# Outsized Impact

## How Investment Can Address the Systemic Risk of LGBTQIA+ Inequity

May 2024

Executive Summary

Colorful Capital

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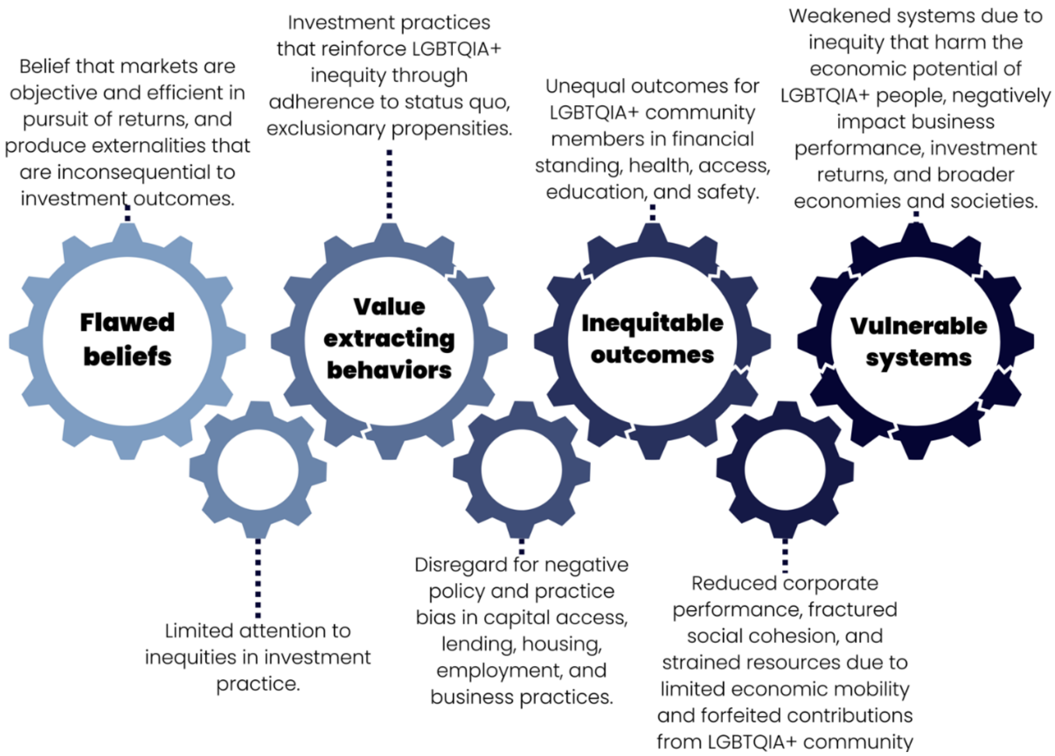
**LGBTQIA+ inequity is a systemic social challenge that can be linked to policies and practices that cause harm and pose considerable risks to the U.S. economy and financial system.**

These policies relate to income disparities, workplace discrimination, lack of corporate leadership, criminal justice and persecution, disparities in healthcare, education, and treatment of LGBTQIA+ youth, and lack of housing and retirement support. The systems and influences that contribute to adverse outcomes for LGBTQIA+ people and communities consist of a myriad of forces working simultaneously, yet not in concert, that perpetuate barriers, status quo perceptions, and discriminatory treatment.

**Underpinning this dynamic is a belief by investors that markets are objective and efficient in pursuit of returns and produce externalities that are inconsequential to investment outcomes.**

This belief (Figure 1) has led to investment practices that reinforce LGBTQIA+ inequity through adherence to status quo; disregard for negative policy and practice bias in capital access, lending, housing, employment, and business practices; decreases in corporate performance, and increasing strain on resources due to forfeited potential contributions and limited economic mobility of LGBTQIA+ community members; and weakened systems due to inequity that harm the economic potential of LGBTQIA+ people, negatively impact business performance, investment returns, and broader economies and societies.

*Figure 1: LGBTQIA+ Inequity: Flawed beliefs, value extracting behaviors, suboptimal outcomes for investors and society, and vulnerable systems*



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**Even so, LGBTQIA+ inclusion and leadership are linked to positive performance and returns.**

Many studies have found that inclusive policy interventions have positive profitability and societal implications. A 2017 study on U.S.-based firms found that implementing LGBT-inclusive policies correlates with higher stock returns and higher market valuations.[1] Building on that paper's analysis, another group found that increases in firm-level LGBT friendliness were associated with a 7% increase in stock market valuation and 0.5% increase in profitability.[2] In fact, LGBT workplace inclusivity has a strong correlation with increased Tobin's Q - a measure of firm value, return on assets, and cash flow ratios.[3]

**Our systems—spanning corporate human resources, education, healthcare, etc.—are unprepared to address an ongoing generational shift.**

As of 2024, the LGBTQ+ community is estimated to represent nearly 8% of the U.S. population; Gallup found that each generation is nearly twice as likely as the generation preceding it to identify as LGBTQ+ and estimates that if current trends continue, the proportion of LGBTQ+ adults will exceed 10% within the next three decades.[4] There are also major investor implications of that shift. A 2023 Morgan Stanley study found that over 75% of investors seek these investment options.[5] pointing to a business growth opportunity, particularly as younger investors begin to age into greater wealth, and as LGBTQIA+ inclusion matters more to younger generations.

**The financial community has a unique opportunity to leverage capital flows to effect systemic change, provide opportunity, advance social progress, and uplift futures**.

Investors face a moral and economic imperative to upend discriminatory social and financial structures and adopt a system-level approach that champions LGBTQIA+ equity and inclusion. To do so, this report recommends that investors should set the following goals to address LGBTQIA+ inequity at the system-level, including (1) promoting LGBTQIA+ equity at U.S. corporations and financial institutions; (2) increasing access to capital for the broad LGBTQIA+ community; (3) improving wealth-generating financial outcomes for LGBTQIA+ founders; (4) contributing to the development of LGBTQIA-equitable social structures; (5) driving financial inclusion to spur economic growth and social cohesion; and (6) improving data capture and infrastructure related to dimensions of LGBTQIA+ progress.

**Investors can extend existing portfolio management tools.**

Investors should reflect on how their decisions and actions work in the direction of a healthier and more resilient system with full participation and access for the LGBTQIA+ community. Investors can develop investment belief statements that prioritize LGBTQIA+ equity, establish shareholder

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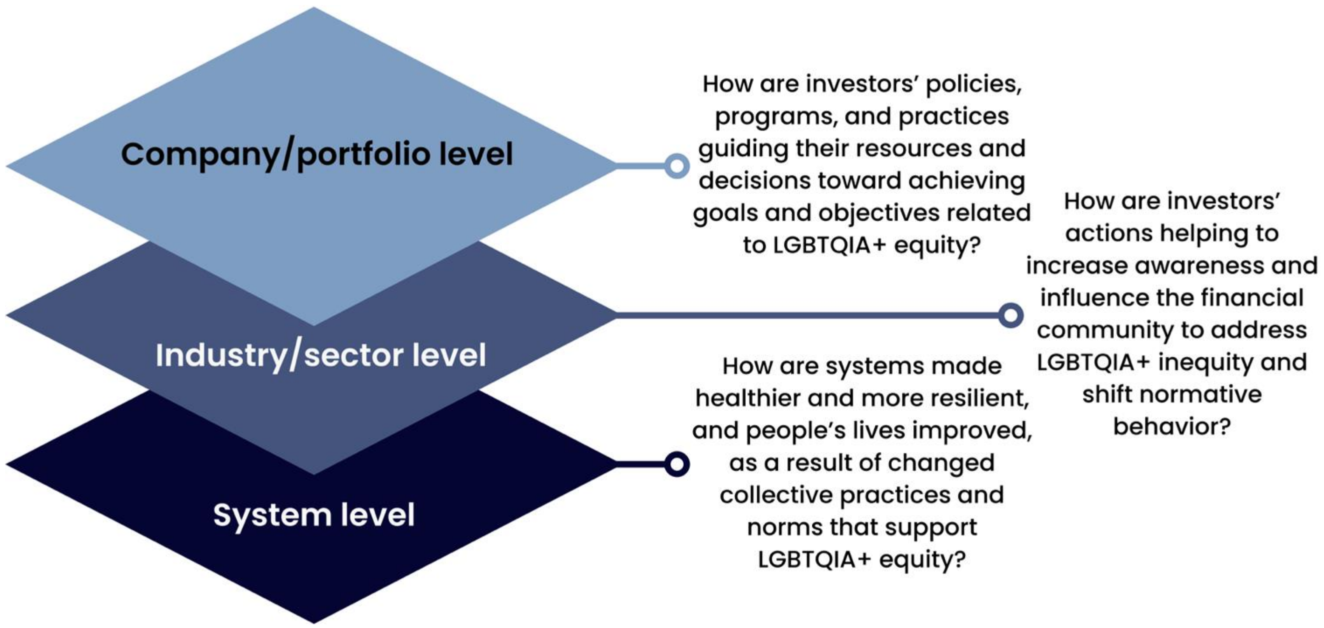
engagement programs, and incorporate system-level considerations in manager selection and assessment.

**In addition to portfolio-level techniques, investors can adopt advanced techniques to fortify environmental, social, and financial systems.**

These techniques (Table 1) stress collaborative action, build shared knowledge bases, set industry standards, and create a rising tide of investment opportunities for all investors. Investors can amplify the impact of their actions through collaborative efforts across the financial system. Aligning the actions of investors with varying resources, areas of influence, and capabilities is crucial to achieving system-level goals that can support stable systems.

*Table 1. Investors can assess progress towards system-level goals at three levels*




**Coordinated action like this is only possible if players in the financial system have access to shared, useful data to understand the extent to which underlying social structures in the U.S. support equitable participation of the LGBTQIA+ community in society and our financial systems**.

Without the requisite baseline knowledge, it remains difficult to address the well-being of LGBTQIA+ people through needed interventions and policies.

# About the authors

**William Burckart (he/him)** is a co-founder and GP of Colorful Capital, and he co-authors a regular column for Nasdaq.com on the intersection between LGBTQ+ advancement and investment. In addition, he leads The Investment Integration Project (TIIP), where he advises a range of institutional investors on integrating system-level and investment goals through the development and implementation of related strategies. William is Adjunct Professor of International and Public Affairs and The Brandmeyer Fellow for Impact and Sustainable Investing at the School of International and Public Affairs (SIPA), Columbia University. He is a fellow of the High Meadows Institute and co-author of the book *21st Century Investing: Redirecting Financial Strategies to Drive Systems Change* (Berrett-Koehler, 2021).

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# About Colorful Capital

Colorful Capital is a venture capital firm bringing capital support to enterprises founded and led by members of the broad LGBTQIA+ community. Diverse gender and sexual identity and expression is too often a barrier to access to capital and inclusion in traditional financial market flows. By investing in, supporting, and celebrating members of our communities and the ventures they build and grow, Colorful Capital provides opportunity, spotlight, and a pathway to success for promising ventures and their fabulous leaders. https://www.colorful-capital.com

# Endnotes

[1] Liwei Shan, Shihe Fu and Lu Zheng. "Corporate Sexual Equality and Firm Performance", Strategic Management Journal, 38, 2017.

[2] Veda Fatmy, John Kihn et al. "Does lesbian and gay friendliness pay off? A new look at LGBT policies and firm performance", Accounting & Finance, 62 (2022): 14.

[3] Pornsit Jiraporn, Denise Potosky and Sang Mook Lee. "Corporate governance and lesbian, gay, bisexual, and transgender-supportive human resource policies from corporate social responsibility, resource-based, and agency perspectives", Human Resource Management, 58 (2019).

[4] Jeffrey M. Jones. "LGBTQ+ Identification in U.S. Now at 7.6%", GALLUP, March 2024, https://news.gallup.com/poll/611864/lgbtq-identification.aspx

[5] "Broadening the Spectrum of Investing: Opportunities and Demand for Investing in LGBTQ+ Equity and Inclusion", Morgan Stanley Institute for Sustainable Investing, 2023.