

## IEN Q&A: Approaching Net Zero Strategies with a Racial Justice Lens, the Next Investment Frontier

While many endowments recently announced targets towards net zero portfolios, a growing number of market practitioners realize the strategic imperative to address net zero strategies with a racial equity lens.

An inclusive and just approach in transitioning to net zero not only provides for positive social impact, but could result in broader economic benefits and ultimate value to bottom line returns. Further, investors who ignore the racial equity links to addressing climate change, restrict their portfolio's access to meaningful net zero investment opportunities, thereby constraining returns, according to some market experts.

While still in its nascent stages, advocates of addressing climate change with a racial equity overlay stress how one cannot be achieved without the other. The business models that are needed to reach net zero carbon emissions will not be successful or sustainable unless they utilize the skills, insights, and contributions of people of color, and minimize destabilizing inequities.

As investors contemplate the idea of net zero portfolios with a racial equity lens, the **Intentional Endowments Network** (IEN) continues to further the conversation and educate stakeholders on this strategic intersection.

Pursuing net zero endowments that are net-positive for racial equity is simply prudent risk management. IEN convened key market participants to accelerate corporate climate action to reduce systemic risk for all investors, through its [Net Zero Endowments initiative](#). Moreover, given the negative impact of climate change on racial equity and the positive impact of racial equity on climate solutions, integrating racial equity strategies is a key lever to a successful net zero portfolio. By providing a [primer](#) on investing in racial equity, IEN aims to help endowments contribute to an equitable and just transition to a low-carbon economy.

In this vein, IEN approached industry specialists to gain insight on the evolving landscape and potential opportunities. The specialists included:



**Tamara Larsen**, Executive Director at **Agility**



**Jeffrey Mindlin**, VP & Chief Investment Officer at **ASU Enterprise Partners**



**Rachel J. Robasciotti**, Founder & CEO at **Adasina Social Capital**

## **IEN: RECOGNIZING THIS IS A NEW AND EVOLVING SPACE FOR INVESTORS, CAN YOU PROVIDE AN OVERVIEW OR THE EMERGING LANDSCAPE OF INVESTING WITH A NET ZERO & RACIAL EQUITY LENS?**

**Larsen:** Increasingly, asset owners are acknowledging the history of environmental pollution and risks and the disproportionate share of the negative outcomes that have been allocated along racial lines for decades. There is also a recognition that the implementation of environmental sustainability has also been disproportionately allocated along racial lines, with a paucity of BIPOC (Black, Indigenous, and people of color) representation in the jobs, senior leadership, and key decision-makers within the environmentally sustainable industry. Increasingly, asset owners and allocators are thinking about how to directly address these issues proactively and intentionally, but there is still a long way to go.

**Mindlin:** This is definitely the next frontier, especially for endowments. In addition to ASU, we have only started to see a few schools make Net Zero commitments like Harvard, Michigan, and Penn. I do not think most of the industry sustainability surveys and even student activism has caught up with the progress in this space. Simple divestment is an antiquated way to view the problem. Beyond the complexities in a carbon transition, we are seeing increasing importance in shareholder engagement with fossil fuel companies to drive needed changes.

Similar to the integration of the environmental, social, and governance (ESG) lenses, I do not think you can really separate climate from social justice. For instance, climate impacts are hitting developing countries first, which is undermining their development efforts and slowing progress of reducing the global wealth gap. As a first step, we are increasingly looking at measuring the diversity and inclusion of our managers. As we think about investing to achieve net zero, it is also a good time to think about how we allocate to more diverse managers. We have also made allocations to private equity strategies that specifically look to get capital into the hands of business led by people of color or into underserved communities.

**Robasciotti:** While investing from a net zero approach has been gaining in popularity over the last 10 years, investing at the intersection of climate and racial equity is a fairly new terrain. Currently, impact conversations primarily center around the localized impact of climate change, but are lacking the perspective of working on net zero and racial equity on a larger scale.

With the growing popularity of the fossil fuel divestment campaigns, we have already seen a significant impact on the viability of fossil fuel companies. We believe that this trend of social justice indicators as potential early indicators of investment risk will continue as the impact investing movement grows. Failing to implement a net zero strategy that does not also advance racial justice will result in portfolio risk for investors, particularly as racial justice advocacy only becomes more prevalent in public discourse.

## IQEN: HOW CAN A NET ZERO INVESTMENT STRATEGY PROMOTE RACIAL JUSTICE? CAN YOU SHARE EXAMPLES?

**Larsen:** Net zero investment strategies can span multiple asset classes and sectors, offering many ways to promote racial justice as a key pillar to the net zero investment approach.

Framing questions include:

- What will be the BIPOC representation amongst key decision-makers who will design and implement the net zero investing framework and strategy?
- How are BIPOC communities impacted by decisions to invest or disinvest (or bypass) to achieve net zero in the portfolio?
- What is expected to be the BIPOC representation in the jobs, senior leadership, and equity ownership of companies that will be positioned to grow or contract due to net zero alignment?

**Mindlin:** The challenge with developing countries is more of a global perspective. At the local level, we are starting to see more climate solutions delivered by BIPOC owned businesses or climate solutions that bring jobs and health benefits to BIPOC communities. We recently spoke to a local utility about how they are balancing the climate benefits to phase out a coal-powered plant with the jobs and economic benefits it is providing to a local Native American community.

**Robasciotti:** In order to invest at the intersection of climate and racial justice, the entire investment approach must become intersectional. From our thorough investigation into this issue, we have come to understand that the communities most impacted by racial and economic inequities are also those most impacted by the effects of climate change. So, these are the communities that should be centered in determining the most relevant levers for combating climate change.

Many asset managers who work to mitigate climate risk focus almost exclusively on carbon emissions, but they vary widely in their assessment of the most impactful lever to actually decrease those emissions. By contrast, when we partnered with communities impacted by racial and economic inequities to investigate climate solutions, we uncovered the devastating impact of extractive agriculture on both climate change and the lives of people of color globally. We were surprised to learn that the industrial food system is responsible for over 50% of carbon emissions. As an asset manager committed to both racial and climate justice, divestment from extractive agriculture, in addition to fossil fuels, became a clear lever for impact in our portfolios.

## IQEN: HOW DOES ONE GET STARTED WITH AN INVESTMENT STRATEGY ALONG THESE LINES? ANY ADVICE?

**Larsen:** It is good practice to establish the key areas of focus to achieve net zero and promote racial justice within the portfolio early on. That way, expectations are clear, including what

metrics will be used to measure progress towards goals, and over what time periods progress will be assessed.

We find it helpful to perform a “Know What You Own” analysis to establish your starting point - to what extent does the existing portfolio reflect progress towards net zero and racial equity? What are the key drivers and detractors that exist in the portfolio today, and what metrics are useful and relevant to communicate that information to key stakeholders?

**Mindlin:** It is easy to get overwhelmed with the complexities and get “analysis paralysis”. There is a reason most commitments have a 10-30-year runway. For us, it is been a very clarifying target to help organize our investment, measurement, and reporting activities and future goals.

It was helpful to get buy-in from multiple stakeholder groups first. We then educated our Investment Committee, but since the consensus was already there, it was more a discussion of how do we do it rather than should we do it. We are all in this together and I have found peers more than willing to help share thoughts. There is now a solid suite of frameworks, resources, and guidance to help investors develop strategies from groups like the Net Zero Asset Owners Alliance and the Paris Aligned Investment Initiative. Best practices are to develop an Investor Climate Action Plan (ICAP) with interim goals given that long runway. Further, by integrating elements of your DEI investment policy into the ICAP, it will ensure these are integrated.

**Robasciotti:** In order to get started with an investment strategy with a net zero and racial equity lens, investors have to start with looking at the metrics social justice movements have often already identified. Right now, investors can do that by learning about the racial and climate justice impacts of extractive agriculture and either integrating that understanding into their portfolios or by selecting funds, like the Adasina ETF, where screening for extractive agriculture is already fully integrated.

## **IEN: WHAT ARE THE POTENTIAL PORTFOLIO RISKS OF IMPLEMENTING A NET ZERO STRATEGY THAT DOES NOT ADVANCE RACIAL JUSTICE? WHY SHOULD INVESTORS CONSIDER THIS?**

**Larsen:** From a convention investment perspective, given the history of underinvestment in BIPOC communities in the U.S. and the disproportionate burden of environmental pollution and risks that BIPOC communities have had to bear, progress towards net zero at scale is materially intertwined with BIPOC communities. Approaching net zero without seeking to advance racial justice will have a higher risk of potential conflict with existing stakeholders in the communities in which the portfolio would invest, raising the likelihood of delays and reduced scope of implementation, and negatively impacting returns. If investors bypass BIPOC communities, they will be restricting their portfolio’s access to a meaningful proportion of the net zero investment opportunity set and potentially constraining returns.

Beyond investment returns, climate change is forcing a reckoning on societal inequality - we share the planet, and our climate change outcomes are inextricably intertwined. A net zero strategy that (intentionally or not) concentrates negative environmental outcomes along racial lines will compromise success towards net zero goals for us all.

**Mindlin:** While revolutionary a few years ago, it is more mainstream today to recognize that climate risks are investment risks. Similarly, there has been a clear change in seeing both the opportunities around racial justice as well as the potential risks of ignoring it in a broader investment strategy, especially a Net Zero one. Climate change, extreme inequality, and racial injustice pose systemic risks that can destabilize societies and economies.

**Robasciotti:** A net zero strategy that does not advance racial justice is not only an incomplete strategy, it's one that cannot truly address climate risk because the negative impacts of climate change are concentrated in communities of color across the globe. These are the communities closest to the impacts of climate change providing first-hand evidence that racial injustice and climate change are two heads off the same hydra. Both trace their heritage back to roots in colonialism and an extractive economic system built upon the extraction of land from Indigenous peoples, the extraction of labor from enslaved Africans, and the extraction of natural resources from the planet. For those who see these intersections, the question is not how to integrate racial and climate justice, but how they could ever be approached separately.