closely with the fixed income team to make sure that the same social filters that are applied to public equities are also used in their corporate bonds, while also meeting the desired credit quality and duration. Similarly, Denver Investments creates bond portfolios targeting taxable corporate debt. For asset managers that incorporate LGBT as part of a more holistic approach to ESG integration, similar investment decision-making criteria are applied to bonds. Unlike in some areas of sustainable fixed income investing where impact investors have worked for many years, such as community development, affordable housing or clean energy finance, LGBT issues have yet to be a strong focus for issuers. In other words, there are no "rainbow bonds" that would be equivalent to "green bonds" — although the rapid development of the green bond market could provide a blueprint for the future creation of bonds developed with LGBT considerations in mind. Cheryl Smith and Alex Jovanovic, from the fixed income team at Trillium Asset Management, highlighted that impact opportunities in the public bond markets remain far greater in themes such as infrastructure and the environment than in LGBT issues. Nevertheless, they apply the same ESG investment selection criteria as part of the credit analysis of their fixed income investments as the firm does in listed equities; as a result, Trillium only chooses corporate bonds from companies with strong track records on LGBT workplace protection, which is evaluated alongside many other distinct and inter-related environmental, social, and governance criteria.

Although the practice of fixed-income engagement is far less developed than that of shareholder engagement with publicly traded companies — in part because bondholders have no shareowner rights in the proxy process — fixed income investors can still voice concerns, particularly where policy issues may affect credit in the municipal bond market. Recently, for example, the case of North Carolina's anti-LGBT legislation, HB2, led Breckinridge Capital Advisors, a leading sustainable investment management firm focused on high-grade, fixed income strategies, to highlight concerns about the legislation's potential negative impact on the credit quality of North Carolina municipal bonds. If businesses increasingly choose to locate their operations in more LGBT-friendly states, and if government funding from the Department of Education is restricted (which could happen if it determines that students' rights are being violated by the law), then this concern could very well be warranted.<sup>70</sup> Some investors have gone so far as to boycott NC muni bonds as a protest vote against the law. North Carolina voters recently approved a major \$2 billion infrastructure bond package in a March referendum; it remains to be seen whether HB2 will harm the state's cost of capital or creditworthiness.

### Private Debt

Private debt opportunities around LGBT issues remain relatively limited and fairly indirect. Some informal private loans are being done on a peer-to-peer basis within networks associated with Resource Generation and LGBT donors; several interviewees described a "queer economy," in which loans were commonly made to help transgender peers pay for reconstructive surgery or lesbian partners pay for IVF treatments. Crowdfunding sites have also provided opportunities to finance these types of services; alongside the more established platforms such as Indiegogo or GoFundMe, platforms like Pinkstart are devoted exclusively to projects and entrepreneurs with an LGBT focus.<sup>71</sup> While these models often rely on low- or no-interest loans or even donations rather than traditional debt, there is clearly a market for these products and services, and this activity could be more formalized and intermediated with professional management or through emerging investment crowdfunding platforms.

69 Marina Leytes and Sam Bonsey, "[Fixed Income and Impact Investing](#)," The ImPact, 2016; Scott Kirby, "[Invest in Your Values: Making an Impact through U.S. Fixed Income](#)," *Pensions & Investments*, August 26, 2014; and Cheryl I. Smith and Randy Rice, "[Achieving Positive ESG Impact with Market Rate Fixed Income Investments](#)," *Investing for a Better World*, Trillium Asset Management, February 6, 2014.

70 Andrew Teras, "[Looking Beyond the Headlines in North Carolina](#)," Breckinridge Capital Advisors, April 8, 2016.

71 [Pinkstart](#), accessed August 2016.

As in gender investing, opportunities to provide access to capital and financial services for LGBT individuals and entrepreneurs through international microfinance funds exist, although they tend to be less directly a thematic focus for microfinance institutions (MFIs) than women's empowerment has been. While not explicitly the focus of their work, Pro Mujer has attracted transgender and lesbian women across the five countries in which it operates, thanks to its mission of providing an open door and safe space for all. Matt Patsky, the CEO of Trillium Asset Management and a board member of Pro Mujer, recounted the story of attending a communal bank meeting in Mexico where women borrowers meet in democratically-run groups, make loan repayments, and participate in capacity building. Within the groups, the women shared stories about their experiences and their families. Finally, one of the group leaders stood to describe how supportive the group had been through her gender transition as she underwent hormone treatment and reconstructive surgery. Although Pro Mujer does not rigorously track this type of data, other country offices have anecdotes that echo this experience. For investors interested in financing LGBT entrepreneurs abroad, MFIs such as Pro Mujer are receptive to deepening their approach to LGBT issues and tracking their impact more explicitly along these lines.

## Implementation: Activating the Total Portfolio for LGBT Impact

By understanding the specific opportunities within each asset class, investors concerned about LGBT issues can begin to pursue impact across their whole portfolio in much more deliberate and strategic ways. As we have seen, the interrelated activities that an investor can take — investment selection, active ownership and engagement, networks, and policy — differ based not only on asset class but also on the kinds of LGBT considerations an investor applies within them. Investors will consequently need to assess their portfolios carefully in order to understand the specific opportunity set available to them. Total Portfolio Activation provides a toolkit for undertaking precisely such an assessment and then a framework for re-allocating assets to seize identified opportunities.

The basic process of Total Portfolio Activation, adapted to invest in LGBT issues, involves ten key steps:

**1. Issue Inventory:** Take an inventory of the investor's key LGBT concerns, using issues within the three primary LGBT lenses as a basic starting point. Determine whether other ESG issues are salient to the investor's impact objectives.

**2. Evaluation:** Evaluate the impact profile of current investment activities across asset classes.

**3. Impact Opportunity Set:** Identify the Impact Opportunity Set specific to the investor's LGBT concerns and its broader asset allocation. At this point, the Opportunity Set may be more aspirational if products explicitly addressing LGBT concerns may not yet be available in certain asset classes. As the field evolves, investments that have other positive impact attributes can readily supplement those using an explicit LGBT lens.

**4. Gap Analysis:** Conduct a "gap" analysis between current activities and the Impact Opportunity Set in order to identify new areas of activity that will increase the potential for positive impact on LGBT issues.

**5. Fill Gaps:** Identify specific investment opportunities that fill the gaps identified, often in close collaboration with an investment consultant or investment committee.

**6. Revise IPS:** Revise the Investment Policy Statement to reflect this new strategy of Total Portfolio Activation, specifying how LGBT issues shape investment selection, active ownership, network participation, and policy initiatives across asset classes.

**7. Capacity Analysis:** Conduct a capacity analysis in order to determine which investment activities can be taken directly by the investor and which should be delegated or outsourced to experienced impact investment consultants and asset managers.

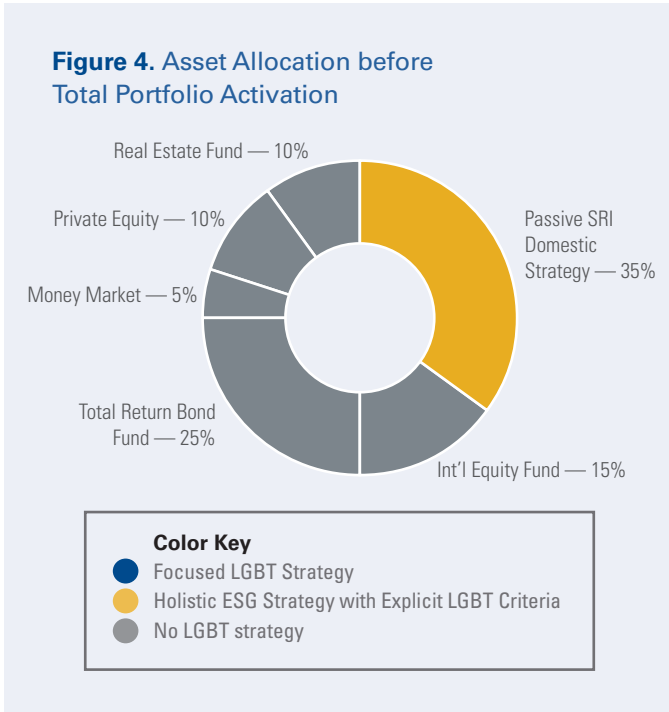
**8. Re-allocation:** Re-allocate assets to the higher impact investment opportunities identified.

**9. Portfolio Monitoring:** Monitor portfolio performance according to new impact objectives.

**10. On-going Assessment:** Continually assess ongoing Total Portfolio Activation impact opportunities according to the Investment Policy Statement.

Once an investor has determined its impact objectives, the current portfolio can be analyzed in order to determine how LGBT issues are being addressed in the portfolio and

**Figure 4. Asset Allocation before Total Portfolio Activation**



what kinds of impacts may be generated, both positive and negative. Figure 4 provides a model asset allocation for a hypothetical portfolio of an investor beginning to undertake Total Portfolio Activation. The investor’s domestic public equity holdings, representing more than a third of the portfolio, are the only place where LGBT issues are being explicitly addressed, although this exposure is essentially a passively managed SRI strategy where LGBT issues are incorporated into the investment decision-making process alongside a host of other ESG issues. Other investment activities such as engagement are not being pursued, and none of the other allocations, constituting 65 percent of the portfolio, has any LGBT issues explicitly incorporated into the investment process. This investor is clearly leaving numerous opportunities on the table and, without a process for evaluating LGBT issues in the bulk of the portfolio, may unwittingly be generating negative impacts toward the LGBT community.

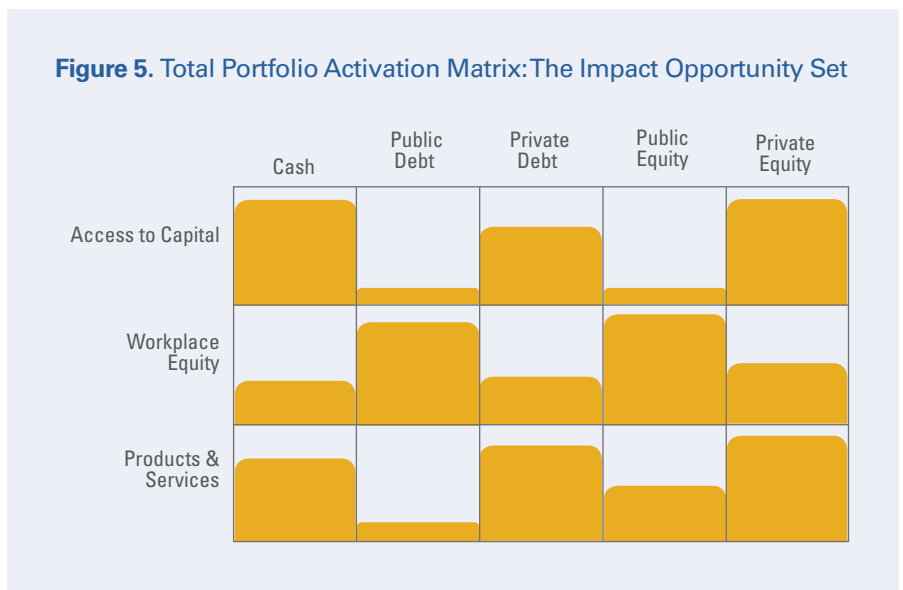
In order to re-allocate the portfolio so that it is much more focused on LGBT issues, the investor will need to identify its Impact Opportunity Set, by prioritizing the issues of greatest concern and analyzing which asset classes can be most readily activated for impact through those lenses.

Having this Impact Opportunity Set provides the investor with a benchmark against which to conduct a gap analysis between current investments and new impact opportunities. Figure 5 provides a Total Portfolio Activation Matrix that highlights an Impact Opportunity Set addressing LGBT issues across all three lenses discussed above: access to capital, workplace equity, and products and services.

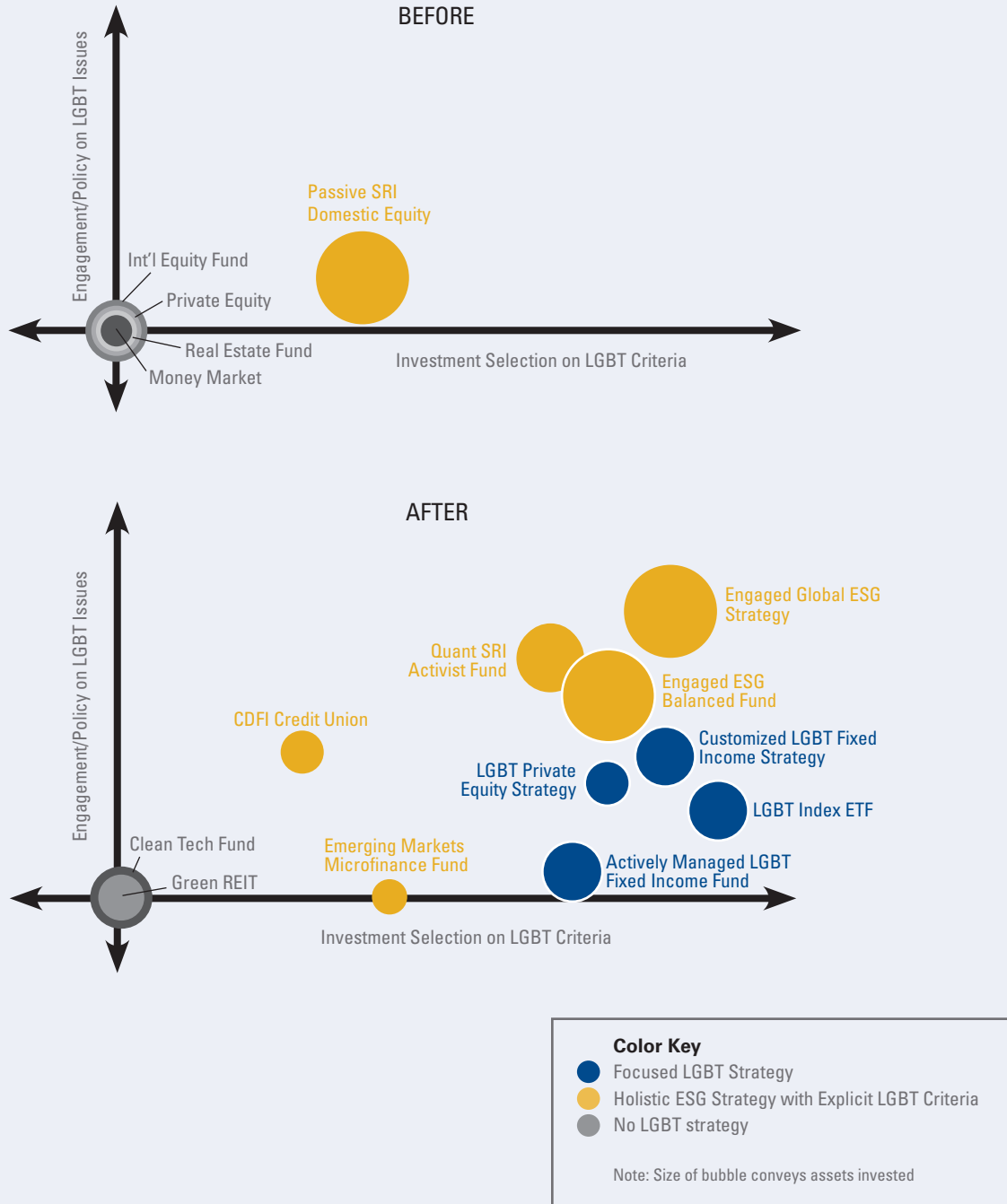
As the figure highlights, cash, private debt, and private equity may offer some of the best opportunities for addressing the LGBT community’s access to capital. Private equity and debt provide opportunities to invest directly in LGBT entrepreneurs or organizations that provide financial services to this community, while holding cash through LGBT-supportive banks and credit unions also increases access to the financial products and services LGBT clients need. As for workplace equity, public equity and fixed income may afford this investor the ripest opportunities for positive investment impact. Finally, for the final LGBT lens, the asset classes of cash, private debt, public equity, and private equity each present various opportunities to invest in products and services that are constructively targeted to the LGBT community.

With this Impact Opportunity Set before them, investors can begin to see gaps in their current portfolio. They can work with a knowledgeable investment consultant or financial adviser to identify new investments to fill these gaps. Ideally, the consultant should be well versed in impact investing and LGBT issues. Networks such as US SIF: The Forum for Sustainable and Responsible Investment, the Global Impact Investing Network, First Affirmative Financial Network, and Pride Planners can provide useful

**Figure 5. Total Portfolio Activation Matrix: The Impact Opportunity Set**



**Figure 6. Portfolio Impact Map: Before and After Total Portfolio Activation**





starting points for investors seeking professional advice and support through this kind of process.<sup>72</sup> We also recommend that investors review and revise their Investment Policy Statements (IPS) to reflect the changes that have been made in order to integrate their impact objectives around LGBT issues into formal investment policy.

Finally, investors need to begin the portfolio re-allocation process, exiting positions that no longer fit their newly articulated impact objectives, and investing in opportunities that apply LGBT lenses to their processes. Figure 6 compares a portfolio before and after Total Portfolio Activation has been undertaken. Within the scatterplot, each bubble represents an investment fund or strategy in the portfolio. The size of each bubble is based on its relative weight within the portfolio, while the color indicates whether the fund has an LGBT investment strategy and if it's narrowly focused or holistically integrated as part of a broader ESG investing strategy. The X axis highlights the depth with which LGBT criteria are considered within a strategy's investment selection process, while the Y axis measures the level of a fund's engagement on LGBT issues. Prior to Total Portfolio Activation, very little of the portfolio has integrated LGBT issues explicitly into portfolio strategy, although the portfolio has some indirect exposure through a passively managed SRI strategy.

By going through the Total Portfolio Activation process, this investor has substantially shifted the impact profile of its portfolio in several positive directions. It now applies LGBT impact considerations across the vast majority of its holdings. (In a limited number of asset classes such as private equity and real estate, asset managers using an explicit LGBT lens simply could not be identified.) The investor has embraced several narrowly focused LGBT-oriented strategies, denoted on the portfolio map in blue, in publicly-traded fixed income and portions of its public and private equity allocations; generally, these strategies exhibit high impact potential when it comes to investment selection, although their managers are less engaged in shareholder advocacy and policy. Most of its public equity exposure has, however, been re-allocated to more highly engaged asset managers applying an LGBT lens within a broader ESG investing approach; their use of multiple areas of investment activity strongly enhance the impact profile of the portfolio. Once the portfolio has been re-allocated, the impact performance should be evaluated on a regular

basis as part of the broader performance evaluation of the portfolio. By revising the IPS, the investor has developed an explicit, strategic framework for its staff, board, investment committee, investment consultant, and fund managers, as part of the normal course of business, to understand the investor's impact objectives, to integrate them into portfolio analysis, and to seize new opportunities as they arise.

## Conclusion and Recommendations for the Field

Opportunities to invest for positive impact on the LGBT community now extend across asset classes. The tools of Total Portfolio Activation can assist investors concerned with LGBT issues by identifying these opportunities and re-allocating their portfolios accordingly. However, the nature of LGBT investing varies greatly both across asset classes and within them. Constructing a fully diversified portfolio that integrates LGBT issues deeply across all allocations remains frankly challenging to do – much more challenging than, say, activating an entire portfolio around women's issues or climate-oriented solutions. As we have seen, professionally managed LGBT investment strategies can primarily be found in public equity and fixed income, although the number of strategies that explicitly incorporate LGBT investment criteria into their process remains relatively small. In other asset classes, such as cash, private debt, and private equity, opportunities for investing with a LGBT lens are clearly emerging, but often only in indirect ways. Because of these gaps and limitations in the field, we conclude with a series of recommendations that can help accelerate the development of a more disciplined, diversified approach to LGBT-oriented impact investment across asset classes.

**Investment consultants and financial advisers:** Investors seeking to implement a total portfolio approach to LGBT issues need trusted advisers who can help them analyze their portfolios and the broader universe of opportunities that meet their objectives. Consultants and advisers seeking to play such a role should equip themselves more fully with tools to understand and analyze from a financial perspective the substantive issues that impact the LGBT community. Trainings on LGBT inclusion within finance and investment appear to be needed.

**Data and metrics:** ESG research and data providers need to develop better key performance indicators and impact metrics on issues salient to the LGBT community, not only

<sup>72</sup> A list of these networks can be found in Additional Resources at the end.

on workplace issues but across the spectrum of LGBT lenses, particularly related to corporate governance, access to capital, products and services, and relations with the LGBT community. The Carbon Disclosure Project provides a model for how to encourage companies to disclose and report on sustainability issues more transparently. As data and indicators emerge and become more standardized, they should be independently verified and integrated into investor-oriented frameworks for standard setting, such as the Global Reporting Initiative, the Sustainability Accounting Standards Board, and the GIIN's Impact Reporting and Investment Standards (IRIS).

**Asset managers:** Managers should develop much more explicit frameworks and investment criteria around LGBT issues in order to communicate their investment strategy clearly to LGBT-oriented investors. They should also ensure that their own firms are providing inclusive workplaces and pathways to leadership for LGBT employees.

Enterprising asset managers also have a wide array of opportunities to develop new investment products and strategies with a LGBT lens, across asset classes:

**Cash and cash equivalents:** Banks and credit unions should continue to work toward financial inclusion for the LGBT community and consider whether there may be adequate demand for specific products, such as certificates of deposit or money market accounts, specifically targeted to address LGBT issues. Investors interested in the concept of a LGBT-oriented, member-owned credit union should follow the development of the Equality Credit Union.

**Public equity:** Workplace antidiscrimination policies and equal benefits for domestic partners are the primary areas of focus for listed equity investors. Extending these benefits to workers across global supply chains and holding companies accountable for political contributions that may undermine protections for LGBT constituents are two areas where investors can increasingly push publicly-held companies. Public equity investors should also expand their consideration of LGBT concerns beyond workplace issues and corporate political spending by applying other LGBT lenses, particularly related to LGBT access to capital and products and services, but also to the many other areas where pressing ESG issues intersect with LGBT concerns.

For investors that may incorporate LGBT criteria into investment selection but do not engage in advocacy, engagement and policy provide ripe areas for deepening impact. The Impact of Equity Engagement (IE2) initiative

provides investors with a useful framework for pursuing impact through engagement strategies.

**Fixed income:** Given the emerging questions about the impact of legislation such as North Carolina HB2 on municipal bonds, LGBT issues could be more deeply integrated into credit analysis not only for municipal bonds, but also for corporate bonds and sovereign debt. Bondholders could also engage with issuers over LGBT-related concerns they may have. Fixed income investors could also explore the viability of a niche market for "rainbow bonds" within debt capital markets, the proceeds for which would be earmarked to benefit the LGBT community, akin to the fast-growing green bond market.

**Private debt:** Professionally managed debt funds investing in LGBT entrepreneurs or businesses providing products and services to the LGBT community could readily be organized, in close coordination with the many LGBT entrepreneurial organizations that have emerged. Within the US, CDFI loan funds could integrate LGBT considerations more explicitly into their investment approach, while microfinance institutions abroad could also formalize the kind of informal support some MFIs already provide to the LGBT community. Considerable care needs to be taken in countries where LGBT rights are not well established and entrepreneurs may be closeted; in order to remain sensitive to these local dynamics, investors should work closely with LGBT groups on the ground.

**Private equity and venture capital:** Outside of angel investor networks, few professionally managed private equity or venture capital funds appear to target LGBT entrepreneurs or businesses catering to the LGBT community, but given the burgeoning networks among LGBT entrepreneurs, particularly in the tech startup community, they could play a valuable role of intermediation between businesses and the growing group of investors seeking to invest around LGBT themes.

**Real estate:** Although real assets were not incorporated into this discussion due to the lack of LGBT-focused products, some interviewees highlighted the role that investors could play in financing real estate developments providing affordable retirement housing for LGBT individuals. The application of a LGBT lens to real estate and other real asset investments should be undertaken.

**Philanthropic Foundations** have an important role to play as investors, strategic grantmakers, and intermediaries between LGBT donor communities and LGBT advocates in the field.

**Investing:** In addition to implementing a total portfolio approach to LGBT investing within their own endowments, foundations can also use their philanthropic capital to seed new funds and new asset managers incorporating LGBT issues into the investment process. These could be made as program-related investments if the investment is primarily programmatic in intent, or be funded as an endowment allocation if the risk profile of the investment met the foundation's broader investment criteria. Rather than working in isolation, groups of foundations could co-invest together in order to pool capital, risk, and expertise, and then share mutual learnings.

**Convening and field building:** Foundations can use their considerable convening power to bring together key stakeholders from the LGBT community, philanthropy, finance, business, civil society, and academia to discuss ways to create a more robust field of LGBT investing. Similar constellations of practitioners, convened and supported by philanthropy, have played critical roles in developing fields such as gender lens investing and the fossil fuel-free "Divest-Invest" phenomenon. LGBT funders can leverage their relationships with grantees in order to ensure that a full range of voices from the LGBT community are heard in conversations about investment needs.

**Research:** Far more research on the nature of LGBT investing is needed, and foundations are natural funders and sponsors of a much more advanced research agenda that would regularly analyze the rapidly changing state of the field as well as conceptualize what the future of LGBT investing might look like. Research serves as a valuable complement to the development of the field, supporting decision-makers across this emerging landscape.

These recommendations constitute only a few of the many potential ways to expand what is already a quickly growing field. As legal victories for the LGBT community mount and cultural norms rapidly shift, growing groups of investors have begun to acknowledge the economic benefits of inclusiveness. They are building upon the pioneering work of investors that have long engaged with corporations on issues critical to the LGBT community. But with the growth of a more disciplined approach to impact investing, mission-driven investors are now seeking additional ways to activate a fuller range of their assets for positive impact. Although building a fully diversified portfolio around LGBT issues today may remain a challenge, the framework of Total Portfolio Activation can help any investor to begin to identify opportunities to invest in LGBT equality today and to envision other ways in the future to advance what remains a fundamentally unfinished agenda.

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## Additional Resources

### Cash and Cash Equivalents

Eastern Bank  
<https://www.easternbank.com/>

Olympia Credit Union  
<http://olycu.org/>

San Francisco Fire Credit Union  
<https://www.sffirecu.org/>

Self Help Credit Union  
<https://www.self-help.org/>

### Public Equity

Calvert Investments  
<http://www.calvert.com/>

Clean Yield Asset Management  
<http://www.cleanyield.com/>

Denver Investments  
<http://denvest.com/>

Equality Funds  
<http://www.equalityfunds.com/>

EQLT Workplace Equality Index  
<https://workplaceequalityindex.com/>

LGBT Diversity Fund  
<http://www.lgbt-fund.com/>

Motif  
<https://www.motifinvesting.com/>

NorthStar Asset Management  
<http://northstarasset.com/>

Trillium Asset Management  
<http://www.trilliuminvest.com/>

US Trust, Bank of America Private Wealth Management  
<http://www.ustrust.com/>

Walden Asset Management  
<http://www.waldenassetmgmt.com/>

### Private Equity

AngelList  
<https://angel.co>

Lesbians Who Tech  
<http://lesbianswhotech.org/>

National Gay & Lesbian Chamber of Commerce  
<https://nglcc.org/>

StartOut  
<http://startout.org/>

TransTech Social Enterprises  
<http://transtechsocial.org/>

### Fixed Income

Breckinridge Capital Advisors  
<http://www.breckinridge.com/>

Calvert Investments  
<http://www.calvert.com/>

Denver Investments  
<http://denvest.com/>

Pro Mujer  
<http://promujer.org/>

US Trust, Bank of America Private Wealth Management  
<http://www.ustrust.com/>

Trillium Asset Management  
<http://www.trilliuminvest.com/>

Walden Asset Management  
<http://www.waldenassetmgmt.com/>

### Networks for Investors

First Affirmative Financial Network  
<http://www.firstaffirmative.com/>

Global Impact Investing Network (GIIN)  
<https://thegiin.org/>

Pride Planners  
<http://www.prideplanners.com/>

US SIF: The Forum for Sustainable and Responsible Investment  
<http://www.ussif.org/>

### Crowdfunding

PinkStart  
<http://www.pinkstart.me>



**CROATAN  
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### **Croatan Institute**

Croatan Institute is an independent nonprofit research institute, working at the critical nexus where finance, environmental sustainability, and social equity intersect. Based in the Research Triangle of North Carolina with an extended team of affiliates in Boston, New York, San Francisco, and Geneva, the Institute provides rigorous research and analysis to support strategic decision-making by organizations and practitioners in the field.

[www.croataninstitute.org](http://www.croataninstitute.org)



Out Leadership is a global LGBT business advisory organization that partners with the world's most influential companies to build business opportunities, cultivate talent, and drive LGBT equality forward.

[www.outleadership.com](http://www.outleadership.com)



### **Social Justice Fund Northwest**

Social Justice Fund Northwest is a member-funded foundation focused on progressive social change. The foundation works to foster significant, long-term social justice solutions throughout Washington, Oregon, Idaho, Montana and Wyoming.

[www.socialjusticefund.org](http://www.socialjusticefund.org)



### **About Trillium Asset Management, LLC**

Founded in 1982, Trillium Asset Management is the oldest independent investment advisor focused exclusively on sustainable and responsible investing. Trillium manages assets for clients including individuals, foundations, endowments, religious institutions, and other non-profits.

[www.trilliuminvest.com](http://www.trilliuminvest.com)